Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Shriram Transport Finance (SHTF IN)

Rating: BUY | CMP: Rs1,060 | TP: Rs1,444

February 4, 2020

Q3FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	**BUY**		**BUY**	
Target Price	**1,444**		**1,441**	
NII (Rs.)	90,272	106,274	94,669	107,456
% Chng.	*(4.6)*	*(1.1)*		
PPoP (Rs.)	68,957	83,386	73,744	84,993
% Chng.	*(6.5)*	*(1.9)*		
EPS (Rs.)	127.2	151.6	130.7	148.5
% Chng.	*(2.7)*	*2.1*		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Int.Inc. (Rs m)	80,112	80,792	90,272	106,274
Growth (%)	*15.6*	*0.8*	*11.7*	*17.7*
Op. Profit (Rs m)	61,605	60,964	68,957	83,386
PAT (Rs m)	25,640	27,437	28,857	34,412
EPS (Rs.)	113.0	120.9	127.2	151.6
Gr. (%)	*4.2*	*7.0*	*5.2*	*19.2*
DPS (Rs.)	13.0	15.5	15.5	15.5
Yield (%)	*1.2*	*1.5*	*1.5*	*1.5*
Margin (%)	*7.9*	*7.2*	*7.0*	*7.2*
RoAE (%)	*17.4*	*15.9*	*14.4*	*14.8*
RoAA (%)	*2.5*	*2.4*	*2.2*	*2.3*
PE (x)	9.4	8.8	8.3	7.0
P/BV (x)	1.5	1.3	1.1	1.0
P/ABV (x)	1.7	1.4	1.2	1.0

Key Data	SRTR.BO | SHTF IN
52-W High / Low	Rs.1,297 / Rs.909
Sensex / Nifty	40,789 / 11,980
Market Cap	Rs.240bn/ $ 3,375m
Shares Outstanding	227m
3M Avg. Daily Value	Rs.1968.16m

Shareholding Pattern (%)

Promoter's	26.25
Foreign	64.26
Domestic Institution	3.05
Public & Others	6.44
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.6)	8.3	3.4
Relative	(7.1)	(1.4)	(7.2)

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The leader is back

Quick Pointers:

- AUMs grow 5% YoY; used CV mix climbs further to 85%
- Credit costs declined 86bps QoQ

We did highlight a quarter ago that SHTF balance sheet is on the path of mend and Q3FY20 healthy earnings set corroborates our stance. Amidst sectoral headwinds and funding challenges, SHTF put up decent 5%YoY AUM growth, remaining flat QoQ largely led by used CV loans that grew healthy 7.5%YoY/ 1.5%QoQ. The used CV mix inched up 207bps YoY to 85% supporting margins and growth alike. While funding pressures sustained for past couple of quarters, Q3 witnessed slight higher overseas borrowing costs coupled with excess balance sheet liquidity denting margins (719bps vs 714bps QoQ). Said that, this stood largely offset with sharp decline in credit costs by 86bps QOQ. With GNPAs declining 9bps QoQ and absolute GNPAs steady QoQ (mere 4% up YoY), asset quality stress has peaked out for SHTF.

Management cited confidence with improved kharif and anticipation of better rabi crop, sustained used CV vehicle enquiries and rural cash flows remaining intact. While NIMs should witness slight pressures (7.2% by FY22), the same should rightly be offset by controlled credit costs (~200bps by FY22). This coupled with 14% AUM CAGR should translate into healthy 2.3% RoA and 15% RoEs over FY20-22E. While we slightly tweak down our AUM estimates (14% CAGR from 16% earlier over FY20-22E), pruning down of credit costs 1.9%-2.07% (earlier 2.1%) is generating 2-3% EPS uptick over FY20-22E. As SHTF stands as a bigger beneficiary of cyclical upturn on the used CV finance side, we reiterate BUY recommendation, valuing the stock at 1.5x PABV Sep-21E. Our price target stands at Rs1,444 (earlier Rs1,441); stock trades at attractive valuation largely pricing in all the concerns..

- **Core book growth impressive:** AUM at Rs 1089bn [PLe: Rs 1110bn] grew 5%YoY /1%QoQ with used CV share in overall mix now at 85% as against 83% a year ago. Used vehicle disbursements stood encouraging at 19% YoY growth indicative of built-up of heathier business trends ahead. **Used CV demand to improve post Mar'20 with BSVI shift with resale value catching up meaningfully** should enable SHTF to put up 14-15% AUM CAGR over FY20-22E.

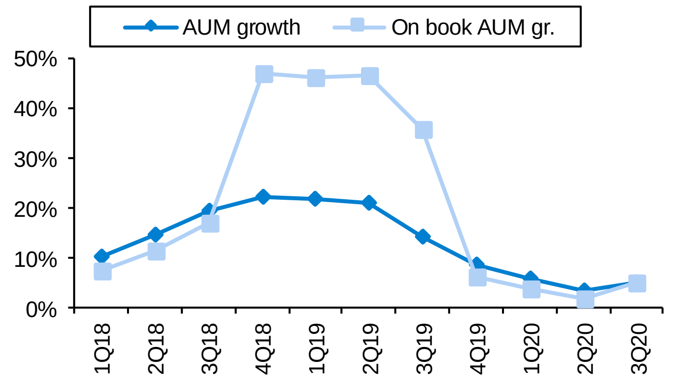
- **Asset quality under control; credit costs dip:** GNPA stood at 8.7% vs 8.8% in the previous quarter [PLe: 8.8%], absolute terms GNPA increased 4% YoY/ steady QoQ and PCR stood at 32%. The sharp 86bps QoQ dip in credit costs to 1.64% came as a positive surprise indicating the asset quality stress has peaked out already for SHTF. A better winter crop and bountiful monsoons translating into bettering farm cash flows should see credit quality improvement in FY21. Moreover, Stage 2 assets came down to 20.4% this quarter from 22.21% Q3FY19. Against this backdrop, we foresee meaningful decline in NPAs to 7.2-7.4% NPA with credit costs at 200-210bps over FY21-22. **This should translate into robust RoAs at 2.3% and Roes at 15% by FY22.**

Exhibit 1: Lower provisions support PAT growth

Y/e March (Rs mn)	Q3FY20	Q3FY19	*YoY gr.*	Q2FY20	*QoQ gr.*
Interest income	41,337	39,484	*4.7*	41,099	*0.6*
Interest expenses	21,193	19,187	*10.5*	21,134	*0.3*
Net Interest Income	**20,144**	**20,297**	***(0.8)***	**19,965**	***0.9***
Total Net Interest Income	**20,144**	**20,297**	***(0.8)***	**19,965**	***0.9***
Operating & Other Income	1,545	457	*238.3*	1,099	*40.6*
Net revenue	**21,689**	**20,754**	***4.5***	**21,064**	***3.0***
Operating expenses	5,382	4,553	*18.2*	5,189	*3.7*
Staff Cost	2,550	2,217	*15.0*	2,505	*1.8*
Operating profit	**16,307**	**16,202**	***0.7***	**15,875**	***2.7***
Provisions	4,444	6,362	*(30.2)*	6,607	*(32.7)*
Profit before tax	**11,863**	**9,839**	***20.6***	**9,269**	***28.0***
Tax	3,072	3,485	*(11.9)*	1,618	*89.8*
Profit after tax	**8,792**	**6,355**	***38.4***	**7,651**	***14.9***
Busines mix					
Total AUM	**1,089,314**	**1,038,179**	*4.9*	**1,081,202**	**0.8**
on book	1,074,830	1,020,965	*5.3*	1,064,634	*1.0*
off book	14,484	17,214	*(15.9)*	16,569	*(12.6)*
on book %	99%	98%	*0.3*	98%	*0.2*
Used CV book	926,255	861,261	*7.5*	912,146	*1.5*
New CV book	104,651	120,768	*(13.3)*	109,667	*(4.6)*
Used CV book share	85%	83%	*2.1*	84%	*0.7*
New CV book share	10%	12%	*(2.0)*	10%	*(0.5)*
Disbursement	**116,070**	**95,500**	*21.5*	**131,200**	*(11.5)*
Used CVs	108,070	90,020	*20.1*	122,820	*(12.0)*
New CVs	4,760	4,000	*19.0*	6,660	*(28.5)*
Asset quality					
Gross NPA (mn)	93,924	76,411	*22.9*	93,966	*(0.0)*
Net NPA (mn)	63,748	22,212	*187.0*	63,800	*(0.1)*
Gross NPA (%)	8.7%	9.0%	*(0.3)*	8.8%	*(0.1)*
Net NPA (%)	6.1%	2.8%	*3.3*	5.9%	*0.2*
Coverage ratio(%)	32.1%	70.9%	*(38.8)*	32.1%	*0.0*
Credit Cost (%)	1.6%	2.4%	*(0.8)*	2.5%	*(0.8)*
Ratios					
Gross Spread (on book)	5.9%	4.5%	*147*	6.0%	*(7)*
NIM/AUM	**7.4%**	**7.8%**	***(37)***	**7.4%**	***(2)***
NIM/AUM - Reported	**7.1%**	**7.4%**	***(30)***	**7.2%**	***(5)***
Asset quality under IND-AS					
Gross Stage 3	93,924	90,325	*4.0*	93,966	*(0.0)*
Gross Stage 3 (%)	8.7%	8.8%	*(7)*	8.8%	*(1.0)*
Net Stage 3	63,748	58,459	*9.0*	63,800	*(0.1)*
Net Stage 3 (%)	6.1%	5.9%	*23*	5.9%	*3.2*
ECL Prov. on Gross Stage 3	30,176	31,866	*(5.3)*	30,165	*0.0*
Coverage Ratio Stage 3	32.1%	35.3%	*(315)*	32.1%	*0.1*
Gross Stage 1 & 2	983,850	938,750	*4.8*	974,057	*1.0*
Net Stage 1 & 2	957,056	912,238	*4.9*	946,393	*1.1*
ECL Prov. on Gross Stage 1 & 2	26,794	26,511	*1.1*	27,665	*(3.1)*
ECL Prov. (%) Stage 1 & 2	2.7%	2.8%	*(10)*	2.8%	*(4.1)*

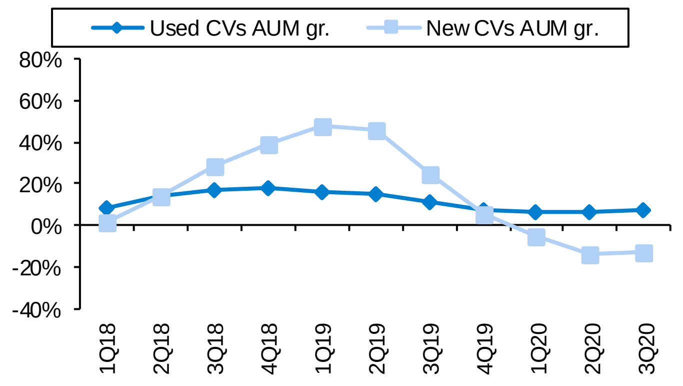
Source: Company, PL

Exhibit 2: Better AUM growth…



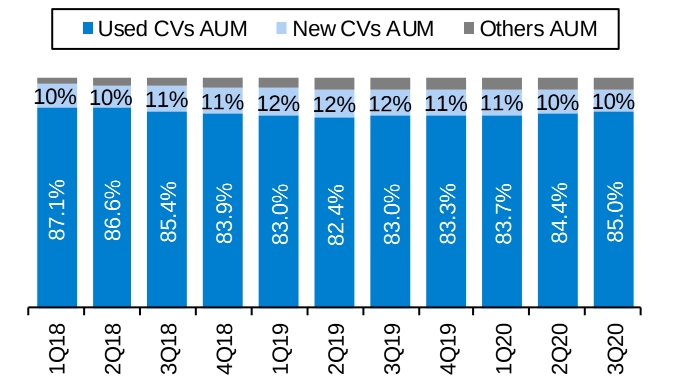
Source: Company, PL

Exhibit 3: …contributed from used CVs



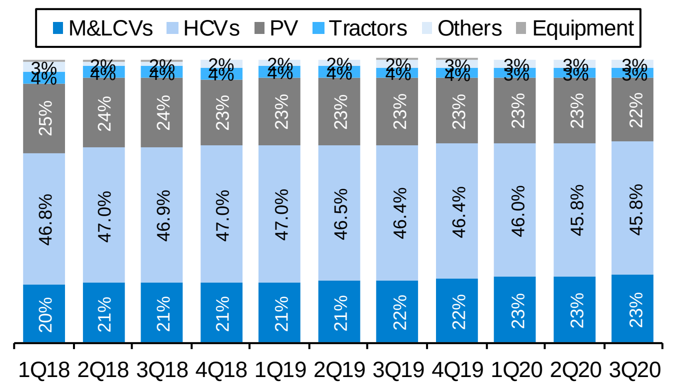
Source: Company, PL

Exhibit 4: Used CV mix inching up



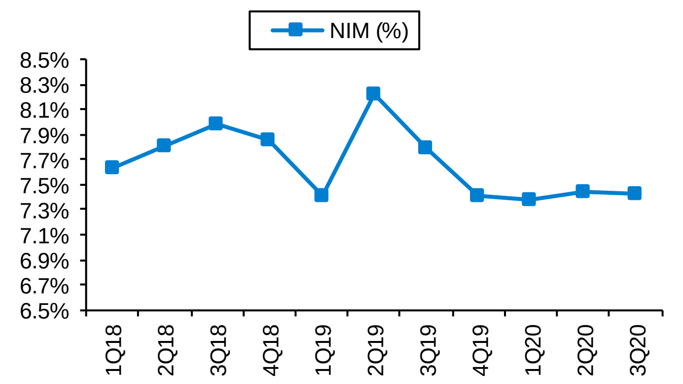
Source: Company, PL

Exhibit 5: Stable AUM mix



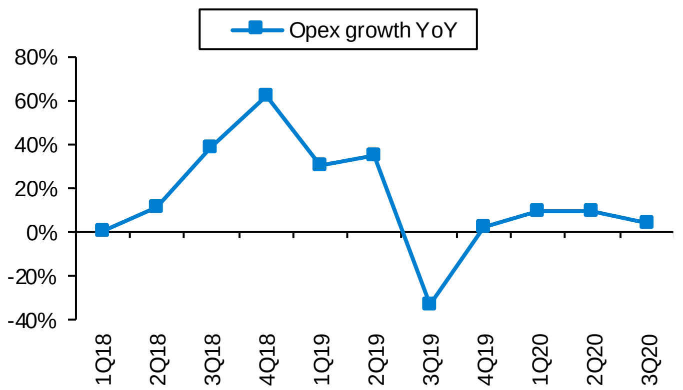
Source: Company, PL

Exhibit 6: NIMs largely remain stable



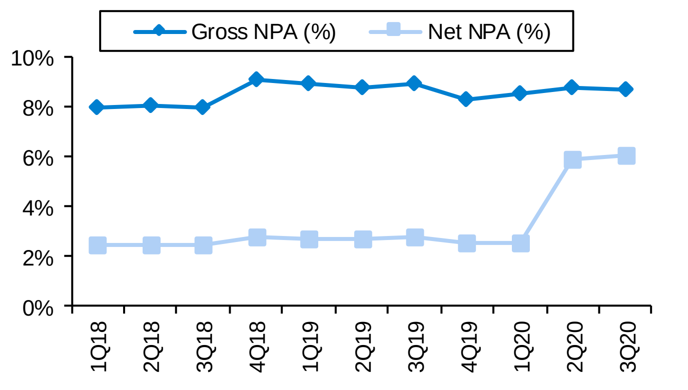
Source: Company, PL

Exhibit 7: Opex descends



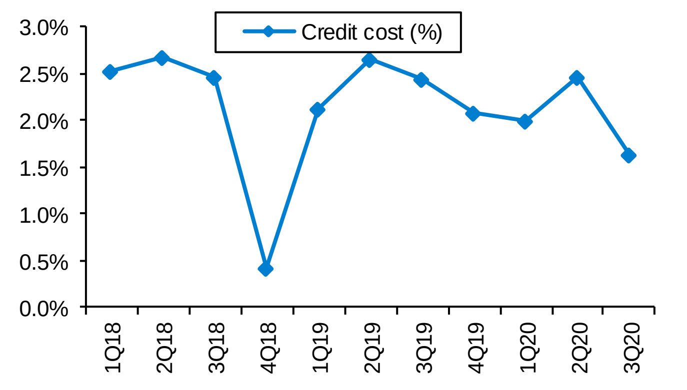
Source: Company, PL

Exhibit 8: Slight improvement in asset quality



Source: Company, PL

Exhibit 9: Credit Cost declineas provisions are down 30% YoY



Source: Company, PL

Key Concall highlights:

Growth outlook: 8-9% YoY growth for FY20, low double digit growth for FY21, thereafter would be determined by economic growth

Credit costs guidance: 2%

CoF: Higher overseas borrowing costs at 9.6% and liquidity pressure on BS compressed NIMs. Management confident on cost improvement in FY21.

Industry commentary: BSIV inventory stood high last year, manufacturer hence focused on inventory clearance that led to higher discounts leading to postponement of purchases.

Industry commentary- Used CV financing to improve: Used vehicle enquiries holding up well, new CV purchase enquiries stood down due to lack of clarity on resale prices and discounting. Used CV demand to improve post Mar'20 with BSVI shift with resale value catching up meaningfully. While Cash flows stood tight for corporate and govt sector, rural market led by agri commodities have witnessed decent cash flows with no challenges to SHTF customers.

Merger: Without adding much fuel further to speculation on merger, Management expects to come back sooner post consideration of Board discussion on synergies and value for stake holders.

Latest retail NCD issue response: Management also highlighted that latest Rs200crs retail NCD augmentation did not stood lower by their standards as this issue was largely subscribed by retail investors with negligible participation from HNIs, rates too stood slightly lower

Exhibit 10: Lower credit costs and moderate tweak in AUM CAR leading to EPS uptick

(Rs mn)	Old			Revised			% Change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	*FY20E*	*FY21E*	*FY22E*
Net Interest Income	84,940	94,669	107456	80,792	90,272	106,274	*-5%*	*-5%*	*-1%*
Operating Profit	65,289	73,744	84993	60,964	68,957	83,386	*-7%*	*-6%*	*-2%*
Net Profit	26,726	29,654	33704	27,437	28,857	34,412	*3%*	*-3%*	*2%*
EPS (Rs)	117.8	130.7	148.5	120.9	127.2	151.6	*3%*	*-3%*	*2%*
Price Target (Rs)		**1441**			**1,444**			***3.5***	
Reco		**BUY**			**BUY**				

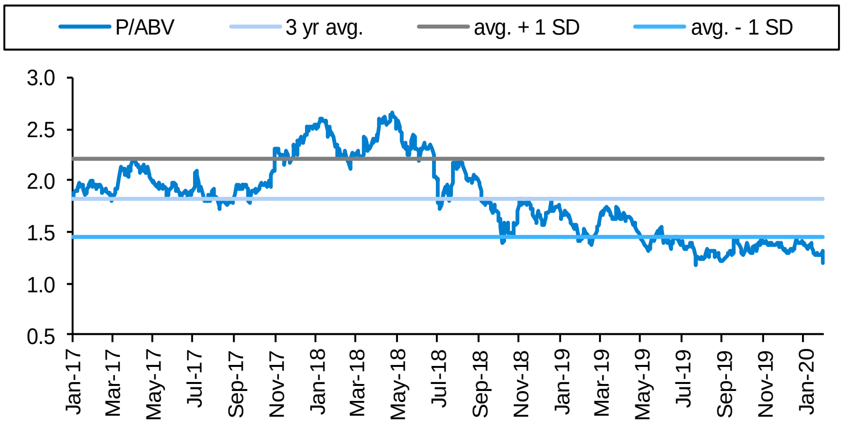
Source: PL

Exhibit 11: TP at 1444 valuing the stock at 1.5x PABV SEP 21 ESTS, best play on used CV financing

Fair price - EVA	1,750
Fair price - P/ABV	1,139
Average of the two	**1,444**
Target P/ABV	**1.5**
Target P/E	**10.4**
Current price, Rs	1060
Upside (%)	**36%**
Dividend yield (%)	1%
Total return (%)	**38%**

Source: Company, PL

Exhibit 12: SHTF available at attractive valuations , maintain BUY



Source: Company, Bloomberg, PL

Income Statement (Rs. m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Int. Inc. / Opt. Inc.	155,316	181,881	204,511	232,659
Interest Expenses	75,113	86,541	99,846	110,840
Net interest income	**80,112**	**80,792**	**90,272**	**106,274**
Growth(%)	*15.6*	*0.8*	*11.7*	*17.7*
Non-interest income	233	523	811	1,176
Growth(%)	*(63.1)*	*125.0*	*55.0*	*45.0*
Net operating income	80,344	81,315	91,083	107,450
Expenditures				
Employees	8,831	9,714	10,685	11,647
Other Expenses	9,479	10,048	10,851	11,828
Depreciation	430	590	590	590
Operating Expenses	18,309	19,761	21,536	23,475
PPP	**61,605**	**60,964**	**68,957**	**83,386**
Growth(%)	*14.4*	*(1.0)*	*13.1*	*20.9*
Provisions	23,823	24,298	30,394	37,399
Profit Before Tax	**37,783**	**36,666**	**38,563**	**45,987**
Tax	12,143	9,229	9,706	11,575
Effective Tax rate(%)	*32.1*	*25.2*	*25.2*	*25.2*
PAT	**25,640**	**27,437**	**28,857**	**34,412**
Growth(%)	*4.2*	*7.0*	*5.2*	*19.3*

Balance Sheet (Rs. m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Source of funds				
Equity	2,269	2,269	2,269	2,270
Reserves and Surplus	156,094	183,531	212,387	246,799
Networth	158,363	185,800	214,656	249,069
Growth (%)	*16.7*	*17.3*	*15.5*	*16.0*
Loan funds	879,144	996,252	1,122,369	1,297,135
Growth (%)	*7.0*	*13.3*	*12.7*	*15.6*
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	15,418	20,590	35,369	36,149
Other Liabilities	-	-	-	-
Total Liabilities	**1,052,925**	**1,202,641**	**1,372,395**	**1,582,353**
Application of funds				
Net fixed assets	1,475	1,549	1,625	1,706
Advances	967,515	1,107,805	1,281,730	1,486,807
Growth (%)	*6.6*	*14.5*	*15.7*	*16.0*
Investments	39,991	40,790	41,198	41,610
Current Assets	40,734	49,186	44,308	48,517
Net current assets	**25,316**	**28,597**	**8,939**	**12,368**
Other Assets	3,211	3,311	3,533	3,713
Total Assets	**1,052,925**	**1,202,641**	**1,372,395**	**1,582,353**
Growth (%)	*8.3*	*14.2*	*14.1*	*15.3*
Business Mix				
AUM	1,044,823	1,124,529	1,251,248	1,452,857
Growth (%)	*8.5*	*7.6*	*11.3*	*16.1*
On Balance Sheet	850,847	918,915	1,029,185	1,204,146
% of AUM	*81.43*	*81.72*	*82.25*	*82.88*
Off Balance Sheet	193,976	205,614	222,063	248,711
% of AUM	*18.57*	*18.28*	*17.75*	*17.12*

Profitability & Capital (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
NIM	7.9	7.2	7.0	7.2
ROAA	2.5	2.4	2.2	2.3
ROAE	17.4	15.9	14.4	14.8

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Int. Inc. / Operating Inc.	38,197	39,868	41,099	41,337
Income from securitization	-	-	-	-
Interest Expenses	18,885	20,431	21,134	21,193
Net Interest Income	**19,313**	**19,436**	**19,965**	**20,144**
Growth (%)	*5.0*	*6.7*	*(3.2)*	*(0.8)*
Non-Interest Income	607	749	1,099	1,545
Net Operating Income	**19,920**	**20,185**	**21,064**	**21,689**
Growth (%)	*2.9*	*9.7*	*0.4*	*4.5*
Operating expenditure	4,799	4,758	5,189	5,382
PPP	**15,120**	**15,428**	**15,875**	**16,307**
Growth (%)	-	-	-	-
Provision	5,398	5,612	6,607	4,444
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	9,722	9,816	9,269	11,863
Tax	2,262	3,473	1,618	3,072
Prov. for deferred tax liability	-	-	-	1,401
Effective Tax Rate	23.3	35.4	17.5	25.9
PAT	**7,460**	**6,343**	**7,651**	**8,792**
Growth	*(9)*	*11*	*26*	*38*
AUM	1,044,823	1,063,435	1,081,202	1,089,314
YoY growth (%)	8.5	5.8	3.6	4.9
Borrowing	877,796	1,019,299	1,201,124	1,375,420
YoY growth (%)	*28.8*	*17.4*	*30.0*	*90.6*

Key Ratios

Y/e Mar	FY19	FY20E	FY21E	FY22E
CMP (Rs)	1,060	1,060	1,060	1,060
EPS (Rs)	113.0	120.9	127.2	151.6
Book value (Rs)	697.9	818.8	946.0	1,097.4
Adj. BV(Rs)	607.3	735.8	878.3	1,029.5
P/E(x)	9.4	8.8	8.3	7.0
P/BV(x)	1.5	1.3	1.1	1.0
P/ABV(x)	1.7	1.4	1.2	1.0
DPS (Rs)	13.0	15.5	15.5	15.5
Dividend Payout Ratio(%)	*11.5*	*12.8*	*12.2*	*10.2*
Dividend Yield(%)	*1.2*	*1.5*	*1.5*	*1.5*

Asset Quality

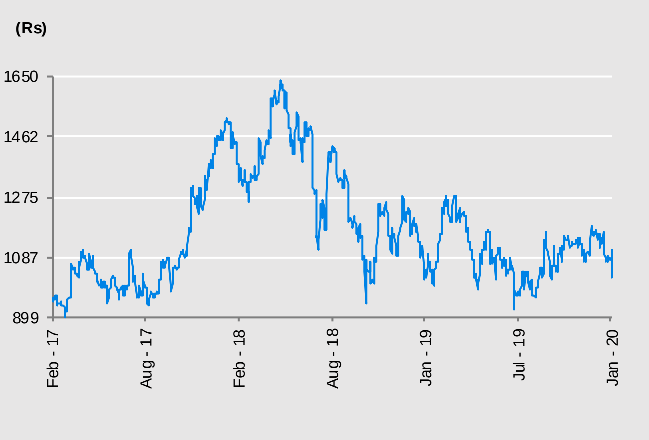
Y/e Mar	FY19	FY20E	FY21E	FY22E
Gross NPAs(Rs m)	70,998	83,829	88,799	98,321
Net NPA(Rs m)	20,554	18,849	15,355	15,414
Gross NPAs to Gross Adv.(%)	7.3	7.6	6.9	6.6
Net NPAs to net Adv.(%)	2.2	1.8	1.3	1.1
NPA coverage(%)	71.0	77.5	82.7	84.3

Du-Pont as a % of AUM

Y/e Mar	FY19	FY20E	FY21E	FY22E
NII	7.8	7.2	7.0	7.2
NII INCI. Securitization	7.8	8.5	8.1	8.2
Total income	7.9	8.5	8.2	8.3
Operating Expenses	1.8	1.8	**1.7**	1.6
PPOP	6.0	6.7	6.5	6.7
Total Provisions	2.3	2.2	2.4	2.5
RoAA	2.5	2.4	2.2	2.3
Avg. Assets/Avg. net worth	-	-	-	-
RoAE	17.4	15.9	14.4	14.8

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	BUY	1,441	1,160
2	27-Oct-19	BUY	1,441	1,125
3	3-Oct-19	BUY	1,441	1,035
4	4-Jul-19	BUY	1,481	1,063
5	9-May-19	BUY	1,481	1,027
6	22-Apr-19	BUY	1,568	1,213
7	5-Apr-19	BUY	1,568	1,224

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	5,000	4,419
2	Capital First	UR	-	495
3	Cholamandalam Investment and Finance Company	BUY	353	324
4	Edelweiss Capital	NR	-	276
5	HDFC	Accumulate	2,612	2,390
6	L&T Finance Holdings	Sell	99	118
7	LIC Housing Finance	Sell	404	438
8	Mahindra & Mahindra Financial Services	Reduce	373	351
9	Manappuram Finance	Accumulate	202	189
10	Shriram Transport Finance	BUY	1,441	1,160

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

ANALYST CERTIFICATION

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