January 29, 2019

Q3FY19 Result Update

■ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	**BUY**		**BUY**	
Target Price	**1,657**		**1,660**	
NII (Rs.)	99,472	1,17,493	99,472	1,17,493
% Chng.			-	-
PPoP (Rs.)	79,549	92,464	79,549	92,464
% Chng.			-	-
EPS (Rs.)	151.7	182.5	151.7	182.7
% Chng.			-	(0.1)

Key Financials

	FY18	FY19E	FY20E	FY21E
Net Int.Inc. (Rs m)	67,833	82,073	99,472	1,17,493
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	34,425	41,405
EPS (Rs.)	108.9	121.7	151.7	182.5
Gr. (%)	*96.5*	*11.8*	*24.6*	*20.3*
DPS (Rs.)	11.0	13.0	15.5	15.5
Yield (%)	*1.0*	*1.2*	*1.5*	*1.5*
Margin (%)	*7.8*	*8.0*	*8.4*	*8.6*
RoAE (%)	*19.9*	*18.2*	*18.6*	*18.6*
RoAA (%)	*2.9*	*2.6*	*2.7*	*2.8*
PE (x)	9.7	8.7	7.0	5.8
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	35,657 / 10,662
Market Cap	Rs.240bn/ $ 3,368m
Shares Outstanding	227m
3M Avg. Daily Value	Rs.2820.26m

Shareholding Pattern (%)

Promoter's	26.08
Foreign	49.30
Domestic Institution	4.46
Public & Others	20.16
Promoter Pledge (Rs bn)	

Stock Performance (%)

	1M	6M	12M
Absolute	(13.8)	(25.4)	(27.0)
Relative	(12.8)	(21.9)	(26.2)

Shweta Daptardar
shwetadaptardar@plindia.com | 91-22-66322245

Prabal Gandhi
prabalgandhi@plindia.com | 91-22-66322258

Shriram Transport Finance (SHTF IN)

Rating: BUY | CMP: Rs1,056 | TP: Rs1,657

Negatives fully priced-in

Quick Pointers

- AUM reports 14.1% growth as securitization steps-up, absolute GNPA decline
- Shift to BSVI & pre-buying will hold up used CV demand as well

While market challenges proved as a dampener on disbursals (used de-grew 18% YoY) and core AUMs reported mere 12% YoY, SHTF maintained decent earnings performance with PAT growing 17% YoY at Rs 6.4bn (PLe: Rs 6.1bn). Beat on numbers were largely driven by NII putting up healthy 15% YoY growth translating into healthy 17%+ YoY growth in PPoP indicating core metrics remaining strong for SHTF. While NIMs at 7.4% were maintained, funding costs pressures have been rightly compensated by rebound in asset quality w.r.t. absolute GNPAs declining (1.4% YoY) and credit costs reducing YoY and QoQ (22bps). While Management stands confident of the used CV financing demand catching up on the back of BSVI shift and operators cash flows remaining intact, we continue to incorporate market headwinds and foresee AUM growing at 14% YoY growth for FY19 and 16-17% over FY20-21E. margin pressures in FY19 (7.7% down from 7.9% in FY18, inching up to 7.9% over FY20-21E) getting offset by improving credit costs (2.4% in FY19 down from 3.7%in FY18; further declining to 2.1% by FY21E) and operating leverage (22-23% cost-income over FY19-21E). Despite spelling conservatism, RoAs that take a beating in FY19 to 2.6% (from 2.9% in FY18) enhancing to 2.7%-2.8% over FY20-21E and RoEs ranging between 18-19% over FY19-21E reinforces our confidence in BS and sustainability of quality earnings ahead. At compelling valuations that adequately price-in most of the current apprehensions, we reiterate BUY with a price target at Rs1,657 valuing SHTF at 2.0x Sep-21 ABV.

- **Decent AUM traction:** Q3 proving to be a dampener, AUM growth at 14% YoY at Rs1038.2bn [vs. PLe of Rs1047.4bn] stood decent. What disappointed us a bit was the core loan traction at 12.4% YoY growth however securitized loans which grew 23% YoY took precedence with 2HFY19 remaining strong on priority/non-priority sell downs. Our AUM estimates at 14% growth YoY for FY19,16-17% over FY20-21E tilt more on conservative side as Management expects 15-18% growth for FY19, with 20%+ growth target for FY20

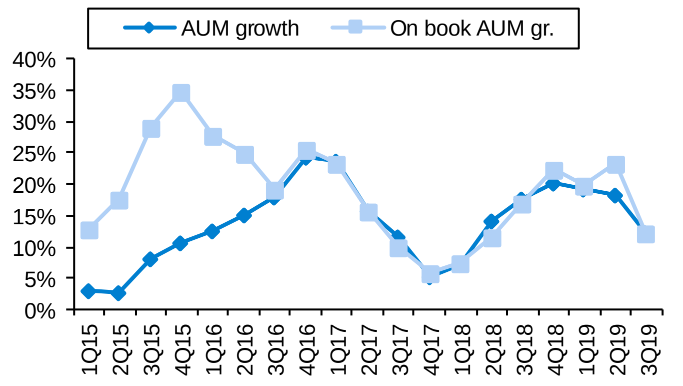
- **Optical GNPAs up, BS resilience improving, compelling valuations:** While GNPA numbers tends to look higher optically at 8.8% for the quarter remaining stagnant YoY, what impressed us is the absolute GNPA decreased by 1.4% QoQ, slippages moved down 30% QoQ and credit costs declined 22 bps QoQ. Going forward GNPA at ~7% odd levels stand imminent given the customer profile that SHTF caters to, however, improving portfolio quality determined by meaningful improvement ton credit costs and therefore RoAs that should stack up to 2.8% by FY21E (closer to better performing historical years) are indicative of balance sheet resilience in testing times. At 1.2x P/ABV Sep-21E we reckon, most of the negative stand priced-in and we retain BUY.

Exhibit 1: Healthy PPoP, decent AUM despite market challenges

Rs in million	Q3FY19	Q3FY18	YoY gr.	Q2FY19	QoQ gr.
Interest income	39,560	33,635	*17.6*	39,126	*1.1*
Interest expenses	19,187	15,939	*20.4*	18,504	*3.7*
Net Interest Income	**20,373**	**17,696**	***15.1***	**20,622**	***(1.2)***
Securitisation income	**20,373**	**17,696**	***15.1***	**20,622**	***(1.2)***
Total Net Interest Income	374	134	*180.1*	352	*6.3*
Operating & Other Income	**20,747**	**17,830**	***16.4***	**20,974**	***(1.1)***
Net revenue	4,546	4,031	*12.8*	4,748	*(4.3)*
Operating expenses	2,217	1,801	*23.1*	2,321	*(4.5)*
Operating profit	**16,201**	**13,798**	***17.4***	**16,226**	***(0.2)***
Provision for bad debts	6,362	5,475	*16.2*	6,836	*(6.9)*
Profit before tax	**9,839**	**8,335**	***18.1***	**9,390**	***4.8***
Tax	3,485	2,919	*19.4*	3,295	*5.8*
Profit after tax	**6,354**	**5,415**	***17.3***	**6,096**	***4.2***
Business mix					
Total AUM	**10,38,179**	**9,09,642**	***14.1***	**10,43,798**	***(0.5)***
on book	8,45,332	7,52,337	*12.4*	8,78,147	*(3.7)*
off book	1,92,848	1,57,305	*22.6*	1,65,651	*16.4*
on book %	81%	83%	*(1.3)*	84%	*(2.7)*
Used CV book	8,61,261	7,76,875	*10.9*	8,60,574	*0.1*
New CV book	1,20,768	96,888	*24.6*	1,27,188	*(5.0)*
Used CV book share	83%	85%	*(2.4)*	82%	*0.5*
Disbursement	**95,500**	**1,33,790**	*(28.6)*	**1,38,030**	*(30.8)*
Used CVs	90,020	1,09,400	*(17.7)*	1,15,080	*(21.8)*
New CVs	4,000	17,950	*(77.7)*	16,910	*(76.3)*
Asset quality					
Gross NPA (mn)	76,411	60,463	*26.4*	77,488	*(1.4)*
Net NPA (mn)	22,212	17,511	*26.9*	22,782	*(2.5)*
Gross NPA (%)	9.0%	8.0%	*1.0*	8.8%	*0.2*
Net NPA (%)	2.8%	2.5%	*0.3*	2.8%	*0.0*
Coverage ratio (%)	70.9%	71.0%	*(0.1)*	70.6%	*0.3*
Credit Cost (%)	2.4%	2.5%	*(0.0)*	2.7%	*(0.2)*
Ratios					
Gross Spread (on book)	3.4%	3.8%	*(48)*	3.6%	*(24)*
NIM/AUM	**7.8%**	**8.0%**	***(16)***	**8.2%**	***(39)***
NIM/AUM - Reported	**7.4%**	**7.5%**	***(4)***	**7.5%**	***(8)***
CRAR	19.7%	16.2%	*357*	16.7%	*303*

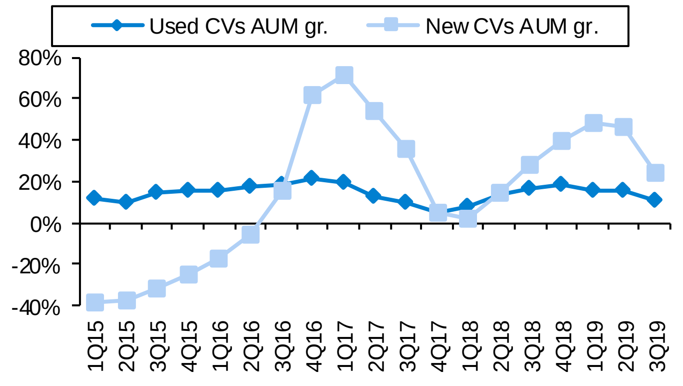
Source: Company, PL

Exhibit 2: AUM growth was much stronger…



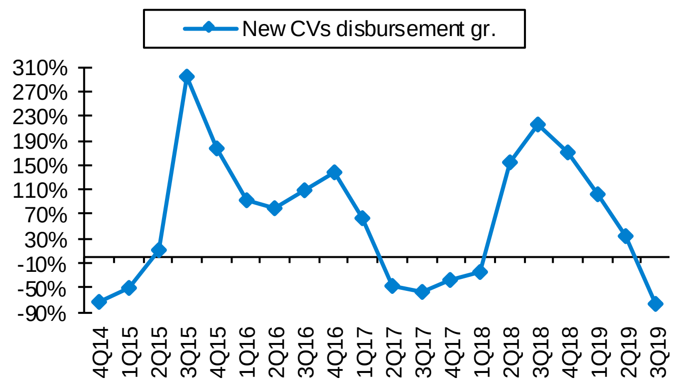
Source: Company, PL

Exhibit 3: …contributed from New CVs



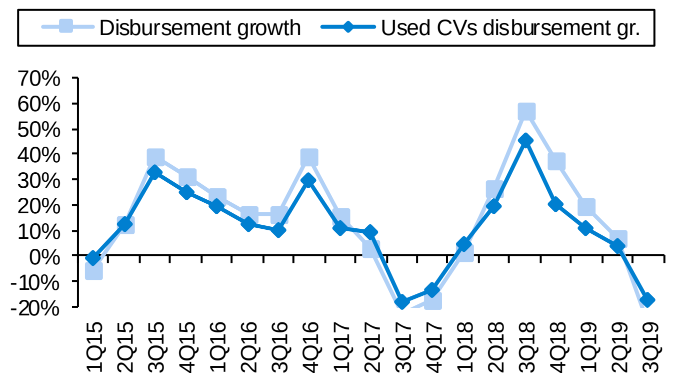
Source: Company, PL

Exhibit 4: New CV disbursement was strong…



Source: Company, PL

Exhibit 5: … used CVs was also decent

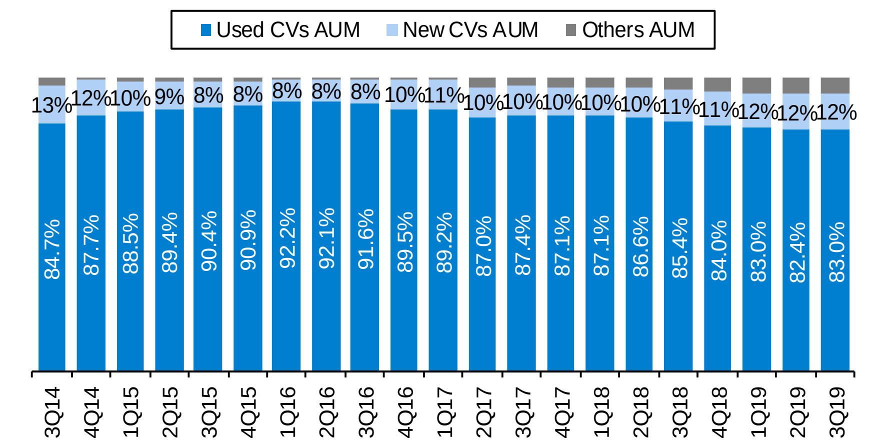


Source: Company, PL

Mix of New CVs will continue to improve on better growth prospects

SHTF also has ventured into business loans to existing customer with AUM of Rs2.6bn currently (3.0% of AUM) but company aims to cap it at 5% of AUM

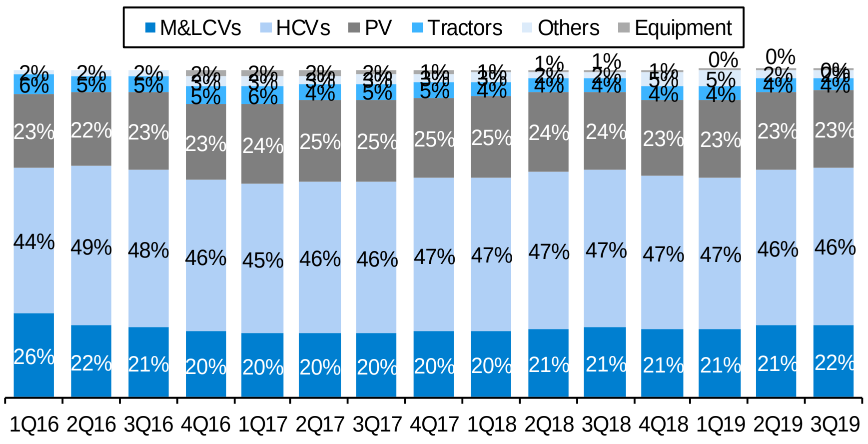
Exhibit 6: New CVs share has seen slight improvement on strong growth



Source: Company, PL

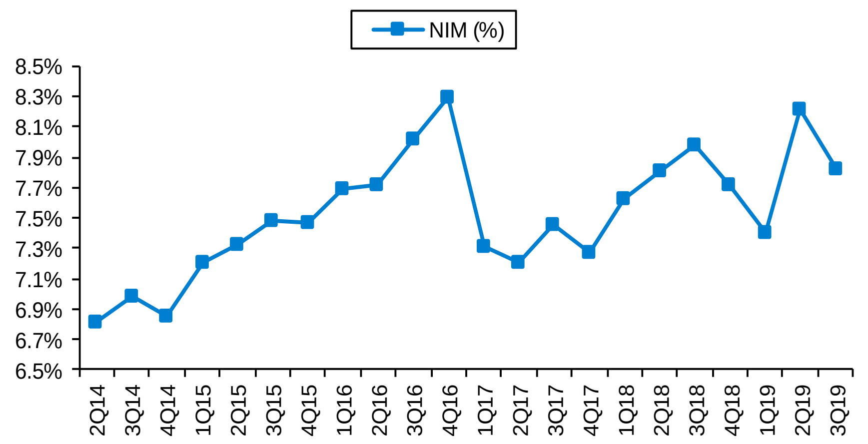
Company's cost-income still continues to be lower despite investing into network expansion and penetration

Exhibit 7: Stable mix amongst segments but improves in business loans (3% of mix)



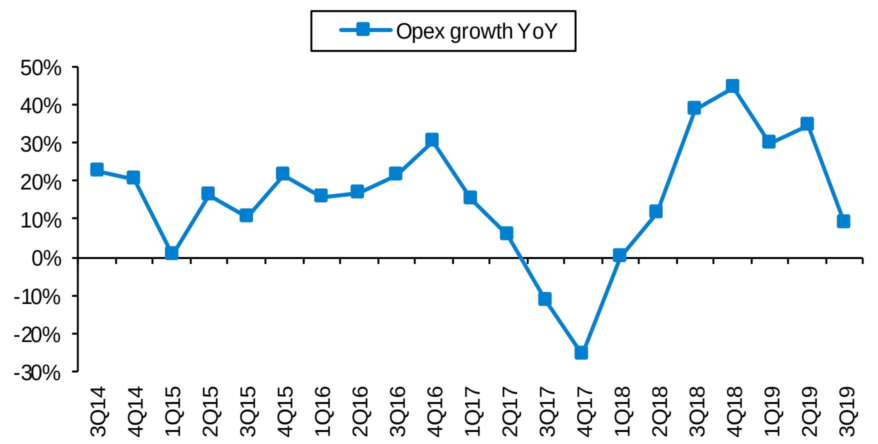
Source: Company, PL

Exhibit 8: Margins largely remained steady



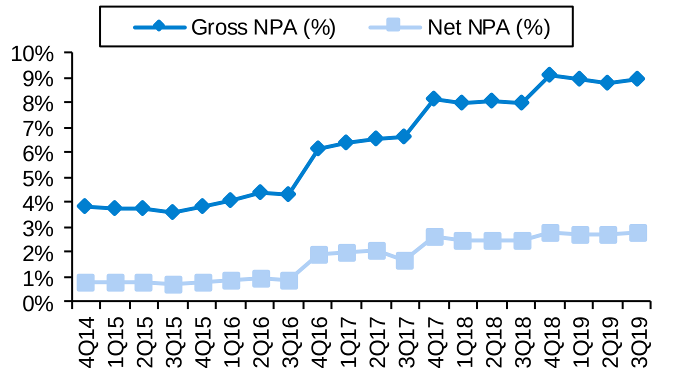
Source: Company, PL

Exhibit 9: Opex saw sharp increase partly on lower base and higher branch & employee additions



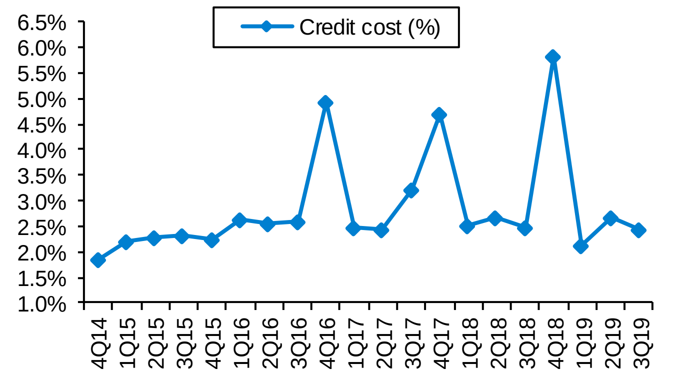
Source: Company, PL

Exhibit 10: Asset quality deteriorated on moving to 90dpd



Source: Company, PL

Exhibit 11: SHTF maintained its PCR at 70% hence kept credit cost high



Source: Company, PL

Exhibit 12: ROE Decomposition (on Assets)

ROA Decomposition (on Assets)	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E
Net Interest Income	4.07%	5.17%	6.00%	5.85%	5.89%	6.08%	6.31%	6.40%
Interest on Securitisation	2.52%	1.30%	0.94%	1.21%	1.22%	0.67%	0.76%	0.70%
Other income	0.87%	0.72%	0.25%	0.10%	0.24%	0.27%	0.26%	0.24%
Net revenues	**7.45%**	**7.20%**	**7.20%**	**7.16%**	**7.36%**	**7.02%**	**7.32%**	**7.34%**
Operating expenses	1.84%	1.90%	1.85%	1.62%	1.56%	1.56%	1.67%	1.76%
PPOP	**5.61%**	**5.30%**	**5.34%**	**5.55%**	**5.80%**	**5.46%**	**5.65%**	**5.59%**
Provisions and Contingencies	2.16%	2.18%	2.90%	3.10%	1.81%	1.99%	1.89%	1.74%
PBT	**3.44%**	**3.12%**	**2.45%**	**2.44%**	**3.99%**	**3.47%**	**3.76%**	**3.85%**
Provision for Tax	1.06%	1.02%	0.83%	0.85%	1.40%	1.20%	1.32%	1.35%
ROA	**2.38%**	**2.09%**	**1.62%**	**1.60%**	**2.59%**	**2.27%**	**2.45%**	**2.50%**
Equity/AUM	15.58%	15.63%	13.96%	14.35%	14.21%	13.83%	14.38%	14.73%
ROE	**15.28%**	**13.40%**	**11.60%**	**11.12%**	**18.24%**	**16.44%**	**17.00%**	**16.98%**

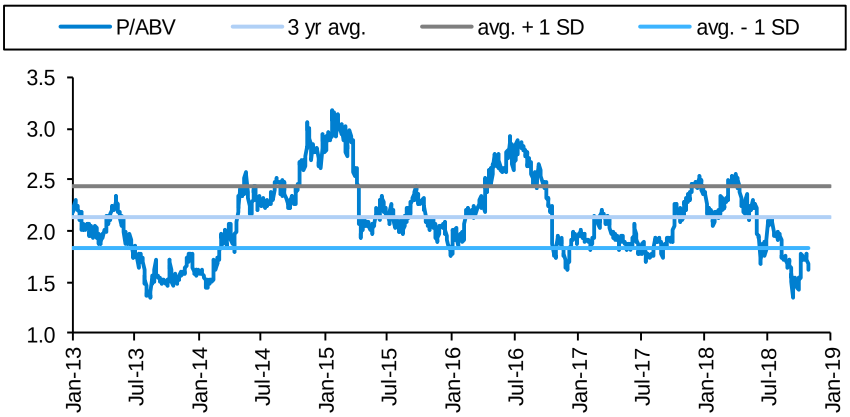
Source: Company, PL

Exhibit 13: Valuation Table - We revise our TP to Rs1,657 (from Rs1,660)

Fair price - EVA	1,919
Fair price - P/ABV	1,395
Average of the two	**1,657**
Target P/ABV	**2.0**
Target P/E	**10.9**
Current price, Rs	1055
Upside (%)	**57%**
Dividend yield (%)	1%
Total return (%)	**58%**

Source: Company, PL

Exhibit 14: SHTF – One year forward – Valuations move above average levels



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Int. Inc. / Opt. Inc.	1,44,287	1,59,638	1,88,304	2,18,556
Interest Expenses	64,805	69,435	78,199	89,472
Net interest income	**67,833**	**82,073**	**99,472**	**1,17,493**
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	1,03,065	1,21,517
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	26,587	28,764
Profit Before Tax	**38,030**	**42,164**	**52,962**	**63,700**
Tax	13,328	14,547	18,537	22,295
Effective Tax rate(%)	*35.0*	*34.5*	*35.0*	*35.0*
PAT	**24,701**	**27,618**	**34,425**	**41,405**
Growth(%)	*96.5*	*11.8*	*24.6*	*20.3*

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	1,33,155	1,65,772	2,00,197	2,41,602
Networth	1,35,424	1,68,042	2,02,467	2,43,872
Growth (%)	*19.8*	*24.1*	*20.5*	*20.5*
Loan funds	3,73,496	4,36,990	5,04,897	5,94,514
Growth (%)	*(29.7)*	*17.0*	*15.5*	*17.7*
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	4,67,837	5,61,565	6,55,463	7,65,526
Other Liabilities	-	-	-	-
Total Liabilities	**9,76,757**	**11,66,597**	**13,62,827**	**16,03,912**
Application of funds				
Net fixed assets	1,221	1,284	1,348	1,414
Advances	9,08,364	10,35,535	12,01,220	14,17,440
Growth (%)	*33.9*	*14.0*	*16.0*	*18.0*
Investments	23,414	24,584	25,813	27,104
Current Assets	42,833	1,04,148	1,33,257	1,56,588
Net current assets	**(4,25,004)**	**(4,57,418)**	**(5,22,207)**	**(6,08,939)**
Other Assets	926	1,046	1,189	1,367
Total Assets	**9,76,757**	**11,66,597**	**13,62,827**	**16,03,912**
Growth (%)	*31.3*	*19.4*	*16.8*	*17.7*
Business Mix				
AUM	9,62,606	10,92,248	12,63,038	14,81,189
Growth (%)	*22.2*	*13.5*	*15.6*	*17.3*
On Balance Sheet	8,00,011	9,15,019	10,69,858	12,68,692
% of AUM	*83.11*	*83.77*	*84.71*	*85.65*
Off Balance Sheet	1,62,595	1,77,229	1,93,179	2,12,497
% of AUM	*16.89*	*16.23*	*15.29*	*14.35*

Profitability & Capital (%)

Y/e Mar	FY18	FY19E	FY20E	FY21E
NIM	7.8	8.0	8.4	8.6
ROAA	2.9	2.6	2.7	2.8
ROAE	19.9	18.2	18.6	18.6

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Int. Inc. / Operating Inc.	29,502	37,107	39,126	39,560
Income from securitization	3,206	-	-	-
Interest Expenses	14,633	18,888	18,504	19,187
Net Interest Income	**18,076**	**18,220**	**20,622**	**20,373**
Growth (%)	*28.3*	*18.4*	*25.1*	*15.1*
Non-Interest Income	1,717	186	352	374
Net Operating Income	**19,792**	**18,406**	**20,974**	**20,747**
Growth (%)	*38.1*	*18.8*	*25.1*	*16.4*
Operating expenditure	4,193	4,348	4,748	4,546
PPP	**15,599**	**14,057**	**16,226**	**16,201**
Growth (%)	-	-	-	-
Provision	13,666	5,227	6,836	6,362
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	1,934	8,830	9,390	9,839
Tax	488	3,101	3,295	3,485
Prov. for deferred tax liability	4,319	-	-	-
Effective Tax Rate	25.2	35.1	35.1	35.4
PAT	**1,446**	**5,729**	**6,096**	**6,354**
Growth	*(3)*	*25*	*23*	*18*
AUM	9,64,624	10,05,406	10,43,798	10,38,179
YoY growth (%)	22.5	21.7	20.9	14.1
Borrowing	6,81,687	8,68,523	9,23,862	7,21,717
YoY growth (%)	*22.2*	*48.0*	*24.0*	*16.0*

Key Ratios

Y/e Mar	FY18	FY19E	FY20E	FY21E
CMP (Rs)	1,056	1,056	1,056	1,056
EPS (Rs)	108.9	121.7	151.7	182.5
Book value (Rs)	596.8	740.6	892.3	1,074.8
Adj. BV(Rs)	502.9	631.1	756.1	905.6
P/E(x)	9.7	8.7	7.0	5.8
P/BV(x)	1.8	1.4	1.2	1.0
P/ABV(x)	2.1	1.7	1.4	1.2
DPS (Rs)	11.0	13.0	15.5	15.5
Dividend Payout Ratio(%)	*10.1*	*10.7*	*10.2*	*8.5*
Dividend Yield(%)	*1.0*	*1.2*	*1.5*	*1.5*

Asset Quality

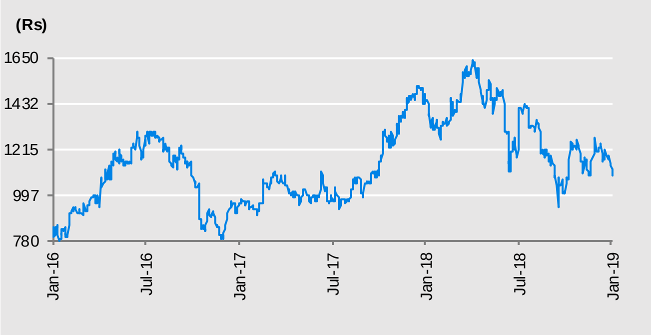
Y/e Mar	FY18	FY19E	FY20E	FY21E
Gross NPAs(Rs m)	73,764	77,584	82,254	90,789
Net NPA(Rs m)	21,311	24,841	30,890	38,387
Gross NPAs to Gross Adv.(%)	-	-	-	-
Net NPAs to net Adv.(%)	2.8	2.6	2.8	2.9
NPA coverage(%)	71.1	68.0	62.4	57.7

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

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Apr-18	BUY	1,705	1,559
2	27-Apr-18	BUY	1,822	1,628
3	10-Jul-18	BUY	1,822	1,132
4	27-Jul-18	BUY	1,787	1,411
5	05-Oct-18	BUY	1,692	1,094
6	26-Oct-18	BUY	1,660	1,072
7	07-Jan-19	BUY	1,660	1,176

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	1,198
3	Edelweiss Capital	NR	-	276
4	HDFC	BUY	2,265	1,973
5	L&T Finance Holdings	Accumulate	172	137
6	LIC Housing Finance	Accumulate	537	479
7	Mahindra & Mahindra Financial Services	Accumulate	514	417
8	Shriram Transport Finance	BUY	1,660	1,176

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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