

Shriram Transport Finance Limited

BUY

CMP Rs686

Target Rs880

Upside 28.3%

HIGHLIGHTS

- ✓ A healthy operating performance with PPOP coming in-line with expectation. Miss on NII (decline in NIM) was made up by cost containment (driven partially by structural measures).
- ✓ Additional covid-related prov. of Rs9.6bn weighed on earnings, while asset quality was stable due to standstill. Cumulative covid buffer at Rs18.7bn (1.7% of on-book AUM). Conservative built-up of prov. also reflected in ECL cover of 39% on Stage-3 assets and 3.7% on Stage 1&2 assets.
- ✓ 71% and 73% of borrowers paid in June and July respectively. However, collection efficiency was lower at 50-55% as many customers paid partial installments. Management believes many such customers are retaining cash for lockdown uncertainty or to support business operations.
- ✓ Collection trends are expected to improve in August and September. After moratorium ends, the company will deploy its usual recovery methods (including repo threat) which should drive-up collections. In worst case, management sees restructuring requirement for 5-10% of borrowers.
- ✓ No further additional prov. requirement seen if covid situation does not worsen; implying normalization of credit cost in H2.
- ✓ While excess liquidity will be carried for a while, NIM is expected to improve by Q4 FY21 with easing incremental funding cost.
- ✓ Extant BS liquidity (Rs97bn), unused bank lines (Rs20bn), branch activation for deposits, improving funding availability and rising collections place SHTF comfortably for meeting liability repayments and business requirements.

Our View

- ✓ Retain BUY. Notwithstanding that SHTF caters to riskier customers segment (owner-drivers), company's covid buffer stands higher than peers, thus cushions future P&L outcomes.
- ✓ Even if significant delinquencies flow in ensuing quarters, the incremental credit cost requirement may not be very large (PPOP can absorb). Expect near-normal credit cost in FY22.

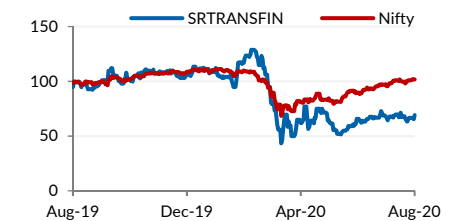
Risk to our call

- ✓ Unabated Covid spread and more lockdowns

Stock data (as on Aug 14, 2020)

Nifty	11,300
52 Week h/l (Rs)	1332 / 429
Market cap (Rs/USD mn)	173714 / 2318
Outstanding Shares (mn)	253
6m Avg t/o (Rs mn):	3,616
Div yield (%):	0.7
Bloomberg code:	SHTF IN
NSE code:	SRTRANSFIN

Stock performance



	1M	3M	1Y
Absolute return	1.9%	7.3%	-26.7%

Shareholding pattern

Promoter	26.3%
FII+DII	67.4%
Others	6.4%

Δ in earnings estimates

	FY20e	FY21e	FY22e
EPS (New)	110.3	67.6	121.9
EPS (Old)	110.3	70.4	117.8
% change	-	(4.0%)	3.5%

Exhibit 1: Financial Summary

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	80,454	83,124	78,056	92,018
PPOP	61,605	62,336	58,515	69,741
Net profit	25,640	25,018	17,105	30,858
yoy growth (%)	4.2	(2.4)	(31.6)	80.4
EPS (Rs)	113.0	110.3	67.6	121.9
Adj.BVPS (Rs)	448.7	529.5	406.2	654.4
P/E (x)	6.1	6.2	10.2	5.6
P/adj.BV (x)	1.5	1.3	1.7	1.0
ROE (%)	17.4	14.8	8.8	13.7
ROA (%)	2.5	2.3	1.5	2.5

Source: Company, YES Sec - Research

RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in
 +91 98925 92827



AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in | +91 99675 80733

CON-CALL HIGHLIGHTS

Collection, Moratorium and Restructuring

- ✓ The % of customers who either paid full or part installment were 73% in July and 71% in June. Many are paying partial EMIs, reflected in collection efficiency being lower in the range of 50-55% during these months.
- ✓ While SHTF offered moratorium to majority customers in second phase, it engaged with borrowers to make them pay if they were earning
- ✓ Increase in the number of containment zones, particularly in the large states of TN and MH, and lockdowns and floods in few other states like Bihar, Assam, UP, etc. precluded any major improvement in collection trend in July over June
- ✓ Company believes that many of the customers not paying full EMI may also be retaining cash for uncertainty or to support business operations. Reduction in lockdowns, more relaxations and end of moratorium period would ensure that such customers pay full installments regularly from the coming month.
- ✓ Management expects collection trends to improve in August and near normalize by September end. After moratorium ends, the company will be able to deploy its usual recovery methods (including repossession threat) which should drive collections from the current partially paying and non-paying customers.
- ✓ In worst case, the company sees restructuring requirement for 5-10% of borrowers (would be a sub-set of 27% customers who have not paid in July). It would typically be customers facing elongated challenges in asset deployment/utilization (taxi aggregators in urban areas, etc.).

Profitability of customers and credit cost outlook

- ✓ Utilization level of typical SHTF customers, which is driver-cum-owners (DCOs), have been better due to low driver availability with fleet operators. Load availability and profitability have not been much of a challenge.
- ✓ Freight rates have increased by 15-20% in general; and for essential and perishable goods, they are up by 30%. This has offset the impact of higher fuel prices and other costs.
- ✓ After evaluating the latest Covid situation, SHTF made additional provisions. Hence, if covid situation does not worsen from here then no more additional provisioning will be required. In H2 FY21, credit cost is expected to normalize.

Liquidity and Capital position

- ✓ Liquidity buffer and SLR investments as on August 12, 2020 were Rs97bn and Rs18bn respectively.
- ✓ Unused bank lines stand at Rs20bn. SHTF has raised Rs2bn under TLTRO, Rs16bn under PCG scheme and Rs3.5bn refinancing from SIDBI. Nothing has been raised so far under the RBI's SLF window.
- ✓ Securitization done was Rs21bn in Q1 FY21 versus Rs23.6bn in Q4 FY20
- ✓ Completed Rs15bn rights issue which was oversubscribed 1.65x. Post this, promoters' stake increased to 26.5% from 26.25%.

Working on improving mobilization of deposits

- ✓ From June started accepting deposits from all branches. So far, mobilization was largely driven by channel partners.
- ✓ SHTF targets to reach a deposit base of Rs150bn (Rs120bn as of June) by end FY21. Deposits are at 0.7x of Networth and the regulatory cap is 1.5x
- ✓ More importantly, the deposit cost is falling in-line with other major borrowing sources.
- ✓ Deposits mobilization in July was better than in June

NIM decline, change in hedge accounting and margin outlook

- ✓ NIM declined in Q1 FY21 on account of maintenance of high liquidity buffer and fair value impact of Rs200-250mn on ineffective hedges related to overseas borrowing. About Rs2.5bn impact representing fair value change in effective hedges was routed through OCI (tax-netted impact of Rs1.9bn on Networth).
- ✓ SHTF conveniently shifted to cash flow hedge accounting from fair value hedge accounting for the treatment of hedges. Henceforth, bulk of the derivative related movement will be routed through OCI.
- ✓ The management plans to carry excess liquidity for a couple of more quarters. However, as incremental funding cost is expected to decline across avenues with easing liquidity availability, the company hopes to make progress towards NIM normalization by Q4 FY21

Fall in operating cost

- ✓ Senior management has taken salary cut of 10-20%
- ✓ Branch/office rental costs were renegotiated or company received waiver for few months
- ✓ Travel-related cost was low due to restrictions and shift to virtual meetings and engagement
- ✓ There was a reduction in employee base

ECLGS Scheme

- ✓ Sanctioned Rs30bn so far, and disbursements have been Rs1bn
- ✓ Now eligibility would be substantial after the inclusion of individual business loans
- ✓ Securitize portfolio not included under ECLGS scheme
- ✓ There being a cap in lending rate at 14%, SHTF would not want to extend this additional funding facility to everyone.

Exhibit 2: Result Table

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Total Operating Income	41,409	41,684	(0.7)	40,223	2.9
Interest Expenses	(22,672)	(21,589)	5.0	(20,112)	12.7
Net Interest Income	18,737	20,096	(6.8)	20,111	(6.8)
Other income	38	46	(18.0)	89	(57.3)
Total Income	18,775	20,142	(6.8)	20,200	(7.1)
Operating expenses	(3,823)	(5,416)	(29.4)	(4,772)	(19.9)
Provisions	(10,646)	(11,287)	(5.7)	(5,612)	89.7
PBT	4,306	3,439	25.2	9,816	(56.1)
Tax	(1,105)	(1,205)	(8.3)	(3,473)	(68.2)
Adjusted PAT	3,201	2,234	43.3	6,343	(49.5)

Source: Company, YES Sec - Research

Exhibit 3: AUM Mix

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
AUM	1,117,564	1,097,492	1.8	1,063,435	5.1
New	96,561	97,951	(1.4)	114,505	(15.7)
Used	958,640	939,490	2.0	890,205	7.7
Business Loans	25,217	25,650	(1.7)	29,121	(13.4)
Working Cap. Loans	36,657	33,859	8.3	28,983	26.5
Others	489	543	(10.0)	621	(21.3)
Loan Portfolio	876,988	873,971	0.3	846,515	3.6
Securitised Portfolio	228,830	211,046	8.4	197,500	15.9
Off-Book	11,746	12,475	(5.8)	19,421	(39.5)

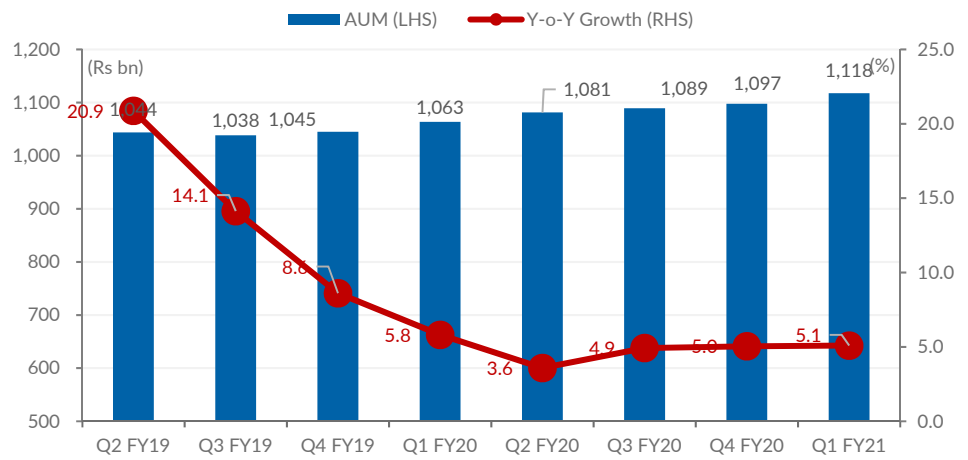
Source: Company, YES Sec - Research

Exhibit 4: Key Ratios

(%)	Q1 FY21	Q4 FY20	chg qoq	Q1 FY20	chg yoy
NIM (%)	6.4	6.8	(0.3)	7.2	(0.7)
Cost to Income (%)	20.4	26.9	(6.5)	23.6	(3.3)
BV (Rs)	799.3	793.6	0.7	717.4	11.4
RoE (%)	7.1	5.0	2.1	15.8	(8.7)
RoA (%)	1.1	0.8	0.3	2.3	(1.2)
CAR (%)	21.9	22.0	(0.1)	20.1	1.9
Gross Stage 3 (%)	8.0	8.4	(0.4)	9.1	(1.1)
Net Stage 3 (%)	5.1	5.6	(0.6)	6.2	(1.1)
Stage 3 Coverage Ratio (%)	38.6	34.7	3.8	31.8	6.7

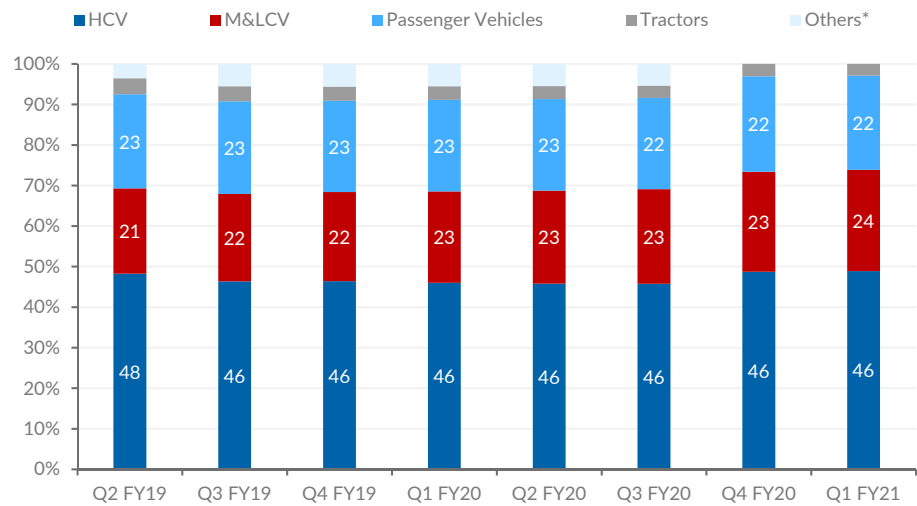
Source: Company, YES Sec - Research

Exhibit 5: Stable AUM growth



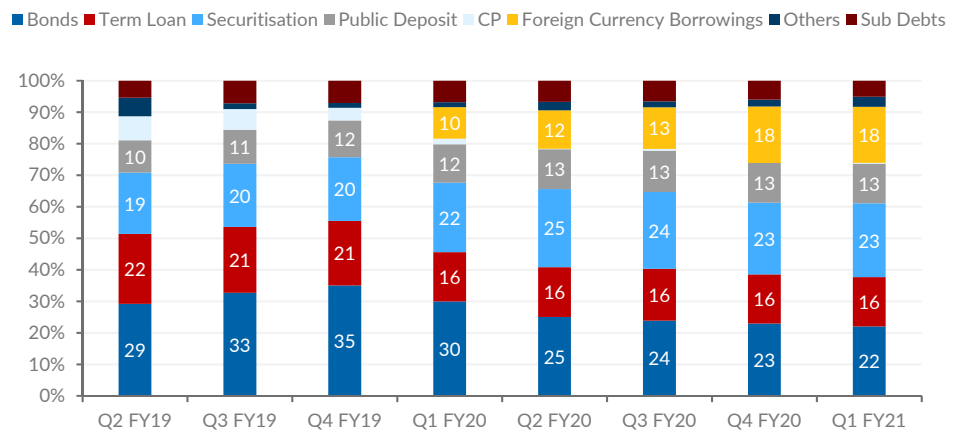
Source: Company, YES Sec – Research

Exhibit 6: AUM Mix – Product wise



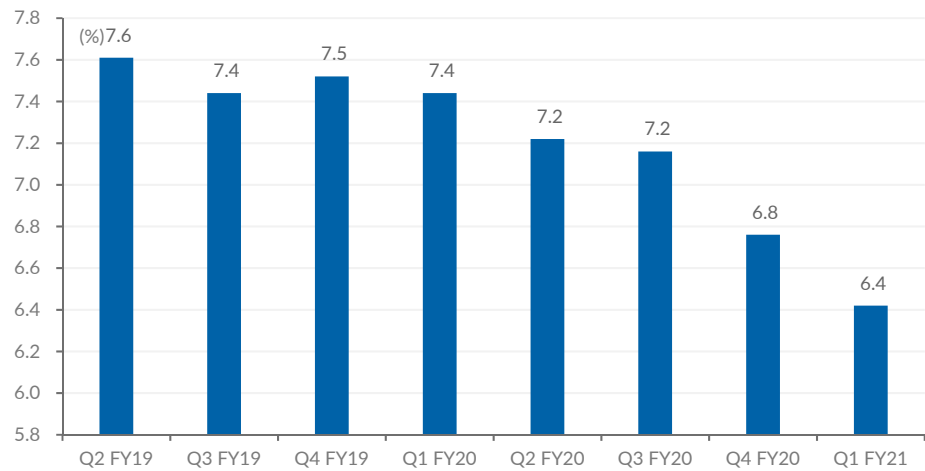
Source: Company, YES Sec – Research

Exhibit 7: Borrowing mix



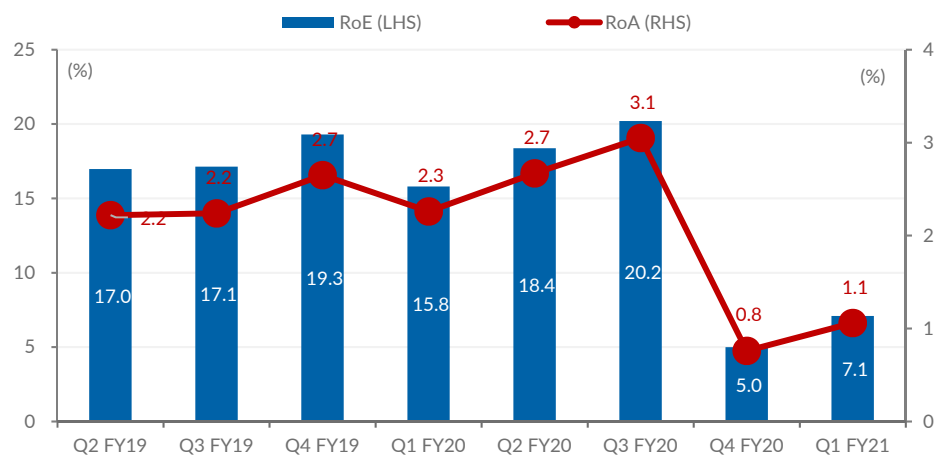
Source: Company, YES Sec – Research

Exhibit 8: NIM comes off further



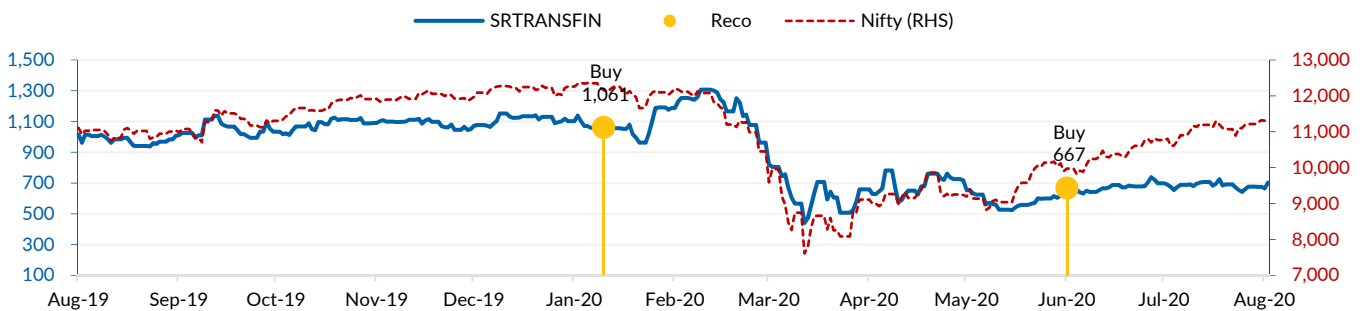
Source: Company, YES Sec - Research

Exhibit 9: Return ratios impacted by additional Covid provision



Source: Company, YES Sec - Research

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.

Contact Details: +91-22-71123123
Email: research@ysil.in | Website: <https://yesinvest.in>

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX: INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | AMFI ARN Code - 94338

Details of Compliance Officer: Name: Vaibhav Purohit, Email id: compliance@ysil.in, Contact No-+91-22-33479208

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