

Shriram Transport Finance Limited

BUY

CMP Rs638

Target Rs850

Upside 33.3%

HIGHLIGHTS

- ✓ Q4 FY20 for SHTF was tepid, characterized by marginal AUM accretion (1% qoq and 5% yoy), a flat NIM/NII (adjusted for notional FV change due to adverse currency movement), controlled opex growth, a small correction in Gross Stage-3 ratio (coverage ratio improved) and large Covid-related provisions (Rs9.1bn, 0.8% of AUM) dragging earnings.
- ✓ Growth has been a challenge for the past six quarters; averaging 0.8% qoq expansion with yoy growth decelerating from 20% to 5%. Trends in the mainstay used vehicle financing (86% of AUM) have been relatively better and the drag has been caused by the decline in new vehicle portfolio (9%) and business loans (2%).
- ✓ Collection efficiency in April and May was around 15% and 30% respectively, and the management expects significant uptick in June with increasing customers being able to deploy vehicles. Collections from the more impacted Taxi (3% of AUM) and inter-state/long distance M&HCV customers (10%) is likely to start in June/July.
- ✓ SHTF did not seek moratorium from lenders till 31st May as it had robust liquidity. For the second phase (June-August), company has approached its bankers and expects most of them to provide consent. As on May 31, liquidity buffer stood at Rs.57bn.
- ✓ In Q2 FY21 and Q3 FY21 debt repayments are ~Rs40bn, which would be taken care by expected moratorium from banks/fresh funding (healthy sanction pipeline), improving collections and sustained traction in retail deposits (all branches activated), in addition to the aforesaid cash buffer. Capital position of SHTF is strong with Tier-1 capital at 18% and D/E at 5x.
- ✓ With the impact of Covid being inculcated in ECL model, the credit cost run-rate will remain elevated in coming quarters. Management expects worst case to be 3%.

Our View

- ✓ Retain BUY rating with a 12m TP of Rs850. Believe SHTF is better placed than peers on capital position and potential recovery in collection efficiency during June-August (resilient client base).
- ✓ SHTF trades at 0.9x/5.4x FY22 ABV/EPs. Visibility of RoA climbing back above 2% in FY22 will re-rate valuation.

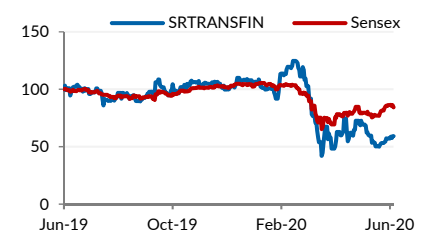
Risk to our call

- ✓ Prolonged Covid episode, uncertainty of merger with group cos.

Stock data (as on June 11, 2020)

Sensex:	33,538
52 Week h/l (Rs)	1367 / 440
Market cap (Rs/USD mn)	144728 / 1910
Outstanding Shares	227
6m Avg t/o (Rs mn):	2,812
Div yield (%):	1.9
Bloomberg code:	SHTF IN
NSE code:	SRTRANSFIN

Stock performance



	1M	3M	1Y
Absolute return	(13.3)%	(35.4)%	(41.9)%

Shareholding pattern (As of Mar'20 end)

Promoter	26.3%
FII+DII	67.4%
Others	6.4%

Exhibit 1: Financial Summary

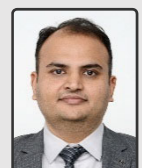
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	80,454	83,124	76,858	87,665
yoy growth (%)	15.1	3.3	(7.5)	14.1
PPOP	61,605	62,336	55,030	63,655
Net profit	25,640	25,018	15,968	26,721
yoy growth (%)	4.2	(2.4)	(36.2)	67.3
EPS (Rs)	113.0	110.3	70.4	117.8
Adj.BVPS (Rs)	448.7	529.5	494.0	678.7
P/E (x)	5.6	5.8	9.1	5.4
P/adj.BV (x)	1.4	1.2	1.3	0.9
ROE (%)	17.4	14.8	8.5	12.9
ROA (%)	2.5	2.3	1.4	2.2
CAR (%)	20.3	22.0	23.9	24.1

Source: Company, YES Sec – Research

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CON-CALL HIGHLIGHTS

Moratorium/Collections

- ✓ Company collected money from 23% and 52% of its borrowers in April and May respectively. However, many customers have made part payments and thus in value term the collection stood at 15% in April and 30% in May
- ✓ About 30% of customers were able to operate their vehicle in April, 50% in May and this has improved to near 70% in early June. Thus, management expects collection efficiency to increase significantly in June from 30% in May. SHTF largely caters to 1-2 vehicle owners who earn and pay.
- ✓ Moratorium was extended to all the customers but they have been educated to pay when they earn or if they have any surplus

Moratorium from lenders; liquidity position

- ✓ SHTF did not seek moratorium from lenders (made all liability repayments) in the first moratorium period ending 31st May as it had sufficient liquidity as of March 31st (liquidity buffer of Rs.104bn and SLR investments of Rs18bn)
- ✓ As on May 31st, the liquidity buffer stood at Rs.57bn and SLR investments were Rs18bn. Debt repayments are around Rs.40bn each in Q2 FY21 and Q3 FY21. For the second moratorium phase (June-August), the company has approached banks for moratorium. About 8-9 banks have agreed and most others are expected to provide consent also. Management estimates to receive moratorium on quarterly repayments of about Rs20bn.
- ✓ Company attracted sizable retail deposits in April and May, and considering the strong traction it has reduced the interest rates for its retail deposit program by 20-30 bps wef. 1st May.
- ✓ SHTF could borrow Rs8bn from banks in April and May and received TLTRO sanctions of Rs2bn. Sanction pipeline from banks is healthy too.

Incremental borrowing cost coming down

- ✓ After the recent reduction, the interest rate on public deposits starts from 7.6%. With all branches activated for marketing and processing of the FDs, traction is expected to improve in coming 6-12 months.
- ✓ Banks have also reduced rate on term loans to 8.5-9%. While securitization volumes have been low, the rate will be lower than bank TLs.

Challenges in Taxi and long-distance truck segments

- ✓ The Taxi segment (Ola/Uber/City Taxis) is about 3% of the total portfolio for SHTF, and this has been badly affected by Covid. However, Ola and Uber have been allowed to operate in most cities from early June. So, collections from these customers is expected to improve from July.
- ✓ Apart from Taxis, the PV portfolio of the company includes corporate and school buses. While corporate buses have been moving, the movement in school buses will likely start from July.
- ✓ The movement of inter-state long distance MHCVs was constricted in the lock down phase; such customers form about 10% of SHTF's AUM. Fortunately, being 1-2 vehicle owners, they are not dependent on drivers (owner-drivers or keep relatives or friends as drivers) but load availability is low (industrial activity only gradually restarting). Management expects this segment to start earning cash flows from July.

Credit cost to increase; Covid impact factored in ECL model

- ✓ Excluding the Covid-related provisions of Rs9.1bn, SHTF's credit cost for FY20 stood at 1.6% (2.4% including it)
- ✓ Annually reassessment of ECL model (PD and LGD assumptions) done in March. Management has inculcated the potential impact of Covid in latest revision. Without this, the modifications in ECL model would have been positive.
- ✓ Factoring the current assessment of Covid, the annual ECL based credit cost moves from of 2% to 2.4%. In worst case, management does not see it crossing 3% for the current year. Credit cost is expected to revert to near 2% in the longer run.
- ✓ For SHTF, the credit cost had gone up by 50bps after demonetization.
- ✓ In used vehicle financing segment, LTV across products was reduced from 70% to 65% in Oct 2018. For the new vehicle portfolio, LTV is in the range of 75-80%
- ✓ Traditionally for SHTF, vehicle repossessions have been low at near 1% of portfolio.

Expectation on demand recovery

- ✓ Demand enquiries coming from the rural market; they typically prefer used vehicles. Record harvest and release of full amount from governments to support this demand
- ✓ Post Sept 2020, management expects demand from urban markets to improve

Other points

- ✓ NIM decline in Q4 FY20 due to adverse fair value change impact on overseas borrowings (notional, as it is fully hedged) due to unfavorable currency movement. Besides this, NIM was stable.
- ✓ Merger plan of the group companies in a pause mode. None of the bigger plans being discussed currently at the Group and company level
- ✓ Capital raising was not discussed in the recent Board Meeting

Exhibit 2: Result Table

(Rs mn)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
Total Operating Income	41,684	42,189	(1.2)	38,730	7.6
Interest Expenses	(21,589)	(20,512)	5.2	(18,885)	14.3
Net Interest Income	20,096	21,676	(7.3)	19,845	1.3
Other income	46	33	38.7	104	(55.5)
Total Income	20,142	21,710	(7.2)	19,949	1.0
Operating expenses	(5,416)	(5,403)	0.3	(4,829)	12.2
Provisions	(11,287)	(4,444)	154.0	(5,398)	109.1
PBT	3,439	11,863	(71.0)	9,722	(64.6)
Tax	(1,205)	(3,072)	(60.8)	(2,262)	(46.7)
Adjusted PAT	2,234	8,792	(74.6)	7,460	(70.1)

Source: Company, YES Sec – Research

Exhibit 3: Key Business matrix

(Rs mn)	Q4 FY20	Q3 FY20	chg qoq	Q4 FY19	chg yoy
AUM	1,097,492	1,089,314	0.8	1,044,823	5.0
New	97,951	104,651	(6.4)	115,941	(15.5)
Used	939,490	926,255	1.4	870,500	7.9
Business Loans	25,650	26,495	(3.2)	29,710	(13.7)
Working Cap. Loans	33,859	31,421	7.8	28,073	20.6
Others	543	491	10.4	599	(9.4)
Urban AUM	652,200	654,400	(0.3)	659,300	(1.1)
Rural AUM	445,300	434,900	2.4	385,500	15.5
Loan Portfolio	873,971	856,785	2.0	850,847	2.7
Securitized Portfolio	211,046	218,045	(3.2)	172,228	22.5
Off-Book	12,475	14,484	(13.9)	21,748	(42.6)

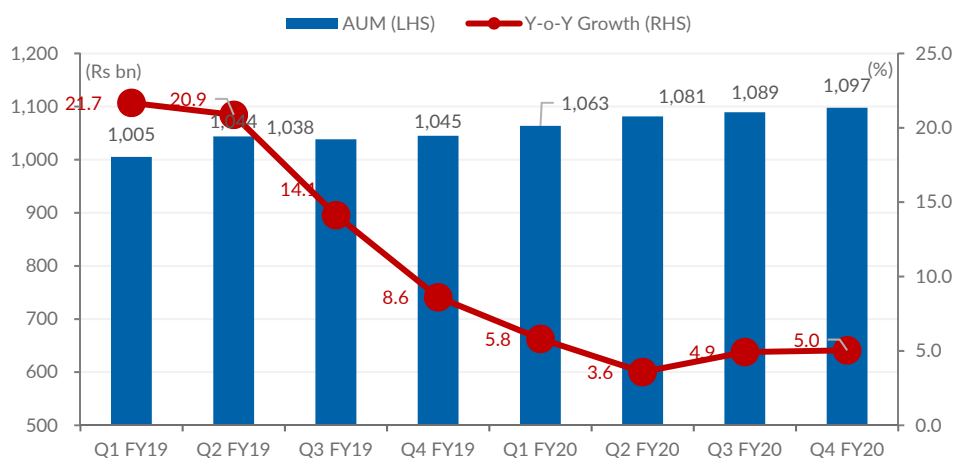
Source: Company, YES Sec – Research; * Computed

Exhibit 4: Key Ratios

Key Ratios	Q4 FY20	Q3 FY20	chg qoq	Q4FY19	chg yoy
NIM (%)	6.8	7.1	(0.4)	7.2	(0.5)
Cost to Income (%)	26.9	24.9	2.0	24.2	2.7
BV (Rs)	793.6	783.8	1.3	698.0	13.7
RoE (%)	5.0	20.2	(15.2)	19.3	(14.3)
RoA (%)	0.8	3.1	(2.3)	2.7	(1.9)
CAR (%)	22.0	20.7	1.3	20.3	1.7
Gross Stage 3 (%)	8.4	8.7	(0.4)	9.1	(0.7)
Net Stage 3 (%)	5.6	6.1	(0.5)	6.2	(0.6)
Stage 3 Coverage Ratio (%)	34.7	32.1	2.6	34.4	0.3

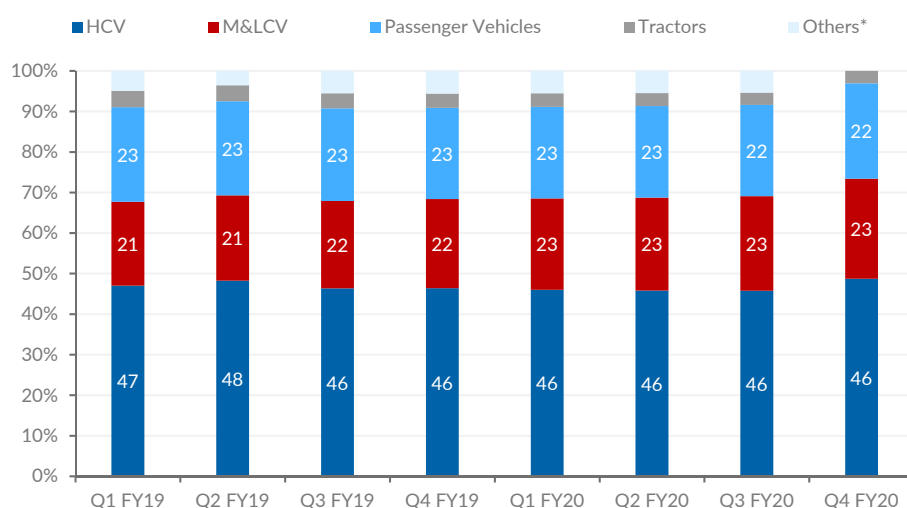
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Exhibit 5: AUM growth has moderated



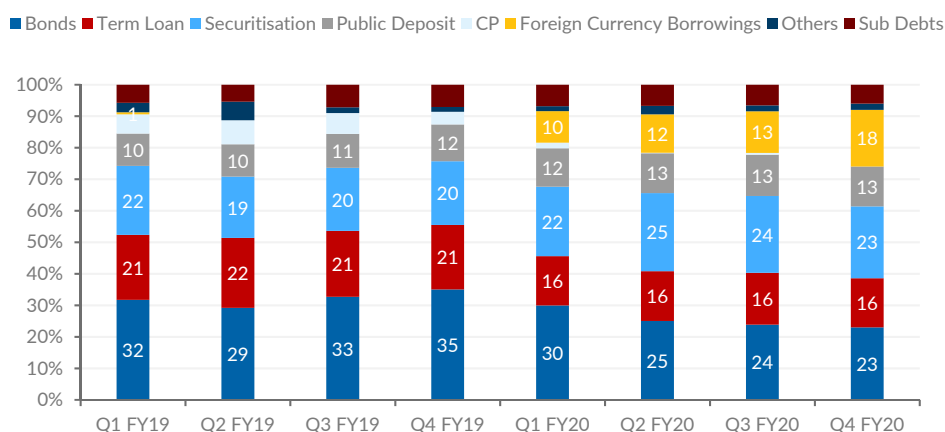
Source: Company, YES Sec – Research

Exhibit 6: AUM mix has largely stayed the same



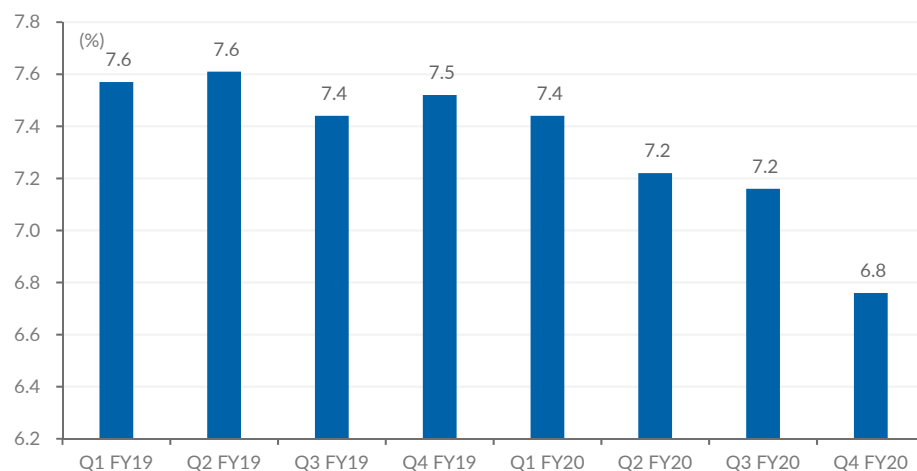
Source: Company, YES Sec – Research

Exhibit 7: Rise in contribution of foreign borrowings and deposits



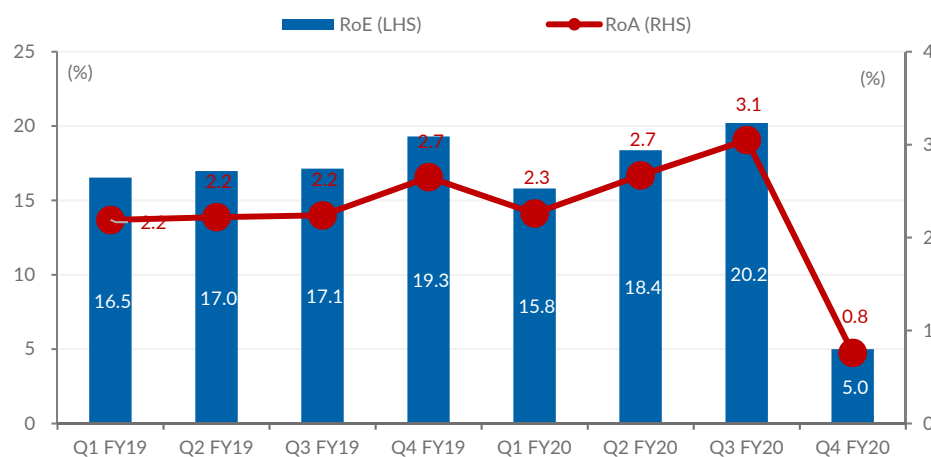
Source: Company, YES Sec – Research

Exhibit 8: An optical decline in reported NIM during Q4



Source: Company, YES Sec – Research

Exhibit 9: Large Covid-related provisioning weigh on the return ratios



Source: Company, YES Sec – Research

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