

Rating: BUY | CMP: Rs1,027 | TP: Rs1,481

May 9, 2019

Q4FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	1,481		1,568	
NII (Rs.)	85,043	95,151	97,495	1,14,057
% Chng.	(12.8)	(16.6)		
PPoP (Rs.)	66,307	75,049	77,296	89,048
% Chng.	(14.2)	(15.7)		
EPS (Rs.)	122.0	137.3	136.2	162.3
% Chng.	(10.4)	(15.4)		

Key Financials

	FY18	FY19	FY20E	FY21E
Net Int.Inc. (Rs m)	68,248	78,730	85,043	95,151
Growth (%)	22.7	15.4	8.0	11.9
Op. Profit (Rs m)	53,844	61,605	66,307	75,049
PAT (Rs m)	24,592	25,617	27,685	31,151
EPS (Rs.)	108.4	112.9	122.0	137.3
Gr. (%)	95.6	4.2	8.1	12.5
DPS (Rs.)	11.0	13.0	15.5	15.5
Yield (%)	1.1	1.3	1.5	1.5
Margin (%)	7.8	7.8	7.6	7.3
RoAE (%)	19.8	17.4	16.1	15.5
RoAA (%)	2.9	2.5	2.5	2.4
PE (x)	9.5	9.1	8.4	7.5
P/BV (x)	1.7	1.5	1.3	1.1
P/ABV (x)	2.0	1.7	1.5	1.3

Key Data

SRTR.BO | SHTF IN

52-W High / Low	Rs.1,572 / Rs.902
Sensex / Nifty	37,789 / 11,359
Market Cap	Rs.233bn / \$ 3,346m
Shares Outstanding	227m
3M Avg. Daily Value	Rs.2524.9m

Shareholding Pattern (%)

Promoter's	26.08
Foreign	50.94
Domestic Institution	3.89
Public & Others	19.09
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(17.3)	(16.0)	(33.5)
Relative	(15.3)	(21.7)	(38.0)

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Valuations offer reasonable risk-reward

Quick Pointers

- AUM & NII sluggish, asset quality bettering

Revenue growth weakens as market challenges in the nature of funding pressures, need for excess liquidity on balance sheet and continued lower disbursals proved as a dampener in Q4FY19. PAT at Rs 7.5bn grew 18% QoQ ahead of estimates on the back of one-offs – (i) subsidiary (Shriram Automall) stake sale gains at Rs 1075mn (ii) tax adjustments of Rs 1098mn and (iii) 15% QoQ decline in provisions driven by lower incremental ECL provisions. While Management stands confident of the used CV financing demand catching up on back of BSVI shift and rural penetration aiding growth, we continue to incorporate CV downcycle headwinds and foresee AUM growing at 15% YoY for FY20, 16% for FY21E, margin compression (7.6% in FY20, 7.4% in FY21) denting RoAs to 2.4%, RoEs to 16% by FY21E. PE exits and group level restructuring refer our [recent note](#) should remain an overhang on the stock. As trough valuations adequately price-in current apprehensions, we reiterate BUY, however, foresee multiple shrinking hence fine-tune our price target to Rs 1,481 (earlier Rs 1,568) valuing SHTF at 1.8x Mar-21 ABV (earlier 2.0x).

Decent AUM traction: Maintaining balance sheet liquidity takes precedence over growth and hence AUM witnessed weak 8.5% growth YoY. While H1FY20 is expected to be somber, Management stands confident of better growth outlook (18%+) in H2FY20 driven by BSVI shift and improved rural demand. Our AUM estimates at 15% growth YoY for FY20, 16% FY21E incorporates the tepid near term CV industry outlook.

Bettering asset quality to offset NIM compression: Bettering asset quality is a good sign and Q4FY19 observed Gross Stage 3 assets declining 2% QoQ to Rs88.9bn. While Management aims to maintain 2% credit costs, the same should compensate NIM compression in turn boosting RoA. Persistent market headwinds prompt us to maintain conservative 2.2% credit costs estimates, somber NIMs at 7.4-7.6% despite pricing power and therefore expect 2.4% RoAs over FY20-21E. **Lower multiple of 1.3x PABV FY21E that factors-in market apprehensions offers reasonable risk-reward, we stay positive on the used CV finance business and SHTF's dominance in the market, reiterate BUY.**

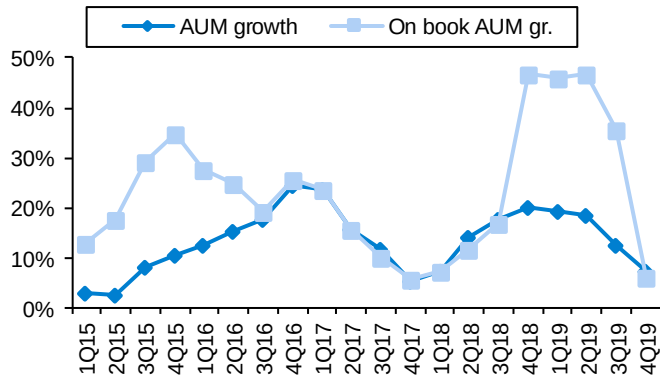
Key Concall takeaways: Political upheavals and real estate/infrastructure slowdown impacted demand scenario over past 6 months. Rural demand intact and normal monsoon should only help. Management expects disbursements growth at 20%, AUM 18-20% YoY and NIMs at ~7.2%. Rural focus to aid yields and growth expansion ahead. SHTF expects to maintain liquidity at Rs 80bn in FY20 given the market challenges. To support growth, SHTF aims to raise Rs 50bn through NCD borrowings, securitization and expects cost pressures transmission. ALM remains healthy with positive cash-flows across all buckets. Improved recoveries on the back of improvising operator cash flows aided bettering asset quality for Q4FY19). SHTF reported write-off of Rs8.1bn (for Q4FY19 and Rs 23.5bn for FY19).

Exhibit 1: Revenue weakens, asset quality strengthens

Rs in million	Q4FY19	Q4FY18	YoY gr.	Q3FY19	QoQ gr.
Interest income	38,197	35,077	8.9	39,484	(3.3)
Interest expenses	18,885	16,692	13.1	19,187	(1.6)
Net Interest Income	19,313	18,384	5.0	20,297	(4.9)
Total Net Interest Income	19,313	18,384	5.0	20,297	(4.9)
Operating & Other Income	607	978	(37.9)	457	32.9
Net revenue	19,920	19,363	2.9	20,754	(4.0)
Operating expenses	4,799	4,708	1.9	4,553	5.4
Staff Cost	2,040	2,056	(0.8)	2,217	(8.0)
Operating profit	15,120	14,655	3.2	16,202	(6.7)
Provisions	5,398	972	455.6	6,362	(15.2)
Profit before tax	9,722	13,684	(28.9)	9,839	(1.2)
Tax	2,262	5,463	(58.6)	3,485	(35.1)
Profit after tax	7,462	9,615	(22.4)	6,342	17.7
Busines mix					
Total AUM	10,44,823	9,62,606	8.5	10,38,179	0.6
on book	10,23,075	9,61,984	6.4	10,20,965	0.2
off book	21,748	622	3,396.4	17,214	26.3
on book %	98%	100%	(2.0)	98%	(0.4)
Used CV book	8,70,500	8,07,842	7.8	8,61,261	1.1
New CV book	1,15,941	1,10,425	5.0	1,20,768	(4.0)
Used CV book share	83%	84%	(0.6)	83%	0.4
New CV book share	11%	11%	(0.4)	12%	(0.5)
Disbursement	1,34,250	1,51,220	(11.2)	95,500	40.6
Used CVs	1,09,550	1,12,780	(2.9)	90,020	21.7
New CVs	19,360	31,540	(38.6)	4,000	384.0
Asset quality					
Gross NPA (mn)	70,998	73,764	(3.7)	76,411	(7.1)
Net NPA (mn)	20,554	21,311	(3.6)	22,212	(7.5)
Gross NPA (%)	8.3%	9.2%	(0.9)	9.0%	(0.7)
Net NPA (%)	2.6%	2.8%	(0.3)	2.8%	(0.2)
Coverage ratio(%)	71.0%	71.1%	(0.1)	70.9%	0.1
Credit Cost (%)	4.1%	0.4%	3.7	2.4%	1.7
Ratios					
Gross Spread (on book)	5.3%	5.4%	(14)	4.5%	83
NIM/AUM	7.4%	7.9%	(44)	7.8%	(38)
NIM/AUM - Reported	7.2%	7.6%	(39)	7.4%	(22)

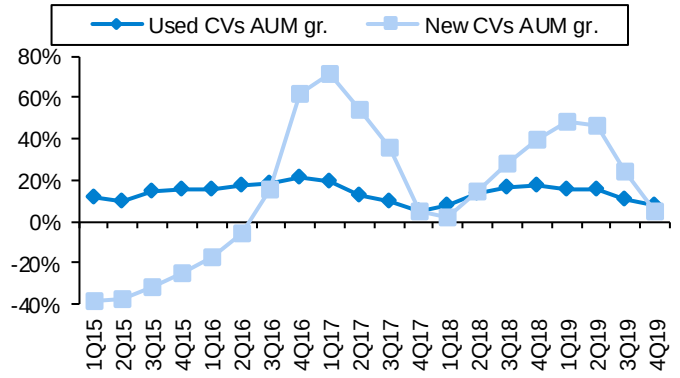
Source: Company, PL

Exhibit 2: AUM growth tepid...



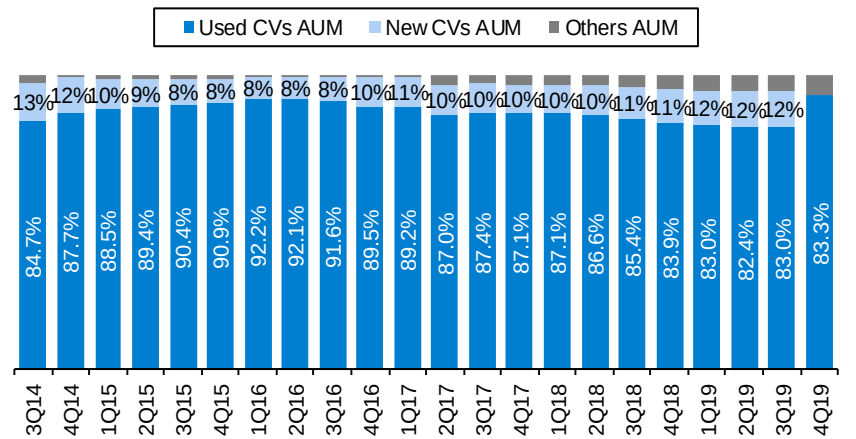
Source: Company, PL

Exhibit 3: ...contributed from used CVs



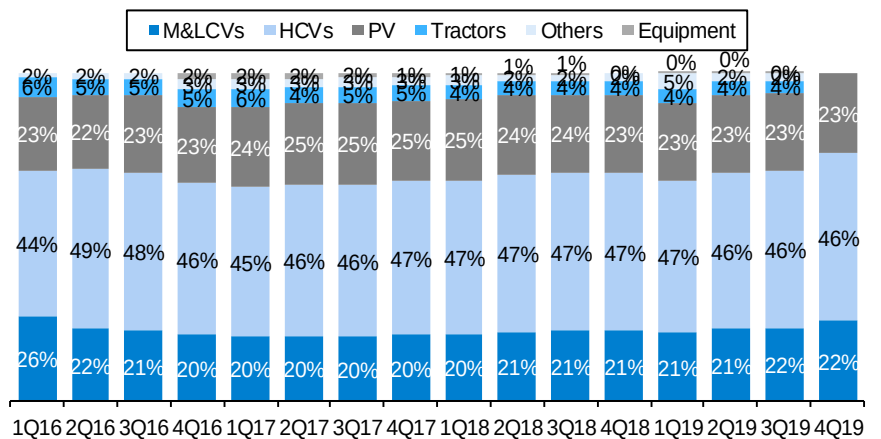
Source: Company, PL

Exhibit 4: CV mix largely maintained



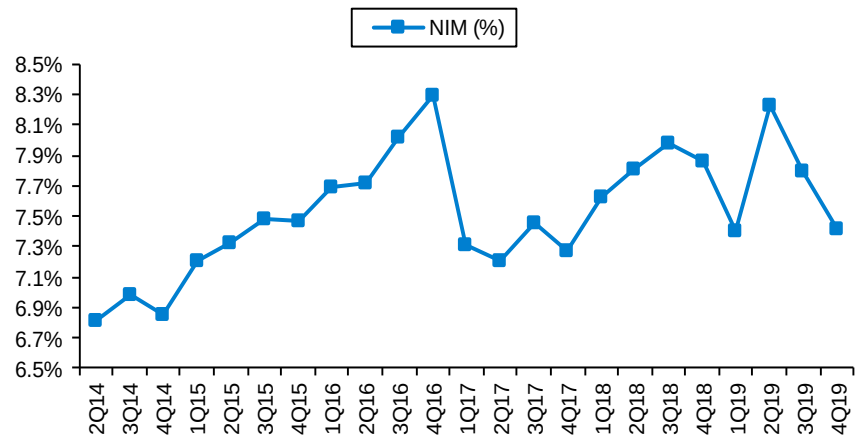
Source: Company, PL

Exhibit 5: Other loans saw uptick in Q4FY19 over CV loans



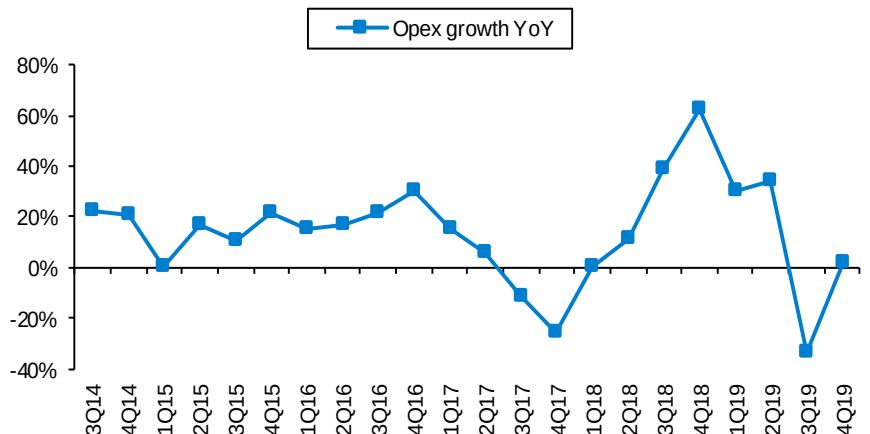
Source: Company, PL

Exhibit 6: Margins decline as costs escalate



Source: Company, PL

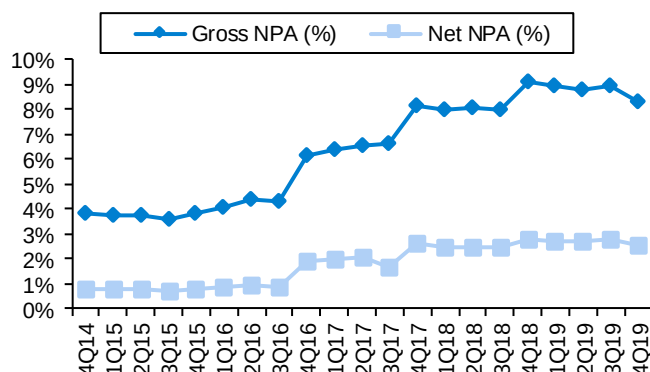
Exhibit 7: Opex climbed...



Source: Company, PL

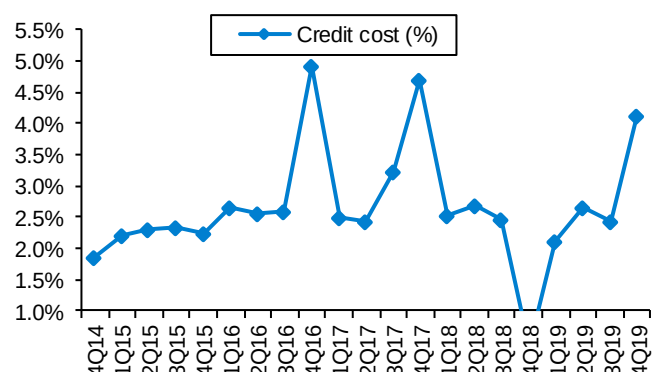
Company's cost-income still continues to be lower despite investing into network expansion and penetration

Exhibit 8: Asset quality improved



Source: Company, PL

Exhibit 9: ...and credit costs stood under control



Source: Company, PL

Exhibit 10: Valuation Table - We revise our TP downwards to Rs1,481 (from Rs1,568)

Fair price - EVA	1,880
Fair price - P/ABV	1,083
Average of the two	1,481
Target P/ABV	1.8
Target P/E	10.8
Current price, Rs	1222
Upside (%)	21%
Dividend yield (%)	1%
Total return (%)	22%

Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Int. Inc. / Opt. Inc.	1,43,585	1,53,843	1,66,447	1,92,138
Interest Expenses	63,688	75,113	79,773	95,258
Net interest income	68,248	78,730	85,043	95,151
Growth(%)	22.7	15.4	8.0	11.9
Non-interest income	1,681	1,614	3,067	4,140
Growth(%)	105.4	(4.0)	90.0	35.0
Net operating income	69,929	80,344	88,110	99,291
Expenditures				
Employees	7,132	8,831	10,597	12,186
Other Expenses	8,592	9,479	10,616	11,466
Depreciation	361	430	590	590
Operating Expenses	16,085	18,309	21,213	23,652
PPP	53,844	61,605	66,307	75,049
Growth(%)	23.3	14.4	7.6	13.2
Provisions	17,223	23,823	24,986	29,238
Profit Before Tax	36,621	37,783	41,321	45,811
Tax	13,328	13,751	13,636	14,659
Effective Tax rate(%)	36.4	36.4	33.0	32.0
PAT	24,592	25,617	27,685	31,151
Growth(%)	95.6	4.2	8.1	12.5

Balance Sheet (Rs. m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Source of funds				
Equity	2,269	2,269	2,269	2,269
Reserves and Surplus	1,33,486	1,56,094	1,83,779	2,14,930
Networth	1,35,755	1,58,363	1,86,048	2,17,199
Growth (%)	20.1	16.7	17.5	16.7
Loan funds	8,30,060	8,89,327	9,92,090	11,50,140
Growth (%)	56.3	7.1	11.6	15.9
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	6,636	5,286	17,104	20,585
Other Liabilities	-	-	-	-
Total Liabilities	9,72,451	10,52,976	11,95,242	13,87,924
Application of funds				
Net fixed assets	1,221	1,475	1,549	1,625
Advances	9,07,456	9,67,515	11,12,642	13,01,791
Growth (%)	33.8	6.6	15.0	17.0
Investments	23,414	39,991	40,790	41,198
Current Assets	38,443	41,800	42,218	42,640
Net current assets	31,807	36,514	25,113	22,055
Other Assets	1,917	2,145	2,234	2,340
Total Assets	9,72,451	10,52,925	11,99,433	13,89,595
Growth (%)	23.3	8.3	13.9	15.9
Business Mix				
AUM	9,62,606	10,44,823	12,00,894	13,91,575
Growth (%)	22.2	8.5	14.9	15.9
On Balance Sheet	9,61,984	10,23,075	11,76,536	13,64,782
% of AUM	99.94	97.92	97.97	98.07
Off Balance Sheet	622	21,748	24,358	26,793
% of AUM	0.06	2.08	2.03	1.93

Profitability & Capital (%)

Y/e Mar	FY18	FY19	FY20E	FY21E
NIM	7.8	7.8	7.6	7.3
ROAA	2.9	2.5	2.5	2.4
ROAE	19.8	17.4	16.1	15.5

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Int. Inc. / Operating Inc.	37,107	39,126	39,484	38,197
Income from securitization	-	-	-	-
Interest Expenses	18,888	18,504	19,187	18,885
Net Interest Income	18,220	20,622	20,297	19,313
Growth (%)	18.4	25.1	14.7	5.0
Non-Interest Income	186	352	457	607
Net Operating Income	18,406	20,974	20,754	19,920
Growth (%)	18.8	25.1	16.4	2.9
Operating expenditure	4,348	4,748	4,553	4,799
PPP	14,057	16,226	16,202	15,120
Growth (%)	-	-	-	-
Provision	5,227	6,836	6,362	5,398
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	8,830	9,390	9,839	9,722
Tax	3,101	3,295	3,485	2,262
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	35.1	35.1	35.4	23.3
PAT	5,729	6,096	6,355	7,460
Growth	25	23	18	(9)
AUM	10,05,406	10,43,798	10,38,179	10,44,823
YoY growth (%)	21.7	20.9	14.1	8.5
Borrowing	8,68,523	9,23,862	7,21,717	8,84,379
YoY growth (%)	48.0	24.0	16.0	29.7

Key Ratios

Y/e Mar	FY18	FY19	FY20E	FY21E
CMP (Rs)	1,027	1,027	1,027	1,027
EPS (Rs)	108.4	112.9	122.0	137.3
Book value (Rs)	598.3	697.9	819.9	957.2
Adj. BV(Rs)	504.4	607.3	677.4	810.7
P/E(x)	9.5	9.1	8.4	7.5
P/BV(x)	1.7	1.5	1.3	1.1
P/ABV(x)	2.0	1.7	1.5	1.3
DPS (Rs)	11.0	13.0	15.5	15.5
Dividend Payout Ratio(%)	10.1	11.5	12.7	11.3
Dividend Yield(%)	1.1	1.3	1.5	1.5

Asset Quality

Y/e Mar	FY18	FY19	FY20E	FY21E
Gross NPAs(Rs m)	73,764	70,998	81,332	89,313
Net NPA(Rs m)	21,311	20,554	32,329	33,245
Gross NPAs to Gross Adv.(%)	-	-	-	-
Net NPAs to net Adv.(%)	2.8	2.2	3.1	2.8
NPA coverage(%)	71.1	71.0	60.3	62.8

Du-Pont

Y/e Mar	FY18	FY19	FY20E	FY21E
NII	8.0	7.8	7.6	7.3
NII INCI. Securitization	9.3	7.8	7.7	7.5
Total income	9.5	7.9	8.0	7.8
Operating Expenses	1.9	1.9	1.9	1.9
PPOP	7.6	6.1	6.0	5.9
Total Provisions	2.0	2.4	2.2	2.3
RoAA	2.7	2.4	2.5	2.4
Avg. Assets/Avg. net worth	-	-	-	-
RoAE	19.8	17.4	16.1	15.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jul-18	BUY	1,822	1,132
2	27-Jul-18	BUY	1,787	1,411
3	05-Oct-18	BUY	1,692	1,094
4	26-Oct-18	BUY	1,660	1,072
5	07-Jan-19	BUY	1,660	1,176
6	29-Jan-19	BUY	1,657	1,056
7	05-Apr-19	BUY	1,568	1,224
8	22-Apr-19	BUY	1,568	1,213

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Capital First	UR	-	495
2	Cholamandalam Investment and Finance Company	BUY	1,665	1,389
3	Edelweiss Capital	NR	-	276
4	HDFC	BUY	2,275	2,059
5	L&T Finance Holdings	Accumulate	178	131
6	LIC Housing Finance	Accumulate	597	484
7	Mahindra & Mahindra Financial Services	Accumulate	527	436
8	Shriram Transport Finance	BUY	1,568	1,213

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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