

August 14, 2020

## Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	805		793	
NII (Rs.)	82,249	95,484	74,286	90,080
% Chng.	10.7	6.0		
PPoP (Rs.)	62,686	71,946	50,562	63,326
% Chng.	24.0	13.6		
EPS (Rs.)	117.3	144.3	122.3	158.1
% Chng.	(4.1)	(8.7)		

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Int.Inc. (Rs m)	82,921	68,966	82,249	95,484
Growth (%)	3.4	(16.8)	19.3	16.1
Op. Profit (Rs m)	62,336	52,653	62,686	71,946
PAT (Rs m)	25,018	14,465	26,619	32,764
EPS (Rs.)	110.3	63.8	117.3	144.3
Gr. (%)	(2.4)	(42.2)	84.0	23.0
DPS (Rs.)	5.0	15.5	15.5	15.5
Yield (%)	0.7	2.2	2.2	2.2
Margin (%)	7.6	5.8	6.4	6.8
RoAE (%)	14.8	7.7	12.8	13.8
RoAA (%)	2.3	1.4	2.7	3.1
PE (x)	6.4	11.0	6.0	4.9
P/BV (x)	0.9	0.8	0.7	0.6
P/ABV (x)	1.3	1.0	0.8	0.7

### Key Data

SRTR.BO | SHTF IN

52-W High / Low	Rs.1,332 / Rs.429
Sensex / Nifty	38,310 / 11,300
Market Cap	Rs.178bn / \$ 2,375m
Shares Outstanding	253m
3M Avg. Daily Value	Rs.8008.5m

### Shareholding Pattern (%)

Promoter's	26.25
Foreign	63.68
Domestic Institution	2.29
Public & Others	7.78
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	1.9	(42.9)	(27.0)
Relative	(2.4)	(38.2)	(29.6)

Shweta Daptardar

shwetadaptardar@plindia.com | 91-22-66322245

## Moratorium uncertainty an overhang

### Quick Pointers:

- 73% of customers paid EMIS either in part or full in Jul'20; <10% of customers likely to be restructured
- Cost rationalization aids bottom-line

**Q1FY21 earnings proved beat on most parameters, however, the moratorium dispensation is still masking the true asset quality picture. Quarter surprised positively on 2%QoQ AUM growth to Rs1117bn driven by similar growth in used CV financing. We reckon pent-up demand and better rural scenario aided used CV traction. Same translated into higher than expected NII although Co. could not escape NIM compression on account of excess liquidity on BS and notional loss on investments. With good part of book falling under moratorium, Q1FY21 NPAs declined 50bpsYoY/40bpsQoQ to 7.98%. Jul-month still recorded improved collections with 73% of customers either paying in part or full but recoveries still remain elusive. Hence, Co. holding cumulative Rs18.7bn COVID-related provisions created over Q4-Q1. With recent Rs15bn rights issue, Rs77bn on-BS liquidity, undrawn bank lines of Rs20bn and Rs19.5bn Gol funds, Co. expects liquidity pressures to ease aiding NIM reversals to pre-COVID levels. We maintain our reservations on growth (somber demand as lockdowns get extended restricting intra state activity, lower utilization levels) and asset quality (moratorium overhang) with imminent NIM pressures. Our FY21-FY22 growth target at 5%/10%YoY remains almost unchanged; we expect healthy 16%YoY growth for FY23 led by used CV financing. NPAs at 8-9% remain unchanged, however, we tweak credit costs estimates slightly higher to 300bps (earlier 260-270bps) for FY21. Consequently, our EPS estimates stand higher by 8% for FY21 but lower 4-9% over FY22-23E. With return profile yet to see a strong momentum, we reiterate Accumulate rating on the stock and rollover PBV multiple to Sep'22E to 1x arriving at price target of Rs805 (earlier Rs793)**

- Business growth surprise:** AUM at Rs 1117bn [PLe: Rs1021bn] grew 5%YoY/2%QoQ with used CV growing 2%QoQ and used share in overall mix maintained at 86%. Admittedly, Co.'s disbursements and recoveries have been significantly affected during Q1FY21; resultantly, overall disbursements fell 92%YoY during the quarter. While Mngt. stands confident on post-harvest demand and essentials transport activity catching up, we remain circumspect on overall AUM growth due to lower utilization levels, lack of genuine demand and higher share of moratorium book prompting Co. to stay cautious on incremental disbursements. Moreover, as liquidity maintenance takes precedence, we maintain growth estimates at 5/10% (FY21) and 16% for FY23E.
- Morat masking asset quality picture:** Moratorium masking true asset quality picture as GNPA at 7.98% declined 50bpsYoY/40bpsQoQ (PLe: 8.71%). Said that, with Rs18bn COVID provisions, higher ECL coverage at 39%, Co. maintains sufficient buffers. We tweak our credit costs estimates slightly higher to 300bps for FY21 but maintain NPA estimates at 8-9% over FY21-23E.

PAT at Rs3201mn stood higher than our estimates Rs369mn growing 43%QoQ on the back of improved NII, lower opex and lower than expected provisioning

NII at Rs18.4bn exceed our estimates (PLe: Rs16.5bn) on the back of better than expected AUM traction and steady interest income flow.

Nonetheless, NII de-grew 5%/6% QoQ/YoY respectively during the quarter.

AUM at Rs 1117bn (PLe: Rs1021bn) reported 5% YoY & 2% growth \*predominantly on the back of 2%QoQ growth in used vehicle financing\*.

The quarter also saw operating leverage playing out as operating expenses decline stood stark declining 29%QoQ/20%YoY to Rs 3.8bn (PLe: Rs5.5bn)

Provisions at Rs10.6bn also stood lower than our estimates (PLe:Rs11.4bn) declining 6%QoQ (up 90%YoY).

Yet, factoring in further pandemic challenges, SHTF made higher ECL provs of Rs9.6bn (Q4FY20:Rs9.1bn) during the quarter, cumulative COVID related provs standing at Rs 18bn till date.

Moratorium masking true asset quality picture as GNPA at 7.98% declined 50bpsYoY/40bpsQoQ (PLe: 8.71%)

Morat details: In spite of the moratorium, \*Co. has been able to collect from 84% , 23% , 52% , 71% and 73% borrowers in the month of March , April , May , June and July 2020 respectively.\*

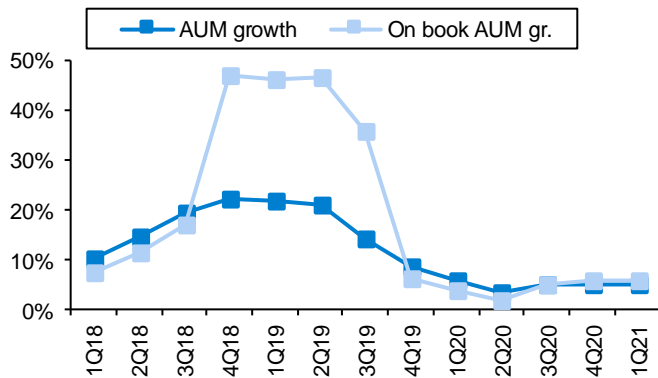
Liquidity: The liquidity buffer and SLR investments as on Aug 12, 2020 was Rs96.9bn and Rs18.2bn respectively

### Exhibit 1: Better growth, cost rationalization aid PAT

Y/e March (Rs mn)	Q1FY20	Q1FY20	YoY gr.	Q4FY20	QoQ gr.
Interest income	41,026	39,721	3.3	40,922	0.3
Interest expenses	22,672	20,112	12.7	21,589	5.0
<b>Net Interest Income</b>	<b>18,354</b>	<b>19,609</b>	<b>(6.4)</b>	<b>19,333</b>	<b>(5.1)</b>
<b>Total Net Interest Income</b>	<b>18,354</b>	<b>19,609</b>	<b>(6.4)</b>	<b>19,333</b>	<b>(5.1)</b>
Operating & Other Income	421	591	(28.8)	809	(47.9)
<b>Net revenue</b>	<b>18,775</b>	<b>20,200</b>	<b>(7.1)</b>	<b>20,142</b>	<b>(6.8)</b>
Operating expenses	3,823	4,772	(19.9)	5,416	(29.4)
Staff Cost	1,892	2,331	(18.8)	2,723	(30.5)
<b>Operating profit</b>	<b>14,952</b>	<b>15,428</b>	<b>(3.1)</b>	<b>14,726</b>	<b>1.5</b>
Provisions	10,646	5,612	89.7	11,287	(5.7)
<b>Profit before tax</b>	<b>4,306</b>	<b>9,816</b>	<b>(56.1)</b>	<b>3,439</b>	<b>25.2</b>
Tax	1,105	3,473	(68.2)	1,205	(8.3)
<b>Profit after tax</b>	<b>3,201</b>	<b>6,343</b>	<b>(49.5)</b>	<b>2,234</b>	<b>43.3</b>
<b>Busines mix</b>					
<b>Total AUM</b>	11,17,564	10,63,435	5.1	10,97,492	1.8
on book	11,05,818	10,44,014	5.9	10,85,017	1.9
off book	11,746	19,421	(39.5)	12,475	(5.8)
on book %	99%	98%	77.5	99%	8.6
Used CV book	9,58,640	8,90,205	7.7	9,39,490	2.0
New CV book	96,561	1,14,505	(15.7)	97,951	(1.4)
Used CV book share	86%	84%	206.9	86%	17.6
New CV book share	9%	11%	(212.7)	9%	(28.5)
<b>Disbursement</b>	<b>9,850</b>	<b>1,22,960</b>	<b>(92.0)</b>	<b>1,08,690</b>	<b>(90.9)</b>
<b>Asset quality</b>					
Gross NPA (mn)	89,308	89,257	0.1	91,797	(2.7)
Net NPA (mn)	54,878	60,852	(9.8)	59,911	(8.4)
Gross NPA (%)	8.0%	8.5%	(54.0)	8.4%	(38.0)
Net NPA (%)	5.1%	6.0%	(91.0)	5.6%	(56.0)
Coverage ratio(%)	38.6%	31.8%	672.7	34.7%	381.5
Credit Cost (%)	3.8%	2.1%	171.5	4.1%	(28.4)
<b>Ratios</b>					
Gross Spread (on book)	5.3%	6.1%	(81)	5.7%	(43)
<b>NIM/AUM</b>	<b>6.6%</b>	<b>7.4%</b>	<b>(81)</b>	<b>7.1%</b>	<b>(44)</b>
<b>NIM/AUM - Reported</b>	<b>6.4%</b>	<b>7.2%</b>	<b>(74)</b>	<b>6.8%</b>	<b>(34)</b>
<b>Asset quality under IND-AS</b>					
Gross Stage 3	89,308	89,257	0.1	91,797	(2.7)
Gross Stage 3 (%)	8.0%	8.5%	(54.0)	8.4%	(38)
Net Stage 3	54,878	60,852	(9.8)	59,911	(8.4)
Net Stage 3 (%)	5.1%	6.0%	(91.0)	5.6%	(56)
ECL Prov. on Gross Stage 3	34,429	28,406	21.2	31,887	8.0
Coverage Ratio Stage 3	38.6%	31.8%	672.6	34.7%	381
Gross Stage 1 & 2	10,29,275	9,58,895	7.3	10,06,320	2.3
Net Stage 1 & 2	9,90,862	9,31,271	6.4	9,74,886	1.6
ECL Prov. on Gross Stage 1 & 2	38,412	27,624	39.1	31,434	22.2
ECL Prov. (%) Stage 1 & 2	3.7%	2.9%	85.1	3.1%	61

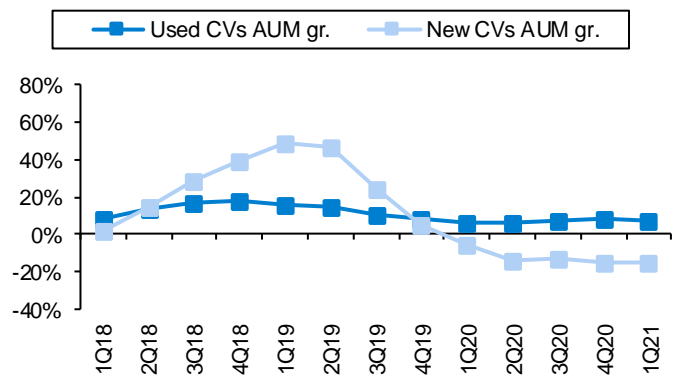
Source: Company, PL

Exhibit 2: AUM growth improves QoQ



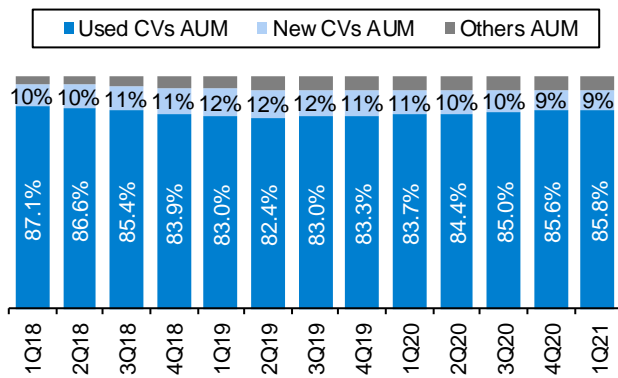
Source: Company, PL

Exhibit 3: ...led by used CVs reporting 2%QoQ growth



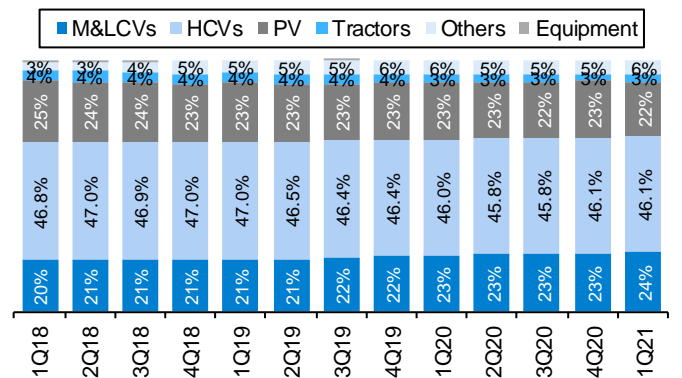
Source: Company, PL

Exhibit 4: Used CV share unchanged at 86%



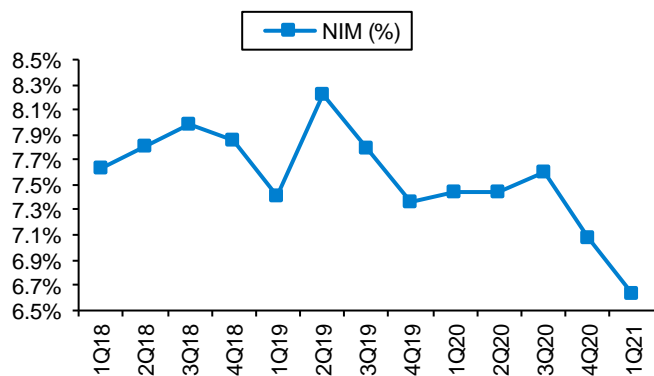
Source: Company, PL

Exhibit 5: Stable AUM mix



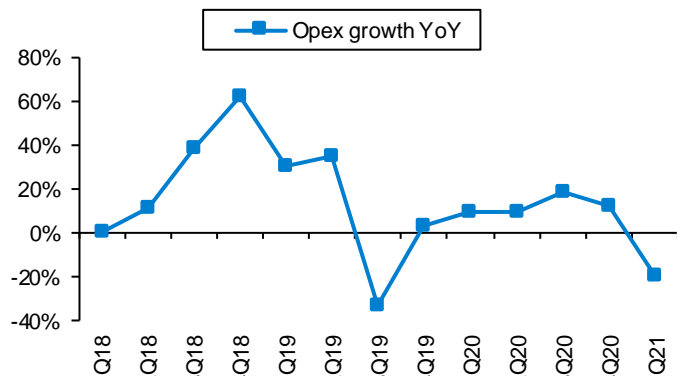
Source: Company, PL

Exhibit 6: NIMs come under pressure



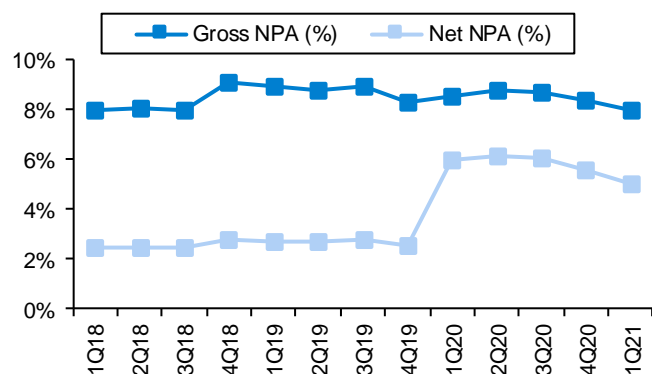
Source: Company, PL

Exhibit 7: Opex declines sharply



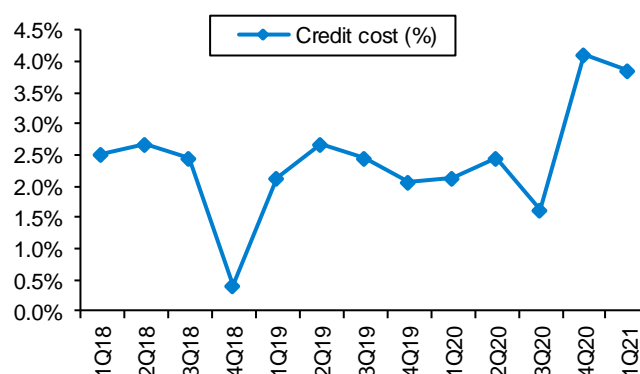
Source: Company, PL

Exhibit 8: Marginal improvement in asset quality



Source: Company, PL

Exhibit 9: However, credit costs stay elevated



Source: Company, PL

### Key Concall highlights:

- Industry:** CV sales fell by 85% to 31636 units. Pre owned CV is performing better due to lower ATS and increased demand from rural area. LCV to perform better than HCV due to higher demand from rural and rise in E-Commerce biz.
- New tractor sales** have gone up due to better monsoon. Earth moving and CE sales down by 64% and expecting improvement in demand post rains.
- Operations:** All branches were fully functional in Q1FY21 except in containment zones.
- Collection efficiency:** CE at 23%/52%/71%/73% in April/May/June/July. Collection includes part or full payment of EMI from both morat and non morat customers. July collections didn't pick up substantially as there were more restrictions in July than June in states like Maharashtra, TN, Bihar, Jharkhand, UP and flood like situation in Bihar and Assam.
- Liquidity:** Rs. 77bn worth of liquidity as of July end and Rs. 20bn worth of undrawn banking lines. Raised Rs. 3.5bn from SIDBI scheme and Rs. 16bn from PCGS. Didn't raised any amt from special liquidity window scheme.
- Deposits:** Started taking deposits from all branches in June. Expects deposits to reach Rs. 150bn by end of this financial year and target is to achieve Rs. 300bn as deposits cost is par with other borrowing costs.
- AUM:** Higher AUM on account of interest accrued added to advances of Rs.40bn
- Disbursement:** Disbursed Rs.9850 mn. during the qtr. down by 92% YoY.
- NIM compression:** Higher liquidity on BS, hedge accounting on notional loss that marginally impacted NII.
- Opex:** Senior managers have taken 20% salary cut, negotiated various rental agreements and other cost saving measures
- Credit Cost:** Additional provision in Q2FY21 depends on qtr performance. However expecting lower credit cost in Q3 and Q4.

- **Restructuring:** Less than 10% of customers will need restructuring who were not at all operational in last 6 months such as vehicle aggregators.
- **Msme guarantee scheme:** Sanctioned Rs.30bn worth of loans and disbursed Rs.1bn
- **Merger:** Merger is on hold and no discussion going on regarding it.
- **Utilisation:** Utilisation level for Driver cum owner much higher in June because all essential goods movement is being done through owner operators only. As diesel prices have increased, FMCG cos has increased freight rate. ■ Stage 1 assets stood at 80.43% and stage 2 stood at 11.21%.

**Exhibit 10: Lower growth and higher credit costs coupled with higher liquidity on BS mar EPS trends ahead**

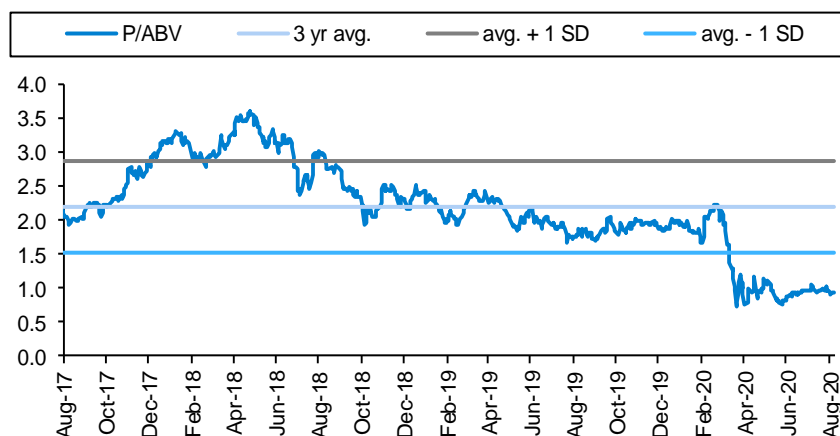
(Rs mn)	Old			Revised			% Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Interest Income	67,141	74,286	90,080	68,966	82,249	95,484	3%	11%	6%
Operating Profit	44,870	50,562	63,326	52,653	62,686	71,946	17%	24%	14%
Net Profit	13,445	27,750	35,892	14,465	26,619	32,764	8%	-4%	-9%
EPS (Rs)	59	122	158	63.8	117.3	144.3	8%	-4%	-9%
<b>Price Target (Rs)</b>	<b>793</b>			<b>805</b>			<b>1.5%</b>		
<b>Reco</b>	<b>Accumulate</b>			<b>Accumulate</b>					

Source: PL

**Exhibit 11: TP at Rs805, Maintain ACCUMULATE**

Fair price - EVA	899
Fair price - P/ABV	710
<b>Average of the two</b>	<b>805</b>
<b>Target P/ABV</b>	<b>0.9</b>
<b>Target P/E</b>	<b>6.2</b>
Current price, Rs	702
<b>Upside (%)</b>	<b>15%</b>
Dividend yield (%)	1%
<b>Total return (%)</b>	<b>15%</b>

Source: Company, PL

**Exhibit 12: SHTF valuations although lower, pain yet to be fully factored**


Source: Company, Bloomberg, PL



## Income Statement (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Inc. / Opt. Inc.	1,65,843	1,62,575	1,87,040	2,10,451
Interest Expenses	82,703	93,110	1,04,160	1,14,312
<b>Net interest income</b>	<b>82,921</b>	<b>68,966</b>	<b>82,249</b>	<b>95,484</b>
Growth(%)	3.4	(16.8)	19.3	16.1
Non-interest income	203	253	317	317
Growth(%)	(26.3)	25.0	25.0	-
Net operating income	83,124	69,219	82,566	95,801
<b>Expenditures</b>				
Employees	10,108	11,321	13,585	16,303
Other Expenses	9,270	5,245	6,294	7,553
Depreciation	1,411	-	-	-
Operating Expenses	19,378	16,566	19,880	23,855
<b>PPP</b>	<b>62,336</b>	<b>52,653</b>	<b>62,686</b>	<b>71,946</b>
Growth(%)	1.2	(15.5)	19.1	14.8
Provisions	27,949	33,323	27,113	28,161
<b>Profit Before Tax</b>	<b>34,387</b>	<b>19,330</b>	<b>35,573</b>	<b>43,784</b>
Tax	9,368	4,865	8,954	11,020
Effective Tax rate(%)	27.2	25.2	25.2	25.2
<b>PAT</b>	<b>25,018</b>	<b>14,465</b>	<b>26,619</b>	<b>32,764</b>
Growth(%)	(2.4)	(42.2)	84.0	23.1

## Balance Sheet (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Source of funds</b>				
Equity	2,269	2,269	2,270	2,271
Reserves and Surplus	1,77,783	1,92,247	2,18,867	2,51,631
Networth	1,80,052	1,94,516	2,21,137	2,53,901
Growth (%)	13.7	8.0	13.7	14.8
Loan funds	9,43,718	10,34,380	11,09,063	12,61,408
Growth (%)	7.3	9.6	7.2	13.7
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	17,517	10,665	16,847	26,693
Other Liabilities	-	-	-	-
<b>Total Liabilities</b>	<b>11,41,286</b>	<b>12,39,561</b>	<b>13,47,046</b>	<b>15,42,002</b>
<b>Application of funds</b>				
Net fixed assets	4,824	5,778	6,642	7,635
Advances	10,22,316	10,73,432	11,80,775	13,69,699
Growth (%)	5.7	5.0	10.0	16.0
Investments	27,985	43,376	57,964	68,374
Current Assets	81,349	1,08,954	89,905	68,060
<b>Net current assets</b>	<b>63,832</b>	<b>98,290</b>	<b>73,058</b>	<b>41,367</b>
Other Assets	4,812	8,020	11,760	28,234
<b>Total Assets</b>	<b>11,41,286</b>	<b>12,39,561</b>	<b>13,47,046</b>	<b>15,42,002</b>
Growth (%)	8.4	8.6	8.7	14.5
<b>Business Mix</b>				
AUM	10,97,492	11,19,442	12,66,299	14,17,206
Growth (%)	5.0	2.0	13.1	11.9
On Balance Sheet	10,85,017	11,39,268	12,53,195	14,03,578
% of AUM	98.86	101.77	98.97	99.04
Off Balance Sheet	12,475	12,600	13,104	13,628
% of AUM	1.14	1.13	1.03	0.96

## Profitability &amp; Capital (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	7.6	5.8	6.4	6.8
ROAA	2.3	1.4	2.7	3.1
ROAE	14.8	7.7	12.8	13.8

Source: Company Data, PL Research

## Quarterly Financials (Rs. m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Int. Inc. / Operating Inc.	41,099	41,154	40,922	41,026
Income from securitization	-	-	-	-
Interest Expenses	21,134	20,512	21,589	22,672
<b>Net Interest Income</b>	<b>19,965</b>	<b>20,641</b>	<b>19,333</b>	<b>18,354</b>
Growth (%)	(3.2)	1.7	0.9	(6.4)
Non-Interest Income	1,099	1,068	809	421
<b>Net Operating Income</b>	<b>21,064</b>	<b>21,710</b>	<b>20,142</b>	<b>18,775</b>
Growth (%)	0.4	4.6	1.0	(7.1)
Operating expenditure	5,189	5,403	5,416	3,823
<b>PPP</b>	<b>15,875</b>	<b>16,307</b>	<b>14,726</b>	<b>14,952</b>
Growth (%)	-	-	-	-
Provision	6,607	4,444	11,287	10,646
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	9,269	11,863	3,439	4,306
Tax	1,618	3,072	1,205	1,105
Prov. for deferred tax liability	1,412	1,401	1,463	1,544
Effective Tax Rate	17.5	25.9	35.0	25.7
<b>PAT</b>	<b>7,651</b>	<b>8,792</b>	<b>2,234</b>	<b>3,201</b>
Growth	26	38	(70)	(50)
AUM	10,81,202	10,89,314	10,97,492	11,17,564
YoY growth (%)	3.6	4.9	5.0	5.1
Borrowing	9,07,512	9,16,453	9,45,571	9,54,416
YoY growth (%)	(1.0)	(1.2)	5.8	4.9

## Key Ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	702	702	702	702
EPS (Rs)	110.3	63.8	117.3	144.3
Book value (Rs)	793.6	857.3	974.2	1,118.1
Adj. BV(Rs)	529.5	687.8	846.9	1,002.9
P/E(x)	6.4	11.0	6.0	4.9
P/BV(x)	0.9	0.8	0.7	0.6
P/ABV(x)	1.3	1.0	0.8	0.7
DPS (Rs)	5.0	15.5	15.5	15.5
Dividend Payout Ratio(%)	4.5	24.3	13.2	10.7
Dividend Yield(%)	0.7	2.2	2.2	2.2

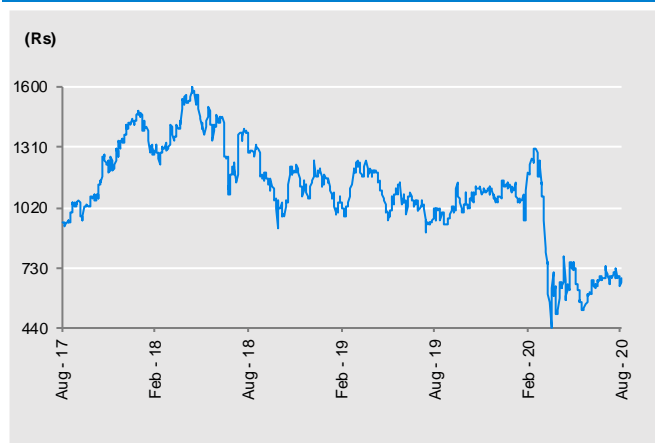
## Asset Quality

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs(Rs m)	91,797	1,02,429	99,292	1,01,814
Net NPA(Rs m)	59,911	38,473	28,907	26,166
Gross NPAs to Gross Adv.(%)	8.4	9.2	8.2	8.0
Net NPAs to net Adv.(%)	5.6	3.7	2.6	2.1
NPA coverage(%)	34.7	62.4	70.9	74.3

## Du-Pont as a % of AUM

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	7.6	5.8	6.4	6.6
NII INCl. Securitization	7.6	5.8	6.4	6.7
Total income	7.6	5.9	6.4	6.7
Operating Expenses	1.9	1.4	1.5	1.7
PPOP	5.7	4.5	4.9	5.0
Total Provisions	2.5	2.8	2.1	1.9
RoAA	2.3	1.2	2.1	2.3
Avg. Assets/Avg. net worth	6.5	6.4	6.2	6.1
RoAE	14.8	7.7	12.8	13.8

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Jul-20	Accumulate	793	699
2	11-Jun-20	Accumulate	809	635
3	17-Apr-20	BUY	940	802
4	04-Feb-20	BUY	1,444	1,060
5	03-Jan-20	BUY	1,441	1,160
6	27-Oct-19	BUY	1,441	1,125
7	03-Oct-19	BUY	1,441	1,035

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,815	3,292
2	Cholamandalam Investment and Finance Company	Accumulate	240	203
3	HDFC	Accumulate	2,093	1,805
4	L&T Finance Holdings	Sell	52	62
5	LIC Housing Finance	Reduce	260	276
6	Mahindra & Mahindra Financial Services	Reduce	179	208
7	Manappuram Finance	Accumulate	197	179
8	SBI Cards and Payment Services	BUY	974	766
9	Shriram Transport Finance	Accumulate	793	699

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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**Prabhudas Lilladher Pvt. Ltd.**

**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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