

Shriram Transport Finance

Refer to important disclosures at the end of this report

Earnings inline; Focus to shift to integration and merger synergy

- Shriram Transport (SHTF) reported Q1 earnings of ~Rs9.7bn (-11% qoq/+468% yoy), with core operating profit coming broadly in line with our estimates. Disbursements for the quarter stood at ~Rs167bn (-2% qoq/+31% yoy) in a seasonally weak quarter. This was driven by a ~2% sequential decline in used vehicle disbursements and ~4% qoq decline in the new vehicles segment. As a result, overall, AUM grew by 3% qoq/10% yoy to ~Rs1,307bn, led by sequential growth in M&LCV (+5%) and PVs (+5%). In terms of AUM mix, higher-yielding used vehicle segment remained flat qoq. Calculated NIMs declined by 14bps qoq due to higher CoFs. Incrementally, CoFs for bonds and blended CoFs rose by 50bps and 15bps, respectively, during Q1. SHTF plans to bring liquidity levels down from ~Rs180bn currently to three-month levels of ~Rs80bn. Cost-to-income ratio rose by 19bps qoq to ~21.5%, resulting in pre-provision operating profit of ~Rs21bn remaining flat qoq and growing 26% yoy. Credit costs for the quarter rose by 8bps qoq to 2.5%. GS3 and NS3 were 7% (Q4:7.1%) and 3.5% (Q4: 3.7%), respectively. Management overlay provisions created on account of COVID-19 stood at Rs18.4bn (Q4: Rs20.5bn), having utilized ~Rs2.2bn during the quarter for write-offs. Restructured book as of June 2022 stood at ~Rs8bn (0.6% of AUM) vs. ~Rs8.5bn (0.7% of AUM) as of March 2022.
- SHTF, a leader in pre-owned CV segment financing, accounts for over 25% of the CV market. The company's growth, risk profile, and return potential are tightly connected to this segment. SHTF's merger with SCUF – a company with higher RoA than SHTF – will add additional profitable growth drivers to an otherwise uni-segment business. It will not only improve the credit rating profile of the business but also create a more diversified play on the broader below-prime segment in India. Staff cross-pollination being underway and positive management commentary give us confidence about a successful merger execution.
- We roll over our forecasts to Sep'23E and retain our Buy rating with Sep'23E TP of Rs1,610 (earlier Rs1,490), using the excess return on equity (ERE) method for FY23-24E RoE of ~14%, implying 1.2x Sep'24E BVPS. Key downside risks: Merger integration risk and overhang of stake sale by investors.

- Q1 result highlights:** For Q1FY23, disbursements declined 2% qoq/grew 31% yoy in a seasonally weak quarter, driven by a ~2% sequential decline in used vehicle disbursements and ~4% in the new vehicles segment. As a result, AUM grew by 3% qoq/10% yoy, led by M&LCV (+5%) and PVs (+5%). Share of high-yielding used vehicles was flat qoq. M&LCV and PV gained AUM share by 57bps and 32bps, respectively, while HCVs saw their share decline by 78bps. Excess liquidity, cash and bank balances, and investments constituted ~17% of total assets. Management plans to bring down the same to three-month levels of ~Rs80bn. SHTF has a \$750mn bond repayment in October 2022. It is also evaluating plans for buyback of debt securities. Combined, these two factors shall help reduce the drag on NIMs. NIMs declined by 14bps sequentially to ~8% due to rise in CoFs. Incremental CoFs for the quarter rose 50bps for bond borrowings and by 15bps on a blended basis.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(Page 12\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	83,821	95,399	1,08,387	1,20,742	1,34,947
Net profit	24,873	27,079	38,996	45,084	51,474
EPS (Rs)	101.0	103.4	144.2	166.7	190.3
BV (Rs)	875.7	990.6	1,083.1	1,216.5	1,368.8
RoA (%)	2.0	2.0	2.6	2.7	2.8
RoE (%)	12.5	11.4	14.1	14.5	14.7
PE (x)	13.7	13.3	9.6	8.3	7.3
P/BV	1.6	1.4	1.3	1.1	1.0

Source: Company, Emkay Research

CMP	Target Price
Rs 1,380 as of (July 29, 2022)	Rs 1,610 (▲) 12 months
Rating	Upside
BUY (■)	16.7 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	8.1
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	144.2	166.7
Consensus	142.0	163.8
Mean Consensus TP (12M)	Rs 1,482	

Stock Details

Bloomberg Code	SHTF IN
Face Value (Rs)	10
Shares outstanding (mn)	271
52 Week H/L	1,696 / 1,002
M Cap (Rs bn/USD bn)	395 / 4.96
Daily Avg Volume (nos.)	11,91,072
Daily Avg Turnover (US\$ mn)	18.0

Shareholding Pattern Jun '22

Promoters	29.3%
FIIIs	50.0%
DIIIs	15.2%
Public and Others	5.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	17	28	18	6
Rel. to Nifty	9	30	19	(1)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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- **Asset quality:** Credit costs for the quarter rose by 8bps qoq to 2.5%. Management guidance indicates that credit costs shall remain at ~2% levels for FY23. GS3 and NS3 for the quarter were 7% (Q4: ~7.1%) and 3.5% (Q4: 3.4%), respectively. Management overlays stood at Rs18.4bn (Q4: Rs20.5bn). **Restructured book:** Restructured book as of June 2022 stood at ~Rs8bn (0.6% of AUM) vs. ~Rs8.5bn (0.7% of AUM) as of March 2022.
- **Changes in estimates:** We have broadly retained our estimates for the forecast period. We have marginally increased our credit cost estimates for FY23 to 2.3% from 2.2% earlier.
- **Update on merger:** SHTF has received approvals from SEBI, exchanges, shareholders, secured and unsecured creditors, and NOC from the RBI. Approvals from the NCLT and CCI are pending and are expected to be received shortly. The merger is expected to be completed by the end of Sep'22/early Oct'22. Currently, we have not built in any synergy benefits into our numbers. Given that the uncertainty of the merger being approved is almost behind us, the focus now shifts to successful integration and the subsequent synergistic benefits to accrue. The pilot project launched earlier in 50 branches, aimed at staff integration between SCUF and SHTF employees, has been rolled out to an additional 500 branches in the second week of July. Currently, SME and 2W loans are being cross-sold in SHTF branches. SCUF has launched gold loans on a pilot basis in one branch in Kerala and aims to reach a figure of ~100 such branches by the end of Aug'22. Refer exhibits 19, 20, and 21 for financial statements and valuations of the merged entity, Shriram Finance Limited.
- **Valuations:** We roll over our forecasts to Sep'23E and retain our Buy rating with a Sep'23E TP of Rs1,610 (earlier Rs1,490), using the excess return on equity (ERE) method for FY23-24E RoE of ~14%, implying 1.2x Sep'24E BVPS. Key downside risks: Merger integration risk and overhang of stake sale by investors.

Exhibit 1: Quarterly Financials

Particulars (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)	FY21	FY22	YoY (%)
Net Interest Income	21,154	20,824	21,432	23,306	25,738	25,905	21.7%	10.4%	81,345	91,297	12.2%
NIM (% of AUM)	7.3%	7.0%	7.1%	7.6%	8.2%	8.0%			7.2%	7.5%	
Operating Expenses	5,484	4,791	5,507	5,275	5,725	5,793	4.4%	8.5%	19,857	21,298	7.3%
Operating Profit	16,616	16,743	17,169	19,076	21,114	21,120	27.1%	10.7%	63,964	74,101	15.8%
Provisions	7,236	14,396	6,762	9,843	7,608	8,052	5.1%	-22.7%	31,184	38,609	23.8%
CoR %	2.5%	4.9%	2.2%	3.2%	2.4%	2.5%			2.7%	3.2%	
PBT	9,380	2,347	10,407	9,233	13,506	13,069	44.0%	46.3%	32,780	35,493	8.3%
Tax rate (%)	19.5%	27.6%	25.9%	26.3%	19.6%	26.1%			24.1%	23.7%	
PAT	7,549	1,699	7,712	6,806	10,861	9,653	43.9%	59.6%	24,873	27,079	8.9%
GNPL (% of loans)	7.1%	8.2%	7.8%	8.4%	7.1%	7.0%	-118bps	-7bps	7.1%	7.1%	-7bps
NNPL (% of loans)	4.4%	4.7%	4.2%	4.4%	3.7%	3.5%	-122bps	-15bps	4.4%	3.7%	-77bps

AUM	1,172,428	1,193,014	1,216,468	1,246,018	1,270,409	1,306,889	8.4%	2.0%	1,172,428	1,270,409	8.4%
Disbursements	149,726	127,330	148,689	154,890	169,824	166,706	13.4%	9.6%	350,272	600,732	71.5%

Source: Company, Emkay Research

Exhibit 2: Actual vs. Estimates (Q1FY23)

Rs mn	Actual	Estimate (Emkay)	% variation	Comments
Disbursement	1,66,706	1,55,916	6.9%	Lower-than-expected decline in used vehicle disbursements
AUM	13,06,889	12,93,276	1.1%	
NII	25,905	25,719	0.7%	
PPOP	21,120	20,863	1.2%	
PAT	9,653	10,097	-4.4%	Higher-than-expected provisions

Source: Company, Emkay Research

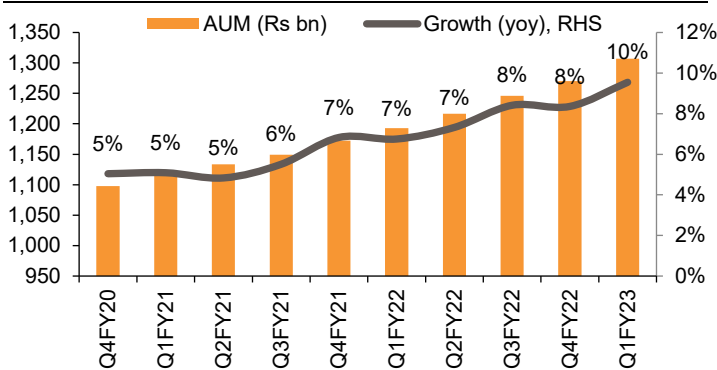
Exhibit 3: Revision in estimates

(Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Disbursement	678,827	678,827	0.0%	767,075	767,075	0.0%	866,794	866,794	0.0%
AUM	1,415,664	1,415,664	0.0%	1,588,160	1,588,160	0.0%	1,787,927	1,787,927	0.0%
NII	103,975	103,975	0.0%	115,756	115,756	0.0%	129,313	129,313	0.0%
PPOP	81,040	81,040	0.0%	92,817	92,817	0.0%	105,095	105,095	0.0%
PAT	39,727	38,996	-1.8%	45,495	45,084	-0.9%	51,747	51,474	-0.5%
EPS (Rs)	146.9	144.2	-1.8%	168.2	166.7	-0.9%	191.3	190.3	-0.5%
BV (Rs)	1,085	1,083	-0.2%	1,220	1,216	-0.3%	1,373	1,369	-0.3%
NIM (%)	7.7%	7.7%	0bps	7.7%	7.7%	0bps	7.7%	7.7%	0bps
Cost-to-income ratio (%)	25.2%	25.2%	0bps	23.1%	23.1%	0bps	22.1%	22.1%	0bps
Disbursement growth (%)	13.0%	13.0%	0bps	13.0%	13.0%	0bps	13.0%	13.0%	0bps
AUM growth (%)	11.4%	11.4%	0bps	12.2%	12.2%	0bps	12.6%	12.6%	0bps
Credit costs (%)	2.2%	2.3%	8bps	2.3%	2.3%	4bps	2.3%	2.3%	3bps

Source: Company, Emkay Research

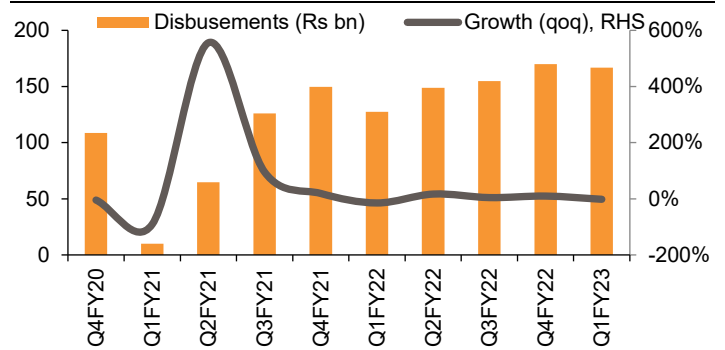
Story in Charts

Exhibit 4: AUM growth was 3% qoq/10% yoy



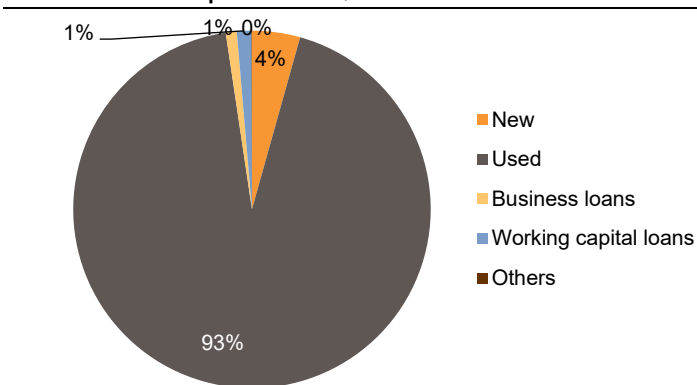
Source: Company, Emkay Research

Exhibit 5: Disbursements fell ~2% qoq in a seasonally weak quarter



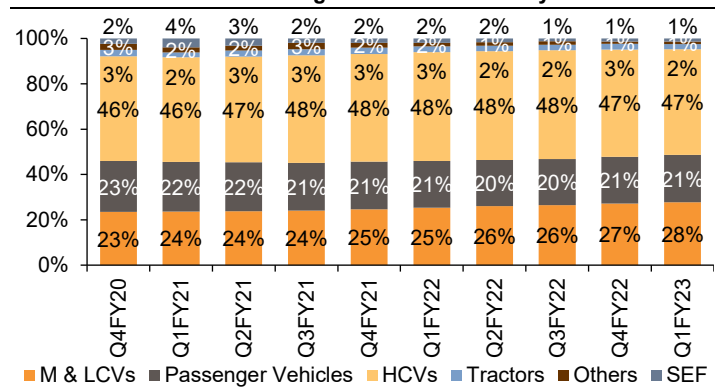
Source: Company, Emkay Research

Exhibit 6: AUM composition for Q1FY23

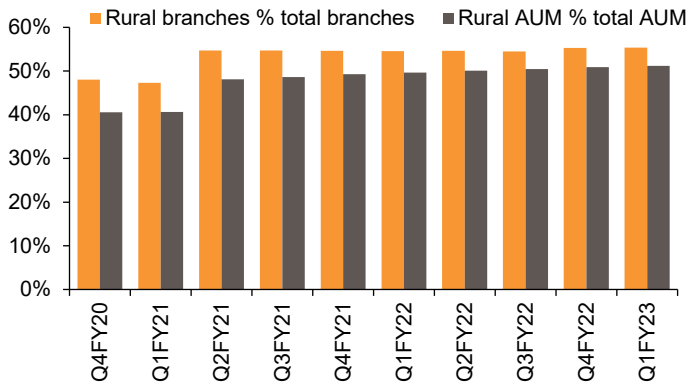


Source: Company, Emkay Research

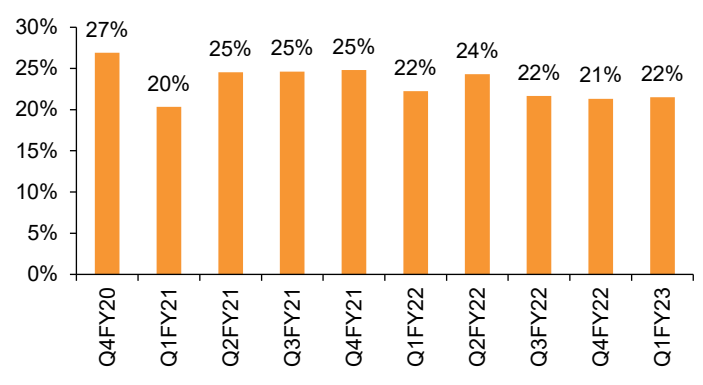
Exhibit 7: Share of M&LCV segment has consistently increased



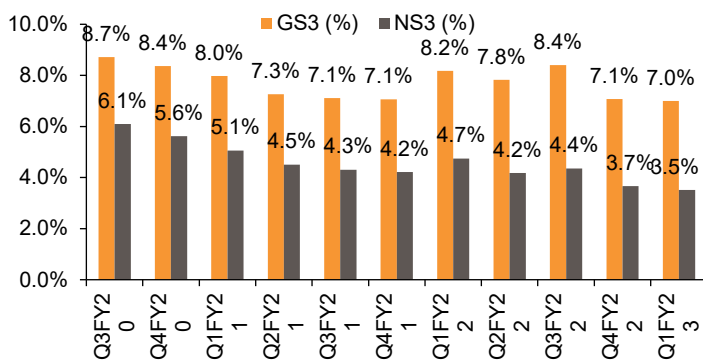
Source: Company, Emkay Research

Exhibit 8: Share of rural as a % of AUM increased 35bps in Q1FY23

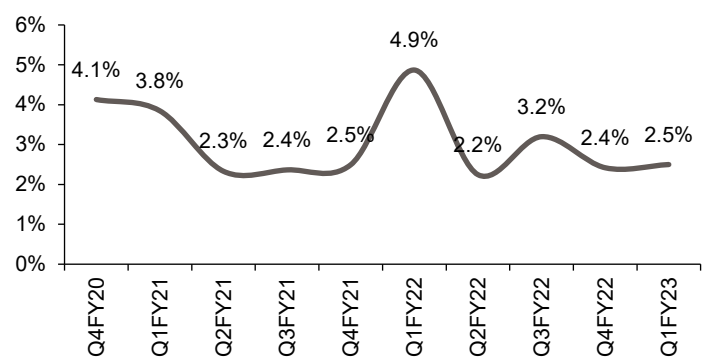
Source: Company, Emkay Research

Exhibit 9: C:I ratio rose ~20bps qoq and decreased ~73bps yoy

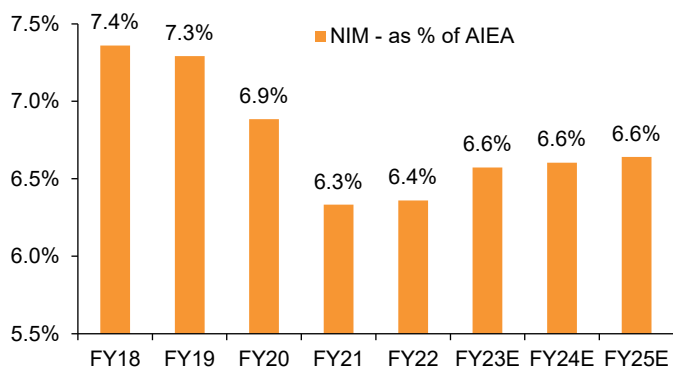
Source: Company, Emkay Research

Exhibit 10: GS3 and NS3 declined by 7bps and 15bps sequentially

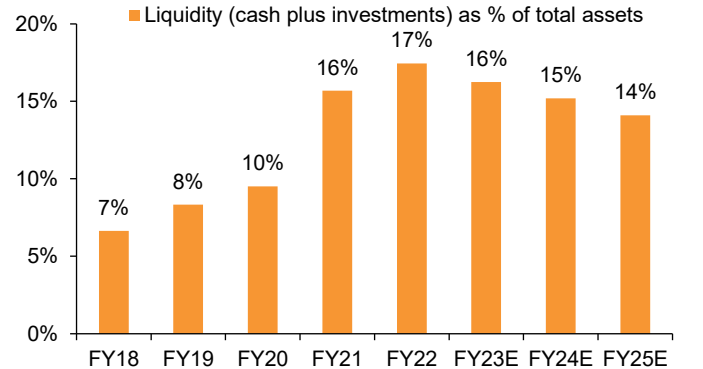
Source: Company, Emkay Research

Exhibit 11: Credit cost increased by ~8bps sequentially

Source: Company, Emkay Research

Exhibit 12: NIMs as a % of AIEA expected to remain stable

Source: Company, Emkay Research

Exhibit 13: Liquidity on the balance sheet is expected to decline

Source: Company, Emkay Research

Exhibit 14: Key Assumptions for SHTF

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Disbursement growth	-5.8%	-2.1%	-26.5%	71.5%	13.0%	13.0%	13.0%
AUM growth	8.5%	5.0%	6.8%	8.4%	11.4%	12.2%	12.6%
Credit costs as % of on-book loans	2.54%	2.81%	2.96%	3.43%	2.31%	2.31%	2.28%
GS3	8.4%	8.5%	7.1%	7.1%	6.9%	6.8%	6.7%
NS3	5.8%	5.9%	4.4%	3.8%	3.7%	3.6%	3.5%
PCR	34%	35%	42%	50%	50%	50%	50%
ECL provisions as % of on-book loans	5.4%	5.8%	6.8%	7.2%	6.7%	6.2%	5.8%

Source: Company, Emkay Research

Exhibit 15: ROE Decomposition for SHTF

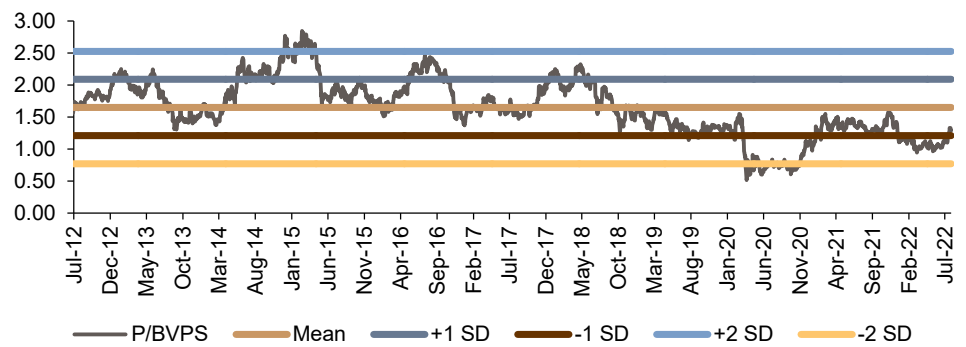
	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Interest income	7.8	7.5	7.2	7.5	7.7	7.7	7.7
Fee-Based Income + Other Income	0.2	0.3	0.2	0.3	0.3	0.3	0.3
Opex	1.9	1.9	1.7	1.7	2.0	1.9	1.8
Pre-Provisioning Profit	6.1	5.8	5.6	6.1	6.0	6.2	6.2
Provisions	2.4	2.6	2.7	3.2	2.1	2.1	2.1
PBT	3.8	3.2	2.9	2.9	3.9	4.0	4.1
(1-t)	0.7	0.7	0.8	0.8	0.7	0.7	0.7
RoAUM	2.6	2.3	2.2	2.2	2.9	3.0	3.0
Financial Leverage (AUM/Networth)	6.8	6.3	5.7	5.1	4.9	4.8	4.8
RoE	17.4	14.7	12.5	11.4	14.1	14.5	14.7

Source: Company, Emkay Research

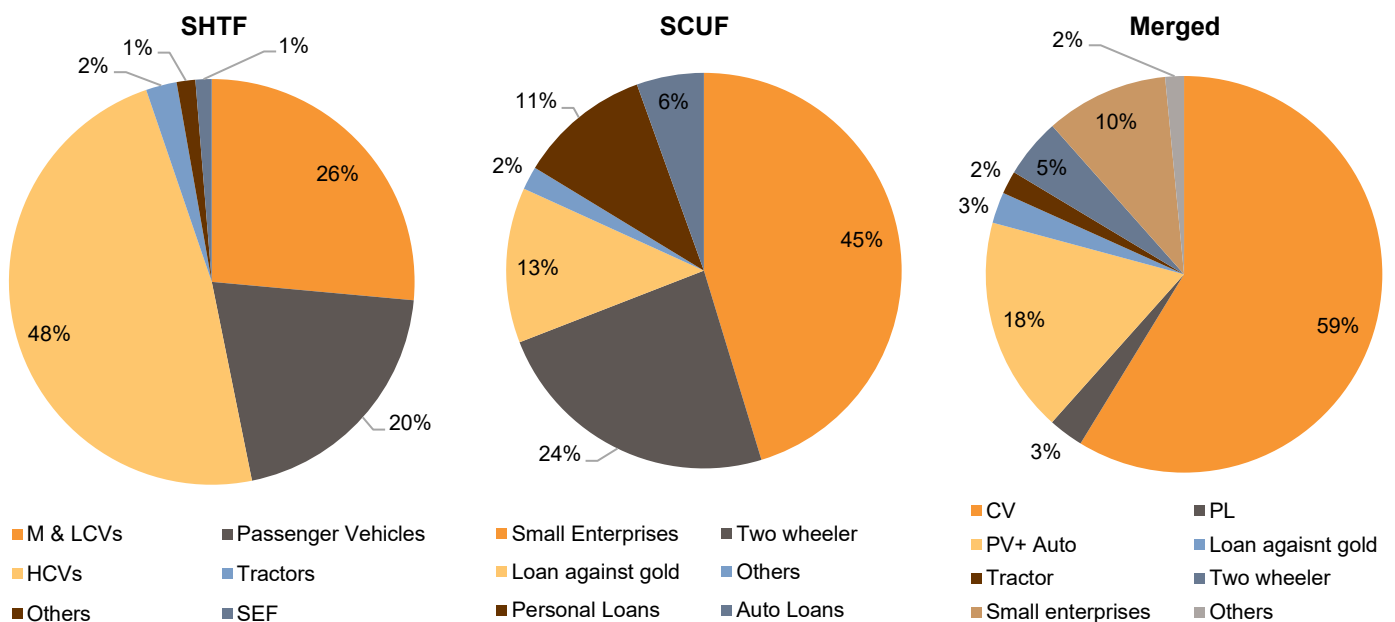
Exhibit 16: Valuation matrix

	FY22A-25E	FY25E-32E	> FY32E
AUM CAGR	12.1%	12.6%	7.0%
PAT CAGR	23.9%	12.9%	7.0%
Avg RoAUM	3.0%	3.1%	3.1%
Avg RoE	14.5%	15.4%	15.8%
CoE	13.5%	13.5%	13.5%
Sep'23E fair value (Rs/share)	1,610		
Sep'24E BV (Rs/share)	1,293		
Implied target P/B (x)	1.2		

Source: Company, Emkay Research

Exhibit 17: SHTF currently trades at 1.3x one-year forward book value

Source: Company, Emkay Research

Exhibit 18: AUM mix of the merged entity

Source: Company, Emkay Research

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Exhibit 19: Financials for Shriram Finance Limited

(Rs mn)	SHTF			SCUF			Shriram Finance Limited			Shriram Housing		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Interest Income	206,719	229,374	255,700	73,534	88,094	105,693	280,253	317,468	361,393	6,258	8,448	11,763
Interest expenses	104,903	116,094	129,170	30,353	36,324	43,547	135,256	152,418	172,717	3,592	4,745	6,617
Net interest income	101,816	113,280	126,531	43,181	51,770	62,146	144,997	165,050	188,676	2,666	3,703	5,146
NIM(%)	7.7%	7.7%	7.7%	11.7%	11.5%	11.6%	8.6%	8.6%	8.6%	5.4%	5.5%	5.6%
Other income	6,571	7,462	8,417	4,071	4,977	5,944	10,642	12,439	14,360	1,207	1,654	2,266
Net Operating income	108,387	120,742	134,947	47,252	56,747	68,089	155,639	177,489	203,037	3,873	5,356	7,412
Operating expenses	27,347	27,925	29,852	19,332	22,826	26,973	49,679	51,751	56,825	1,779	2,332	3,089
PPOP	81,040	92,817	105,095	27,920	33,922	41,116	105,960	125,738	146,212	2,093	3,024	4,323
Provisions	28,556	32,138	35,817	10,473	12,724	15,397	39,030	44,862	51,214	189	298	411
PBT	52,484	60,679	69,279	17,447	21,198	25,719	66,931	80,876	94,998	1,904	2,727	3,912
Taxation	13,488	15,594	17,805	4,484	5,448	6,610	17,972	21,042	24,414	489	701	1,005
PAT	38,996	45,084	51,474	12,963	15,750	19,109	48,958	59,834	70,583	1,415	2,026	2,907
Branches	1,854	1,854	1,854	986	986	986	2,840	2,840	2,840	103	103	103
AUM	1,415,664	1,588,160	1,787,927	409,096	487,787	587,458	1,824,760	2,075,947	2,375,386	73,417	100,616	137,868
No. of Shares (mn)	270.52	270.52	270.52	66.63	66.63	66.63	372.92	372.92	372.92	325.27	325.27	325.27
BVPS	1,083	1,216	1,369	1,497	1,680	1,902	1,053	1,183	1,333	40	46	55
EPS (Rs)	144	167	190	195	236	287	131	160	189	4	6	9

Source: Company, Emkay Research

Exhibit 20: RoE decomposition for Shriram Finance Limited

RoE decomposition tree	SHTF			SCUF			Shriram Finance			Shriram Housing		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Interest income/Avg. assets	13.8%	13.8%	13.8%	16.8%	17.1%	17.4%	14.5%	14.6%	14.7%	10.4%	10.4%	10.6%
Interest expended/Avg. assets	7.0%	7.0%	7.0%	6.9%	7.1%	7.2%	7.0%	7.0%	7.0%	6.0%	5.8%	6.0%
Net Interest Income / Avg. Assets	6.8%	6.8%	6.8%	9.9%	10.1%	10.2%	7.5%	7.6%	7.7%	4.4%	4.6%	4.6%
Securitisation income / Avg. Assets	0.1%	0.1%	0.2%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	1.3%	1.3%	1.3%
Other Income / Avg. Assets	0.3%	0.3%	0.3%	0.9%	1.0%	1.0%	0.4%	0.5%	0.5%	0.7%	0.7%	0.7%
Income Yield / Avg. Assets	7.2%	7.3%	7.3%	10.8%	11.0%	11.2%	8.0%	8.2%	8.3%	6.4%	6.6%	6.7%
Op. Cost (Staff cost) / Avg. Assets	0.7%	0.7%	0.7%	2.6%	2.6%	2.6%	1.2%	1.2%	1.2%	1.9%	1.9%	1.9%
Op. Cost (Other costs) / Avg. Assets	1.1%	1.0%	0.9%	1.8%	1.8%	1.8%	1.4%	1.2%	1.1%	1.0%	1.0%	0.9%
Operating profit / Avg. Assets	5.4%	5.6%	5.7%	6.4%	6.6%	6.8%	5.5%	5.8%	5.9%	3.5%	3.7%	3.9%
Total provisions / Avg. assets	1.9%	1.9%	1.9%	2.4%	2.5%	2.5%	2.0%	2.1%	2.1%	0.3%	0.4%	0.4%
Pre-Tax ROA	3.5%	3.7%	3.7%	4.0%	4.1%	4.2%	3.5%	3.7%	3.9%	3.2%	3.4%	3.5%
Tax Retention Rate	74.3%	74.3%	74.3%	74.3%	74.3%	74.3%	73.1%	74.0%	74.3%	74.3%	74.3%	74.3%
Post Tax ROA	2.6%	2.7%	2.8%	3.0%	3.1%	3.1%	2.5%	2.8%	2.9%	2.4%	2.5%	2.6%
Leverage = Avg. Assets / Avg. Equity	5.4	5.3	5.3	4.6	4.9	5.1	5.2	5.2	5.2	4.9	5.8	6.7
ROE (Leverage * ROA)	14.1%	14.5%	14.7%	13.7%	14.9%	16.0%	13.2%	14.4%	15.0%	11.5%	14.5%	17.6%

Source: Company, Emkay Research

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Exhibit 21: We arrive at a Sep'23E TP of Rs1,700 for Shriram Finance Limited

Entity name	Sep'24E BVPS	No. of Shares (mn)	Target Multiple	Holdco Discount	M-Cap Estimate(Rs mn)
SHTF (Standalone) A	1,293	270.5	1.2	0%	435,267
SCUF (Standalone) B	1,791	66.6	1.4	0%	163,910
Shriram Finance (Standalone) C =A+B	1,258	372.9	1.3	0%	599,176
Shriram Housing (Standalone) D	51	325.3	2.6	20%	33,828
Shriram Finance Valuation (Rs mn) = C+D					633,005
Shriram Finance value per share (Rs)					1,700

Source: Company, Emkay Research

Concall highlights

- Inflation is definitely having some adverse effect on consumption and some indication on slowing down of the economy.
- On the positive side, GST revenue collections for June were Rs1,446bn and were the second highest collection levels after April 2022, which was Rs1,675bn.
- On account of chip shortage, CV sales have marginally declined. The heavy and medium CV segment showed positive growth as against the corresponding period of the previous year.
- LCV numbers also showed growth of 94% to 1,48,827 units as compared to 76,642 units sold in the corresponding previous year. Sales for tractors and earthmoving and construction equipment have shown improvement.
- Collection efficiency for Q1FY23, Q4FY22, and Q1FY22 was 101.45%, 104.28%, and 91.04%, respectively. Liquidity buffer and SLR investments were ~Rs180bn and ~Rs32bn, respectively.
- During the June quarter, promoter group has acquired 7.7mn equity shares, representing 2.8% of the share capital from open market.
- CoF is ~8.6% on the balance sheet. SHTF has mobilized more than Rs40bn through securitization and assignment transactions, which was higher than March quarter.
- SHTF is carrying excess liquidity of ~Rs180bn and maturities for the next three months are ~Rs80bn. SHTF believes that this liquidity buffer will be enough to meet maturities for the next six months.
- There is foreign currency repayment liability (dollar bonds) coming up in October 2022. This is the primary reason for carrying excess liquidity. SHTF has no plans to refinance the same. In the current quarter, SHTF raised \$215mn from US Development Finance Corporation at an interest rate of 4%. The fully hedged cost for the same was 8.8%.
- Incremental CoF for bonds raised in Q1 has increased by 50bps sequentially. Blended CoF has increased by 15 bps. Increased CoF will be passed on to consumers.
- SHTF had extended OTR to 39,410 borrowers, with the initial book amounting to ~Rs12bn. Out of the above, 8,583 borrower accounts with advances amounting to ~Rs18bn have been settled and the balance outstanding as of June 30, 2022, for 30,827 borrower accounts was ~Rs8bn, of which ~1.5% was in the 90+ dpd bucket.
- SHTF believes there will not be any challenge in collections in the current inflationary situation. Increased fuel price has been passed on to consumers.
- SHTF is evaluating plans to buy back its debt securities.
- 75% of bank borrowings are linked to MCLR, with the balance linked to EBLR.
- The quantum of securitization has gone up. The share of securitization has fallen but is expected to be back to 18-19% in the coming quarters.
- All liabilities other than bank borrowings are fixed rate. The asset side completely comprises fixed rate loans.
- SHTF plans to keep three-month liquidity buffer of ~Rs80bn.
- Since SHTF has made adequate provisions, credit cost should remain at ~2% levels for FY23. It's expected to come down in FY24.

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- Given that SHTF will be using existing funds to repay the dollar bond liability maturing in October 2022, this could have a positive read-through on margins as the drag due to liquidity reduces. The second benefit is also from re-pricing of existing domestic bonds that mature this calendar year. But on the offset, incremental cost is expected to begin rising.
- There is a huge opportunity and scope in CV. Vehicle prices have increased by 35% over the past three years on account of rise in steel prices. Since India is one of the fastest growing economies, volume growth of CVs may peak in the coming years.
- Rural consumption seems to be good. Management expects demand may improve by FY24. Demand for construction equipment is currently very high.
- SHTF believes that government spend will increase, thus CV demand should increase.
- Business loans and working capital loans constitute ~4% of the book. Average ticket size for business loans has decreased but volumes have gone up. Demand for temporary working capital loans has come down because of uncertain environment, but it is expected to improve in the coming years.
- Lending rate has increased by 20bps; but since the borrowing cost has increased as well, margins are expected to remain on similar lines.

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	79,101	89,120	1,01,816	1,13,280	1,26,531
Other income	4,721	6,280	6,571	7,462	8,417
Net income	83,821	95,399	1,08,387	1,20,742	1,34,947
Operating expenses	19,857	21,298	27,347	27,925	29,852
Pre provision profit	63,964	74,101	81,040	92,817	1,05,095
PPP excl treasury	63,964	74,101	81,040	92,817	1,05,095
Provisions	31,184	38,609	28,556	32,138	35,817
Profit before tax	32,780	35,493	52,484	60,679	69,279
Tax	7,908	8,413	13,488	15,594	17,805
Tax rate	24	24	26	26	26
Profit after tax	24,873	27,079	38,996	45,084	51,474

Balance Sheet

Y/E (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	2,531	2,705	2,705	2,705	2,705
Reserves	2,13,153	2,56,617	2,90,304	3,26,380	3,67,570
Net worth	2,15,684	2,59,322	2,93,009	3,29,085	3,70,275
Other liabilities and provisions	19,141	16,772	18,601	20,763	23,259
Borrowings	10,61,964	11,44,967	12,60,640	13,98,533	15,56,758
Total liabilities	12,96,789	14,21,061	15,72,250	17,48,381	19,50,292
Cash and bank	1,64,418	1,63,552	2,08,297	2,13,219	2,16,550
Investments	31,979	68,092	37,819	41,956	46,703
Loans	10,83,030	11,66,652	13,06,956	14,73,506	16,66,774
Others	17,362	22,766	19,177	19,700	20,265
Total assets	12,96,789	14,21,061	15,72,250	17,48,381	19,50,292

Key Ratios (%)

Y/E	FY21	FY22	FY23E	FY24E	FY25E
NIM	7.2	7.5	7.7	7.7	7.7
RoA	2.0	2.0	2.6	2.7	2.8
RoAE	12.5	11.4	14.1	14.5	14.7
GNPA (%)	7.1	7.1	6.9	6.8	6.7
NNPA (%)	4.4	3.8	3.7	3.6	3.5

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	101.0	103.4	144.2	166.7	190.3
BVPS	875.7	990.6	1,083.1	1,216.5	1,368.8
DPS	18.0	20.0	28.8	33.3	38.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	13.7	13.3	9.6	8.3	7.3
P/BV	1.6	1.4	1.3	1.1	1.0
Dividend Yield (%)	1.3	1.4	2.1	2.4	2.8

Source: Company, Emkay Research

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	1.6	12.2	13.9	11.3	11.7
PPOP	2.6	15.8	9.4	14.5	13.2
PAT	(0.6)	8.9	44.0	15.6	14.2
Loans	5.9	7.7	12.0	12.7	13.1

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
NII	20,824	21,432	23,306	25,738	25,905
NIM (%)	7.0	7.1	7.6	8.2	8.0
PPOP	16,743	17,169	19,076	21,114	21,120
PAT	1,699	7,712	6,806	10,861	9,653
EPS (Rs)	6.64	28.71	25.26	40.15	35.68

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	25.1	25.6	26.1	26.5	29.3
FIIIs	57.5	53.7	53.2	53.9	50.0
DIIIs	11.7	14.8	15.2	14.0	15.2
Public and Others	5.7	5.9	5.6	5.7	5.5

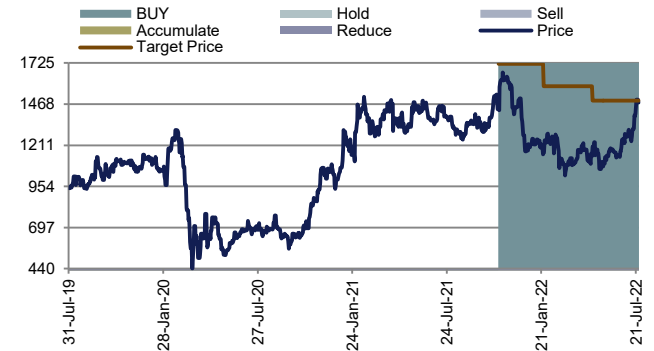
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Apr-22	1,202	1,490	12m	Buy	Manjith Nair
25-Jan-22	1,167	1,580	12m	Buy	Manjith Nair
14-Dec-21	1,384	1,720	12m	Buy	Manjith Nair
31-Oct-21	1,436	1,720	12m	Buy	Manjith Nair

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-NBFCs



Analyst: Manjith Nair

Contact Details

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Sector

Non-bank financial companies (NBFC)

Analyst bio

Manjith R Nair holds a B.E, MBA (ISB). He has total 13 years of research experience covering financials. Prior to that, he was in Europe managing client account relations for an IT major.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-NBFCs	7.04	7.04	0%	0	100.00	
Bajaj Finance*	1.89	1.89	0%	0	26.90	0
Cholamandalam Investment	0.27	0.27	0%	0	3.89	0
Edelweiss Financial Services*	0.00	0.00	NA	0	0.00	0
HDFC	4.25	4.27	1%	3	60.69	0
L&T Finance Holdings	0.06	0.06	1%	0	0.84	0
LIC Housing Finance	0.12	0.12	0%	0	1.65	0
Mahindra Finance	0.12	0.00	-100%	-12	0.00	0
Nippon Life India Asset Management*	0.05	0.04	-8%	0	0.62	0
Ponawalla Finco*	0.00	0.05	NA	5	0.76	0
Shriram City Union Finance	0.00	0.03	NA	3	0.45	0
Shriram Transport Finance	0.29	0.30	1%	0	4.19	0
Cash	0.00	0.00	NA	0	0.01	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	28-Jul-21	28-Jan-22	28-Apr-22	28-Jun-22	28-Jul-22
EAP - BFSI-NBFCs	100.0	138.6	145.7	134.8	125.7	141.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	129.8	136.3	126.3	118.0	132.7

*Performance measurement base date 1st April 2019

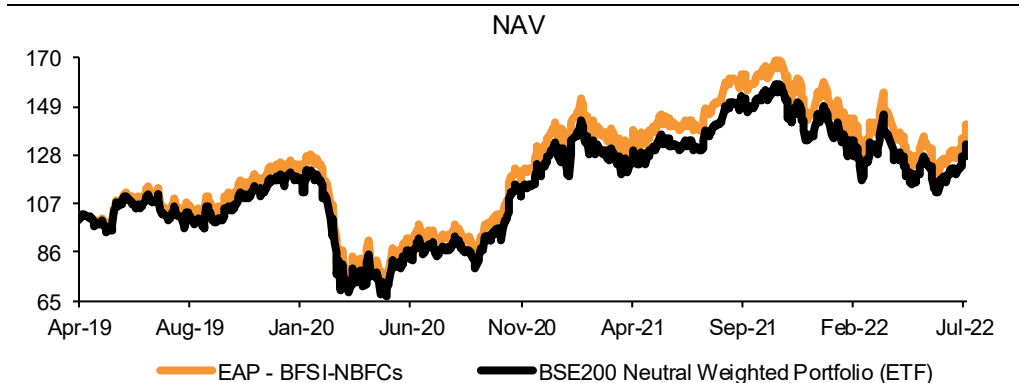
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	12.4%	4.8%	-3.0%	1.9%
BSE200 Neutral Weighted Portfolio (ETF)	12.4%	5.1%	-2.7%	2.2%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
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HOLD	Between -5% to 15%
SELL	Below -5%

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