

October 21, 2022

Q2FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,521		1,521	
NII (Rs.)	1,15,694	1,27,181	1,15,694	1,27,181
% Chng.	-	-	-	-
PPoP (Rs.)	87,692	94,124	87,692	94,124
% Chng.	-	-	-	-
EPS (Rs.)	159.1	171.5	159.1	171.5
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	95,209	99,041	1,15,694	1,27,181
Growth (%)	13.8	4.0	16.8	9.9
Op. Profit (Rs m)	74,101	75,321	87,692	94,124
PAT (Rs m)	27,079	33,856	43,031	46,403
EPS (Rs.)	103.4	125.2	159.1	171.5
Gr. (%)	(0.2)	21.0	27.1	7.8
DPS (Rs.)	15.5	15.5	15.5	15.5
Yield (%)	1.3	1.3	1.3	1.3
Margin (%)	7.0	6.4	6.5	6.6
RoAE (%)	11.4	12.2	13.6	13.7
RoAA (%)	2.0	2.2	2.4	2.6
PE (x)	11.6	9.6	7.5	7.0
P/BV (x)	1.2	1.1	1.0	0.8
P/ABV (x)	1.2	1.1	1.0	0.8

Key Data

SRTR.BO | SHTF IN

52-W High / Low	Rs.1,696 / Rs.1,002
Sensex / Nifty	59,307 / 17,576
Market Cap	Rs.324bn/ \$ 3,918m
Shares Outstanding	271m
3M Avg. Daily Value	Rs.1168.34m

Shareholding Pattern (%)

Promoter's	29.37
Foreign	50.65
Domestic Institution	14.32
Public & Others	5.66
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.9)	4.1	(19.7)
Relative	(5.7)	1.6	(17.5)

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Shriram Transport Finance (SHTF IN)

Rating: BUY | CMP: Rs1,198 | TP: Rs1,521

New CV Financing Shows Traction, Asset Quality Sees Improvement

Quick Pointers:

- Improvement in Asset Quality- GNPA at 6.9% vs 7.0% in Q1'23 and NNPA at 3.4% vs 3.5% in Q1'23

SHTF reported good set of numbers in Q2FY23 (PAT up 38% YoY and 10% on a QoQ basis) to Rs10.6bn(Ple: Rs10.0bn). Lower provisions (down 16.5% QoQ basis) and strong AUM growth led to beat in earnings. Good loan traction (3.5% QoQ/11.2%YoY) led by both used CVs (up 3.3%QoQ/13.3%YoY) now forming 93.2% of overall loans down from 93.3% in Q1'23 and new CVs (up 5.0%QoQ) now forming 4.4% of overall loans up from 4.3% in Q1'23 . NII at Rs 25.2bn came below our estimates (Ple: Rs26.4bn) falling 1.6%QoQ but growing 17.7% YoY as marginally lower yields (15.38% vs 15.58% in Q4'22) offset strongAUM growth .GNPA/stage 3 came in at 6.9% vs 7.0% in Q1'23. We believe company can target strong growth in the coming quarters by riding the CV upcycle, and show further improvement in asset quality.

Going forward, re-rating from current levels would be an outcome of sustaining improvement of AUM(we forecast a 13% AUM CAGR from FY22-24E) from new vehicle sales (which saw a 5.0% QoQ growth, after many quarters of de-growth) and consolidating strong performance in used vehicle sales. Our estimates remain unchanged. We reiterate 'BUY' rating and value SHTF at 1.3x PABV Sep'24E and maintain our target price at INR Rs1,521.

- New Vehicle AUM shows 5% QoQ growth after many quarters of softness:** AUMs at Rs1352bn grew by 3.5% on a QoQ basis showing improvement from ~2% QoQ growth run-rate for 5 quarters in a row. Used vehicle finance share dropped down to 93.2% (93.3% share in Q1FY23) growing 3.3%QoQ as new vehicle AUM inched up to 4.4% from 4.3% in Q1'23. Company believes government policies and positive macro indicators have aided CV sales. NIM came in at 7.59 vs 7.95% QoQ as yields marginally compressed to 15.38% vs 15.58% on a QoQ basis. We expect SHTF to clock reported NIM's of 6.5-6.6% over FY23-24 as cost of fund will slightly inch up on rising rates but fall in NIM's will be cushioned by passing on the increased cost of funds to customers and reduction in negative carry from excess liquidity. Company expects another 8-10bps increase in borrowing cost post merger.
- Asset quality improved, collection as a % of demand at 100.13% :** PCR on stage 3 marginally dropped to 51.57% from 51.6% in Q1'23. GNPA at 6.9% vs 7.0% in Q1'23 and NNPA at 3.4% vs 3.5% in Q1'23. The company utilized COVID-related provisions of Rs.95b in Q2'23 and overall COVID-related provisions stood at Rs17.4bn (~1.2% of AUM).

PAT at Rs 10.6bn came above our estimates (PLe: Rs 10.0bn) growing 38.3%YoY and 10.5% QoQ on account of lower provisions.

NII at Rs 25.2bn came below our estimates (PLe: Rs26.4bn) de-growing 1.6%QoQ but growing 17.7%YoY as marginally lower yields(15.38% vs 15.58% in Q1'23) and higher cost of borrowing(8.47% vs 8.41% in Q1'23) offset in line AUM growth. NIM came in at 7.59% vs 7.95% in Q1'23 and 7.1% in Q2'22.

Loans at Rs 1352bn grew 3.5% QoQ/1125% YoY and was in line our estimates of Rs 1352bn. Used vehicle loans continue to grow robustly at 3.3%QoQ/13.3%YoY.New vehicle loans showed positive QoQ AUM growth after a long time recording a 5%QoQ growth.

Other income at Rs2.3bn stood above our estimates (PLe:Rs1.3bn) increasing 92.3%YoY and 84.6% QoQ

Provisions at Rs6.7bn stood below our estimates (PLe:Rs8.2bn) down 16.5% on a QoQ basis and down by 0.6% on a YoY basis.

Operating profit at Rs21.1bn stood below our estimates (PLe:Rs21.8bn) growing 0.1%QoQ/23.1% YoY due to lower than expected NII growth.

GNPA/stage 3 stood at 6.93%, down 87 bps YoY and 7 bps QoQ and NNPA at 3.48% down 72 bps YoY and 2bps QoQ

Exhibit 1: SHTF Q2FY23: New CV AUM Shows Strong 5% QoQ AUM growth

Y/e March (Rs mn)	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)
Interest income	51,120	45,784	11.7	50,197	1.8
Interest expenses	25,906	24,352	6.4	24,579	5.4
Net Interest Income	25,215	21,432	17.7	25,618	(1.6)
Total Net Interest Income	25,215	21,432	17.7	25,618	(1.6)
Operating & Other Income	2,393	1,244	92.3	1,296	84.6
Net revenue	27,607	22,676	21.7	26,913	2.6
Operating expenses	6,477	5,507	17.6	5,793	11.8
Staff Cost	2,673	2,374	12.6	2,783	(3.9)
Operating profit	21,131	17,169	23.1	21,120	0.0
Provisions	6,724	6,762	(0.6)	8,052	(16.5)
Profit before tax	14,407	10,407	38.4	13,069	10.2
Tax	3,738	2,694	38.8	3,416	9.4
Profit after tax	10,669	7,712	38.3	9,653	10.5
Business mix					
Total AUM	13,52,493	12,16,468	11.2	13,06,889	3.5
on book	13,37,307	12,06,788	10.8	12,93,652	3.4
off book	15,187	9,680	56.9	13,237	14.7
on book %	99%	99%	(32.7)	99%	(11.0)
Used CV book	12,60,179	11,12,617	13.3	12,19,361	3.3
New CV book	59,623	65,799	(9.4)	56,805	5.0
Used CV book share	93.2%	91%	171.2	93%	(12.8)
New CV book share	4%	5%	(100.1)	4%	6.2
Asset quality					
Gross NPA (mn)	92,671	94,367	(1.8)	90,617	2.3
Net NPA (mn)	44,883	48,535	(7.5)	43,840	2.4
Gross NPA (%)	6.93%	7.8%	(89.0)	7.0%	(7.0)
Net NPA (%)	3.48%	4.2%	(70.0)	3.5%	(4.0)
Coverage ratio(%)	51.6%	48.6%	299.9	51.6%	(5.4)
Credit Cost (%)	2.0%	2.2%	(22.3)	2.5%	(47.7)
Ratios					
Gross Spread (on book)	6.9%	6.2%	74	7.2%	(26)
NIM/AUM	7.59%	7.1%	47	7.95%	(37)
NIM/AUM – Reported	6.98%	6.4%	54	6.9%	7
CRAR	22.5%	23.2%	(73)	22.5%	(6)
Asset quality under IND-AS					
Gross Stage 3	92,671	94,367	(1.8)	90,617	2.3
Gross Stage 3 (%)	6.9%	7.8%	(89.0)	7.0%	(7)
Net Stage 3	44,883	48,535	(7.5)	43,840	2.4
Net Stage 3 (%)	3.5%	4.2%	(70.0)	3.5%	(4)
ECL Prov. on Gross Stage 3	47,788	45,832	4.3	46,777	2.2
Coverage Ratio Stage 3	51.6%	48.6%	300.0	51.6%	(5)
Gross Stage 1 & 2	12,44,636	11,12,421	11.9	12,03,035	3.5
Net Stage 1 & 2	11,96,403	10,66,086	12.2	11,56,244	3.5
ECL Prov. on Gross Stage 1 & 2	48,233	46,334	4.1	46,790	3.1
ECL Prov. (%) Stage 1 & 2	3.9%	4.2%	(29.0)	3.9%	(1)

Source: Company, PL

Key Concall highlights:

Business Update

- New Vehicle AUM has increased for the first time in last 17-18 quarters as positive macro indicators and new government policies have aided CV sales.
- H&MCV vehicles showed maximum growth along with steady growth in LCV sales as well.
- Significant demand uptick in Earth movers and CE on account of positive growth in infrastructure industry.

Yield / Margins/COF Update

- CoB has increased marginally by 10bps compared to Q1FY23 and overall increased by 50-60bps this year. Company expects another 8-10bps increase in borrowing cost post merger.
- Company expects margin to be in line with the guidance of 7% NIMs with a 20bps buffer.
- Increased short term FD rates by 25bps and long term by 5 bps.
- Offshore borrowings were appx Rs.25,000crs with avg. cost of bonds around 9.5-10%

Liquidity

- The company has completed bond buyback transaction of Rs.256mn in the month of Aug'22. It has also announced another Rs.250mn bond buyback in Q3.
- Management targets to drawdown liquidity coverage to 3 months from existing 6 months

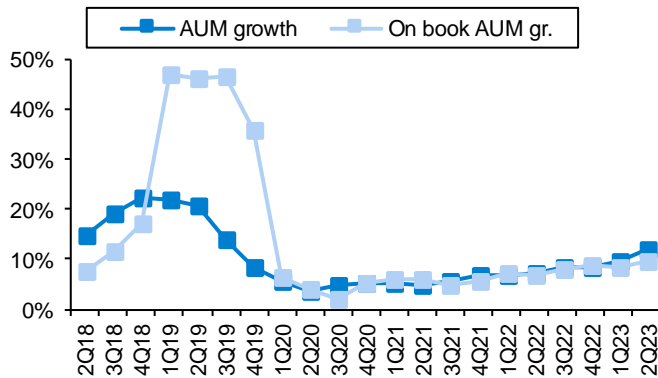
Merger Update with Shriram City Union Finance

- Approvals received from all regulators. NCLT hearing was done on 19th Oct and approval is expected within a week's time.
- Pilot project was undertaken in 50 branches whereas Pilot 2 is going on in 1,200 branches across both entities.
- High ticket size loans like SME and HCV to be processed centrally whereas lower ticket size loans will be processed in all branches.

Guidance

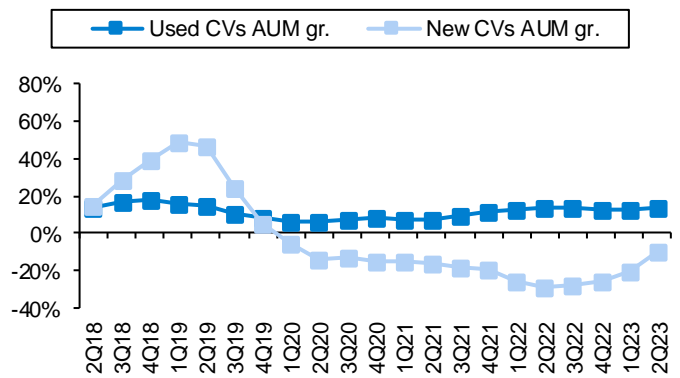
- AUM growth guidance for combined entity at 15% and standalone at 12%, NIM guidance maintained at 7% with a buffer of 20bps
- Liquidity to be maintained at 14k-15k crores post-merger, credit cost to be around 2% for year end

Exhibit 2: AUM growth continue to be strong



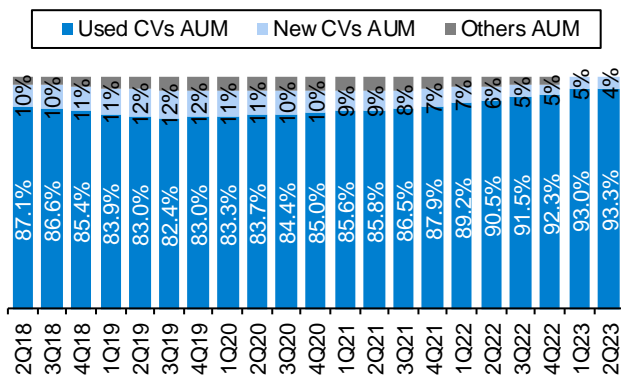
Source: Company, PL

Exhibit 3: ...New CV contributes positively this quarter



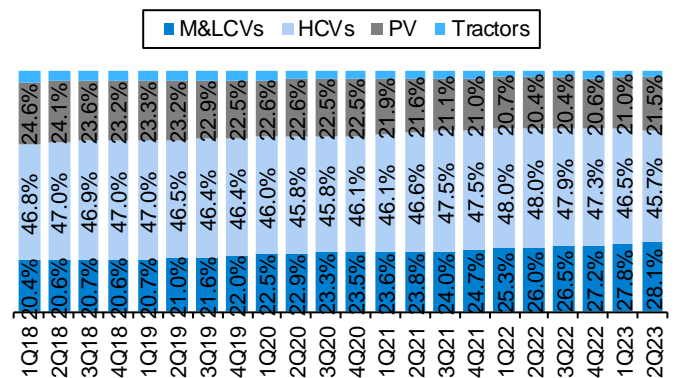
Source: Company, PL

Exhibit 4: New CV share up to 4.4% from 4.3%



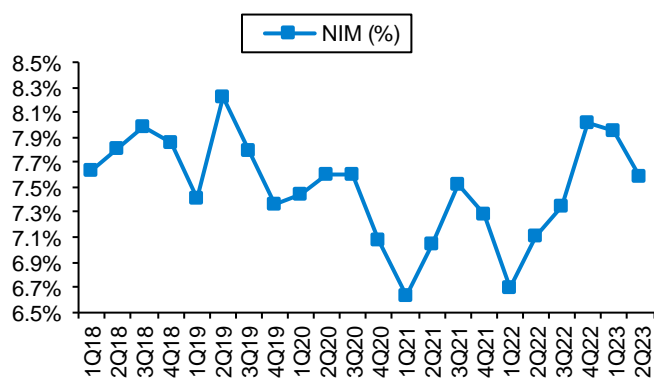
Source: Company, PL

Exhibit 5: Slight uptick in proportion of M&LCV in AUM



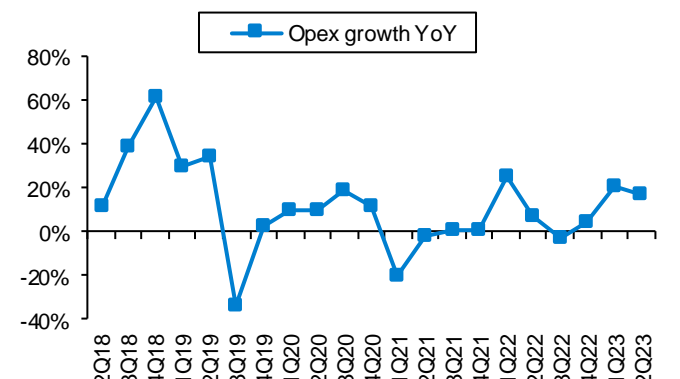
Source: Company, PL

Exhibit 6: NIMs see marginal decline in Q2'23



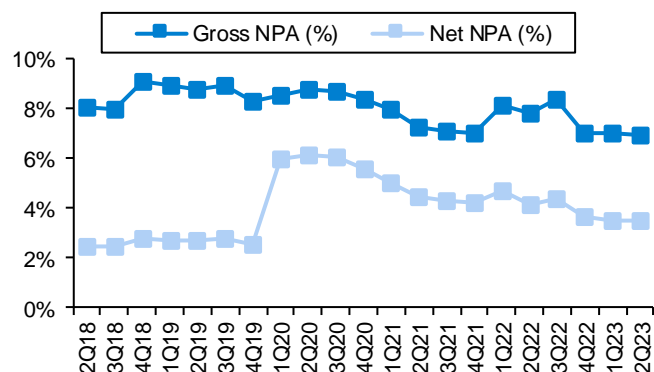
Source: Company, PL

Exhibit 7: Rise in opex due to stronger disbursements



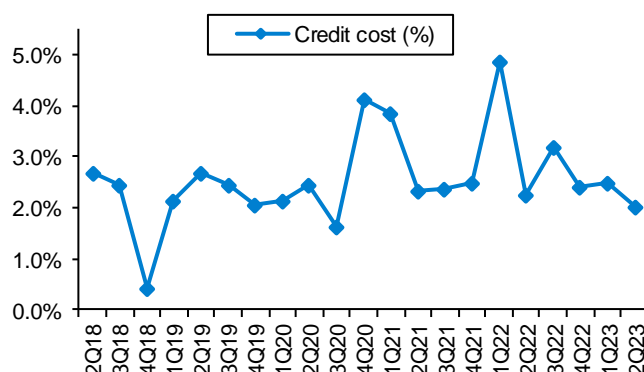
Source: Company, PL

Exhibit 8: Asset quality improvement on both QoQ and YoY



Source: Company, PL

Exhibit 9: Credit Cost fall sequentially on strong collections



Source: Company, PL

Exhibit 10: Estimates Unchanged, target price maintained at Rs1,521 with BUY rating.

(Rs mn)	Old			Revised			% Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Interest Income	99,041	1,15,694	1,27,181	99,041	1,15,694	1,27,181	0.0%	0.0%	0.0%
Operating Profit	75,321	87,692	94,124	75,321	87,692	94,124	0.0%	0.0%	0.0%
Net Profit	33,856	43,031	46,403	33,856	43,031	46,403	0.0%	0.0%	0.0%
EPS (Rs)	125.2	159.1	171.5	125.2	159.1	171.5	0.0%	0.0%	0.0%
Price Target (Rs)		1,521			1,521			0.0%	
Reco		BUY			BUY				

Source: PL

Exhibit 11: Maintain 1.3x PABV; outlook optimistic; REITERATE BUY

Fair price – EVA	1,288
Fair price - P/ABV	1,754
Average of the two	1,521
Target P/ABV	1.3
Target P/E	13.3
Current price, Rs	1198
Upside (%)	27%
Dividend yield (%)	0%
Total return (%)	27%

Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Inc. / Opt. Inc.	1,93,077	2,04,868	2,35,040	2,51,390
Interest Expenses	97,343	1,05,156	1,18,648	1,23,484
Net interest income	95,209	99,041	1,15,694	1,27,181
Growth(%)	13.8	4.0	16.8	9.9
Non-interest income	191	213	239	268
Growth(%)	19.5	12.0	12.0	12.0
Net operating income	95,399	99,254	1,15,933	1,27,448
Expenditures				
Employees	9,971	11,965	14,119	16,660
Other Expenses	9,974	11,968	14,122	16,665
Depreciation	1,354	-	-	-
Operating Expenses	19,944	23,933	28,241	33,325
PPP	74,101	75,321	87,692	94,124
Growth(%)	15.8	1.6	16.4	7.3
Provisions	38,609	30,077	30,187	32,112
Profit Before Tax	35,493	45,244	57,506	62,012
Tax	8,413	11,388	14,474	15,608
Effective Tax rate(%)	23.7	25.2	25.2	25.2
PAT	27,079	33,856	43,031	46,403
Growth(%)	8.9	25.0	27.1	7.8

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Source of funds				
Equity	2,705	2,705	2,705	2,705
Reserves and Surplus	2,58,237	2,92,093	3,35,125	3,81,528
Networth	2,60,943	2,94,799	3,37,830	3,84,233
Growth (%)	21.0	13.0	14.6	13.7
Loan funds	11,44,967	13,45,796	15,31,244	17,62,221
Growth (%)	7.8	17.5	13.8	15.1
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	16,771	16,771	16,771	16,771
Other Liabilities	-	-	-	-
Total Liabilities	14,22,681	16,57,366	18,85,845	21,63,225
Application of funds				
Net fixed assets	4,181	4,794	5,510	5,510
Advances	11,66,652	13,41,649	15,42,897	17,74,331
Growth (%)	7.7	15.0	15.0	15.0
Investments	69,712	44,808	42,845	42,845
Current Assets	1,68,060	2,38,067	2,47,684	3,01,193
Net current assets	1,51,289	2,21,296	2,30,913	2,84,422
Other Assets	14,076	28,047	46,909	39,346
Total Assets	14,22,681	16,57,366	18,85,845	21,63,226
Growth (%)	9.7	16.5	13.8	14.7
Business Mix				
AUM	12,70,409	14,21,784	16,19,438	17,96,560
Growth (%)	8.4	11.9	13.9	10.9
On Balance Sheet	12,56,990	14,07,829	16,04,925	17,81,467
% of AUM	98.94	99.02	99.10	99.16
Off Balance Sheet	13,418	13,955	14,513	15,093
% of AUM	1.06	0.98	0.90	0.84

Profitability & Capital (%)

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	7.0	6.4	6.5	6.6
ROAA	2.0	2.2	2.4	2.6
ROAE	11.4	12.2	13.6	13.7

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Int. Inc. / Operating Inc.	46,607	49,282	50,197	51,120
Income from securitization	-	-	-	-
Interest Expenses	23,973	24,037	24,579	25,906
Net Interest Income	22,634	25,244	25,618	25,215
Growth (%)	5.5	19.3	29.3	17.7
Non-Interest Income	1,717	1,594	1,296	2,393
Net Operating Income	24,351	26,839	26,913	27,607
Growth (%)	10.3	21.4	25.0	21.7
Operating expenditure	5,275	5,725	5,793	6,477
PPP	19,076	21,114	21,120	21,131
Growth (%)	-	-	-	-
Provision	9,843	7,608	8,052	6,724
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	9,233	13,506	13,069	14,407
Tax	2,427	2,645	3,416	3,738
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	26.3	19.6	26.1	25.9
PAT	6,806	10,861	9,653	10,669
Growth	(6)	44	468	38
AUM	12,46,018	12,70,409	13,06,889	13,52,493
YoY growth (%)	8.4	8.4	9.5	11.2
Borrowing	-	-	-	-
YoY growth (%)	(100.0)	(100.0)	-	-

Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	1,198	1,198	1,198	1,198
EPS (Rs)	103.4	125.2	159.1	171.5
Book value (Rs)	964.6	1,089.7	1,248.8	1,490.4
Adj. BV(Rs)	964.6	1,089.7	1,248.8	1,420.4
P/E(x)	11.6	9.6	7.5	7.0
P/BV(x)	1.2	1.1	1.0	0.8
P/ABV(x)	1.2	1.1	1.0	0.8
DPS (Rs)	15.5	15.5	15.5	15.5
Dividend Payout Ratio(%)	15.5	12.4	9.7	9.0
Dividend Yield(%)	1.3	1.3	1.3	1.3

Asset Quality

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs(Rs m)	88,073	94,988	1,04,511	1,14,962
Net NPA(Rs m)	10,483	11,407	16,703	18,039
Gross NPAs to Gross Adv.(%)	7.1	6.8	6.5	-
Net NPAs to net Adv.(%)	3.7	3.5	3.2	3.2
NPA coverage(%)	88.1	88.0	84.0	84.3

Du-Pont as a % of AUM

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	7.0	6.4	6.5	6.7
NII INCl. Securitization	7.0	6.5	6.6	6.7
Total income	7.1	6.5	6.6	6.8
Operating Expenses	1.6	1.6	1.6	1.6
PPOP	5.5	4.9	5.0	5.2
Total Provisions	2.8	2.0	1.7	1.7
RoAA	2.0	2.2	2.4	2.6
Avg. Assets/Avg. net worth	5.7	5.5	5.6	5.6
RoAE	11.4	12.2	13.6	13.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	1,521	1,196
2	31-Jul-22	BUY	1,522	1,380
3	07-Jul-22	BUY	1,522	1,284
4	29-Apr-22	BUY	1,522	1,202
5	12-Apr-22	BUY	1,452	1,224
6	25-Jan-22	Accumulate	1,459	1,167
7	11-Jan-22	Accumulate	1,453	1,335
8	14-Dec-21	Accumulate	1,532	1,384
9	31-Oct-21	Accumulate	1,532	1,449

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	8,953	7,432
2	Cholamandalam Investment and Finance Company	BUY	792	736
3	L&T Finance Holdings	BUY	88	77
4	Mahindra & Mahindra Financial Services	Hold	200	201
5	Manappuram Finance	BUY	126	99
6	Muthoot Finance	BUY	1,431	1,042
7	SBI Cards and Payment Services	Accumulate	1,087	892
8	Shriram Transport Finance	BUY	1,521	1,196

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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