

Industry	Financial
Bloomberg	SHTF IN
BSE CODE	511218

Strong Loan Growth With NIM Improvement

RATING	BUY
CMP	1072
Price Target	1448
Potential Upside	35%

Rating Change	↔
Estimate Change	↑
Target Change	↔

Stock Info

52wk Range H/L	1670/903
Mkt Capital (Rs Cr)	24133
Free float (%)	74%
Avg. Vol 1M (,000)	
No. of Shares	23
Promoters Pledged %	

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Key Highlights -

- ❑ AUM growth has regained momentum after the GST effect. Pick up in mining and infra activity, Bharatmala, Sagarmala, rising intercity transport and smart city scheme is aiding the growth. We expect SHTF to register AUM growth of 18% CAGR over FY19-20 on the back of focus of Government of infrastructure projects, rural demand picking up, strong demand in new CVs, and expected growth revival in used CVs.
- ❑ Management claims on having adequate liquidity in the balance and well matched ALM; it has Rs 2000 Cr of undrawn bank sanctions and Rs 1000 Cr of excess liquidity. CP stands at Rs 2500 Cr to mainly fund shorter term products of the portfolio.
- ❑ Management said that rise in cost of fund is completely being passed on to the customer thus we expect NIM to stabilize at current level going ahead..
- ❑ Recently Shriram Group came in news stating that PE investors are looking to buy stake in combined entity which needs holding company Shriram Capital to merge with Shriram Transport Finance and Shriram City Union Finance through three way merger.

2Q FY19 Results-

SRTRANSFIN reported strong 2QFY19 numbers. The NII grew by 26% YoY backed by healthy AUM growth of 21% YoY. NIM (reported) has increased from 7.52% to 7.44% QoQ. Operating expenses grown by 29% YoY, while total income grew at 24% YoY, which led the cost to income (C/I) ratio to rise to 22% vs 21% YoY. Other income has de grown by 1% YoY. Operating Profit grew at 23% YoY. Provision as a percentage of AUM stood at 2.66%. PAT has increased at 23% YoY. GNPA/NNPA(Calc.) stood at 8.6/6% with PCR of 34% as at 2QFY19.

View and Valuation

AUM growth has shown recovery since last few quarters backed by strong CV demand in the country. Infrastructure development and recovery in rural economy has kept AUM growth stronger. Near term AUM growth may get little hamper but we are positive for mid to long term. NIM is expected to remain stable as management has guided entire spike in cost of fund to be passed on to the customer. Incremental cost of borrowings has increased by 100 bps and hence easing of bond yield and softening liquidity will be crucial for NIM improvement. Collection efficiency has been improving and management has guided credit cost to lower to 2% in next 1 to 5 years. Group exposure to SVL stands terminated as of this quarter. We slightly increase our PAT estimates for FY19/FY20 by 3%/2% respectively. We maintain BUY with our previous target price of Rs 1448 at 1.8x BVPS FY20e.

Key Risks to our rating and target

- ❑ Rise in fuel prices and lending rates can impact asset quality.
- ❑ Increase in cost of fund.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	5121	5521	6735	8047	9270
PPP	3888	4368	5494	6242	7176
PAT	1178	1257	1568	2488	3023
NIM %	7.8	7.3	7.7	7.7	7.5
EPS (Rs)	52	55	69	110	133
EPS growth (%)	-5	7	25	59	22
ROE (%)	12.1	11.7	13.1	17.6	17.8
ROA (%)	1.9	1.8	1.9	2.4	2.4
BV	448	498	554	690	810
P/B (X)	2.1	2.2	2.6	1.6	1.3
P/E (x)	18.4	19.5	20.8	9.8	8.1

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2Q FY 19 Results
Beats our Expectation
Asset Quality Improves

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	3,233	3,067	3,277	3,729	3,917	21.2%	5.0%	10,755	12,168	13.1%
Interest Exp.	1,584	1,358	1,470	1,889	1,862	17.6%	-1.4%	5,233	5,434	3.8%
NII	1,649	1,709	1,808	1,840	2,055	24.6%	11.7%	5,521	6,735	22.0%
Other Income	24	19	168	6	18	-23.3%	188.3%	69	236	240.3%
Total Income	1,676	1,731	1,979	1,851	2,080	24.1%	12.4%	5,597	6,982	24.8%
Ope Exp.	353	383	419	437	457	29.4%	4.7%	1,229	1,489	21.1%
PPP	1,323	1,349	1,560	1,414	1,623	22.7%	14.7%	4,368	5,494	25.8%
Provisions	567	585	1,367	533	684	20.6%	28.3%	2,444	3,122	27.7%
PBT	756	763	193	881	939	24.2%	6.6%	1,924	2,372	23.3%
Tax	259	268	49	310	329	27%	6.4%	667	804	20.6%
Extra Items	-	-	-	-	-			-	-	
Net Profit	497	496	145	572	610	22.6%	6.6%	1,257	1,568	25%

NIM to stabilise

NII growth has been strong at 25% YOY, backed by healthy AUM growth of 21% and disbursement growth of 12%. NIM (reported) has increased sequentially to 7.52% in H1FY19 from 7.44%. The yield on advances has remained stable at 16.04%, while the cost of funds has decreased by 127 bps to 9.05% QoQ. Cost of borrowings stands at more than 9.03%. Overall cost of borrowings has increased by 100 bps the entire rise in cost was passed on to the customers thus NIM is expected to stabilize going ahead.

Healthy Growth

AUM grew by 21% YoY on the back of lower base and disbursement grew by 12% YoY. Growth was mainly driven by rise in the infra and construction activity. New segment growth was at 12% YoY, used segment growth was at 82% YoY, business loans growth at 3% & working capital loan & others growth at 2%. Securitization portfolio stands at 16% in the total portfolio. The Portfolio share of HCV is at 46%, M&LCVs is at 21%, passenger vehicle is at 23%, tractors is at 4%, business loan is at 3% and other segment is at 2% of the overall portfolio. Disbursement was mainly led by 5% growth in used vehicle while new vehicle segment de grew by 13%

Assets quality

Asset quality has improved from 9.06% to 8.64% QoQ on the back of healthy rising rural sentiment and infra/construction activity. Net stage 3 has decreased from 6.12% to 6% QoQ with slightly lower PCR of 34.24% from 36.24% QoQ. Provision of Rs 60 Cr is provided for Kerala flood. Management is optimistic about recovery in asset quality it expects credit cost to trend downward from 2.5% to 2% going ahead.

Other Details

Total number of branches has increased from 1230 to 1301 as at 2QFY19, with rural contributing to 651 and urban contributing to 650 offices. 10 new rural centers were opened during the quarter.

Number of employees has increased to 16488 with 9668 field officer.

Concall Highlights

- ❑ Disbursement for 2QFY19 is Rs 13803 Cr with new vehicle at Rs 1691 Cr, used vehicle at Rs 11508 Cr and Other standing at Rs 600 Cr.
- ❑ Management has highlighted it has enough liquidity and healthy ALM and expect NIM to remain stable. Committed lines from bank stands at Rs 2000 Cr and excess liquidity of Rs 1000 Cr stands in the book.
- ❑ MSP hike announced and better Kharif productivity will increase rural cash flow. Festive season, harvest and rise in construction and mining will help in healthy growth in commercial vehicle.
- ❑ Out of total portfolio Kerala portfolio is at 3%, couple of districts of Kerala were impacted, Out total provision of Rs 683 Cr in 2QFY19, Rs 60 Cr adhoc provision for Kerala.
- ❑ Rise in fuel pice is largely offset by rise in efficiency and higher load in axle norm is further easing the pain. Rise in efficiency by 25-30% after GST implementation.
- ❑ Corporate guarantee to SVL of Rs 650 Cr remain terminated.
- ❑ Management has guided 15-20% AUM growth for FY19 and 15-20% growth in 2HFY19. Disbursement will be lesser for the 2HFY19 as dealer are facing volumes degrowth in new vehicles. Scrapage policy implementation may spike demand of new vehicles.

Profitability Matrix

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	20.3	21.6	21.1	22.1	21.2	23.6	22.0	0.91	-1.61
Empl. Cost/ Tot. Exp. %	43.5	49.0	46.4	47.2	49.1	51.6	50.8	4.40	-0.82
Other Exp/Tot. Exp.%	53.8	48.6	50.8	50.4	48.5	46.1	45.2	-5.68	-0.97
Provision/PPP %	79.8	42.1	42.9	43.4	87.6	37.7	42.1	-0.73	4.44
Tax Rate %	35.2	34.7	34.2	35.1	25.2	35.1	35.1	0.85	-0.04
Int Exp./Int Inc. (%)	47.6	50.5	49.0	44.3	44.8	50.6	47.5	-1.45	-3.12
Other Inc./NII %	0.2	0.1	0.2	0.2	1.2	0.1	0.2	-0.03	0.10
PPP/ Net Income %	79.7	78.4	78.9	77.9	78.8	76.4	78.0	-0.91	1.61
PAT/ Net Income %	10.4	29.7	29.7	28.6	7.3	30.9	29.3	-0.36	-1.58
NII Growth % (YoY)	(2.4)	15.6	12.4	21.1	28.3	19.6	24.6	12.27	5.05
PPP Growth YoY %	6.4	18.1	25.6	18.4	36.6	16.5	22.7	-2.98	6.20
PAT Growth %	4.0	22.8	28.3	43	(3.4)	24.4	22.6	-5.67	-1.81

Margin Performance

Margin %	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	14.1	15.9	16.0	14.6	14.9	16.0	16.0	0.08	-0.01
Cost Of Funds	9.3	9.9	9.7	9.2	9.4	10.8	9.6	-0.09	-1.27
Spreads	4.8	6.0	6.3	5.4	5.5	5.2	6.5	0.17	1.26
NIM	7.4	7.9	8.1	8.1	8.2	7.9	8.4	0.27	0.50

Exhibit: Yield and Cost Stable Margins

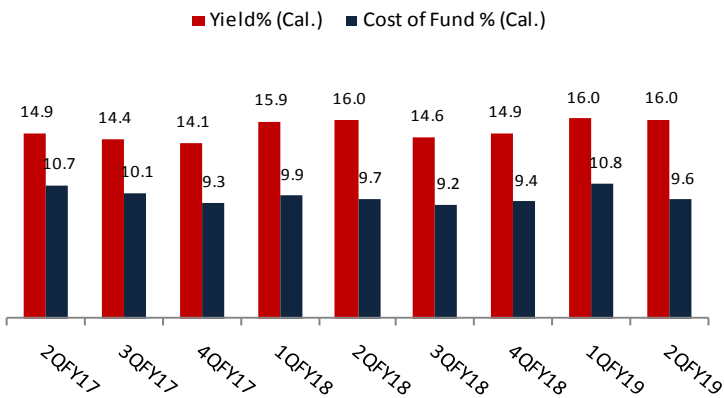
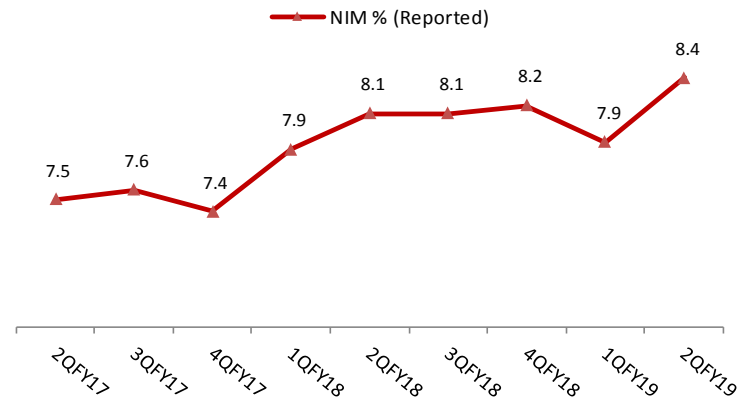


Exhibit: Net Interest Margin NIM steady



Asset & Borrowings Growth Trend

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Disbursements	9800	8121	10517	10818	12377	13378	14157	13425	13803
Growth YoY %	3	-23	-17	1	26	65	35	24	12
AUM	75323	76281	78761	82597	86357	90019	95306	100978	104380
Growth YoY %	19	15	8	10	15	18	21	22	21
Borrowings	51830	51130	53110	71860	72978	59120	63320	85300	88202
Growth YoY %	13	7	7	41	37	16	19	19	21

Exhibit: AUM Growth %

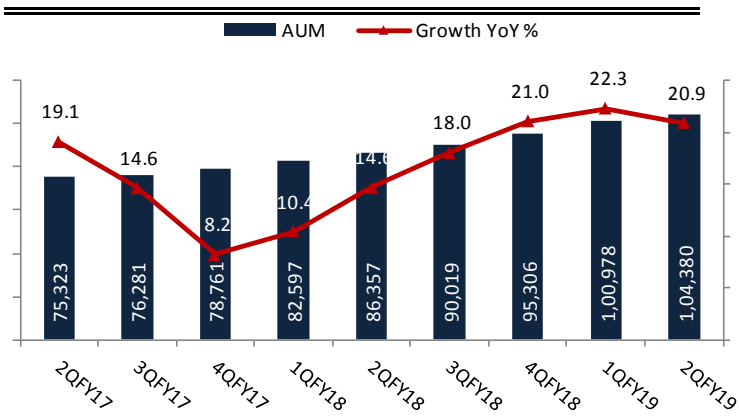
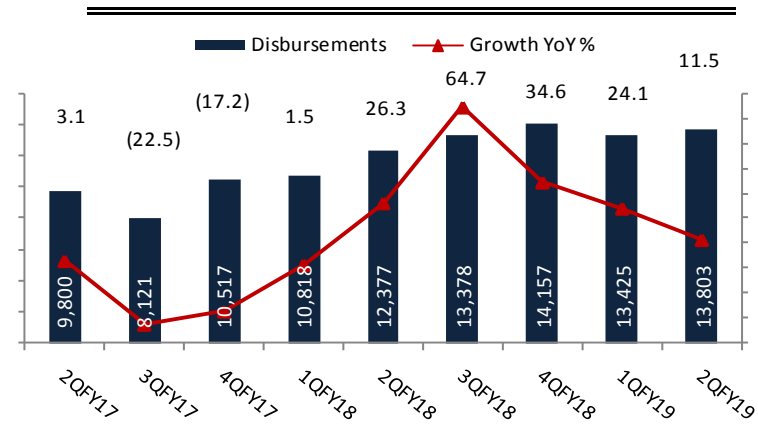


Exhibit: Disbursement Growth %



Asset Mix

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
HCVs	46	46	47	47	47	47	47	47	46
M&LCVs	20	20	20	20	21	21	21	21	21
Passenger Vehicles	25	25	25	25	24	24	23	23	23
Tractors	4	5	5	4	4	4	4	4	4
SEFCL Equipment Finance	2	2	1	1	2	1	1	0	0
Business Loans					1				3
Others	3	3	3	3	2	4	5	5	2

Asset Quality

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
GNPA	4,306	5,408	8,972	9,191	6,046	9,157	9,092	3,684	(65)
GNPA %	6.6	8.2	10.9	10.6	8.0	9.1	8.6	0.5	(0.4)
NNPA	1,058	1,659	5,583	5,890	1,751	5,839	5,979	4,320	140
NNPA %	1.7	2.7	7.3	7.3	2.5	6.1	6.0	3.4	(0.1)
Total Specific PCR %	75	69	38	36	71	36	34	(35)	(2)

Exhibit: Asset Quality

Improvement in asset quality

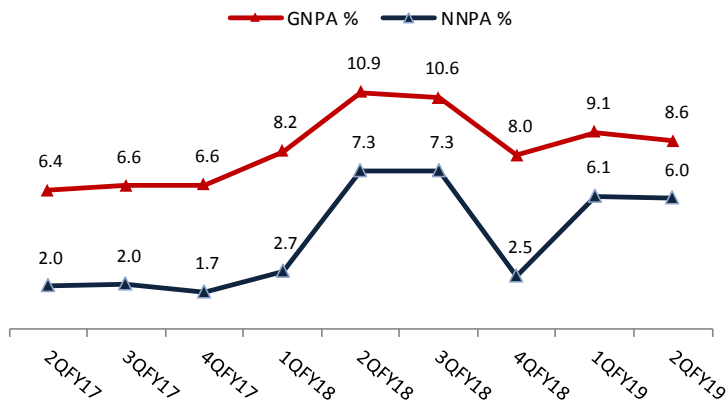


Exhibit: Provisions

PCR improvement

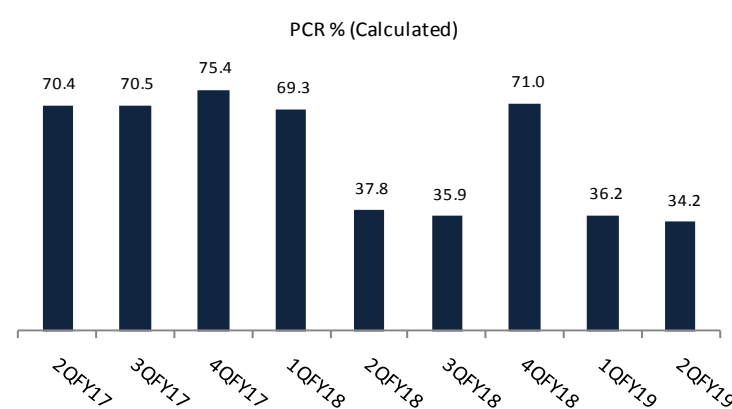


Exhibit: AUM Break Up

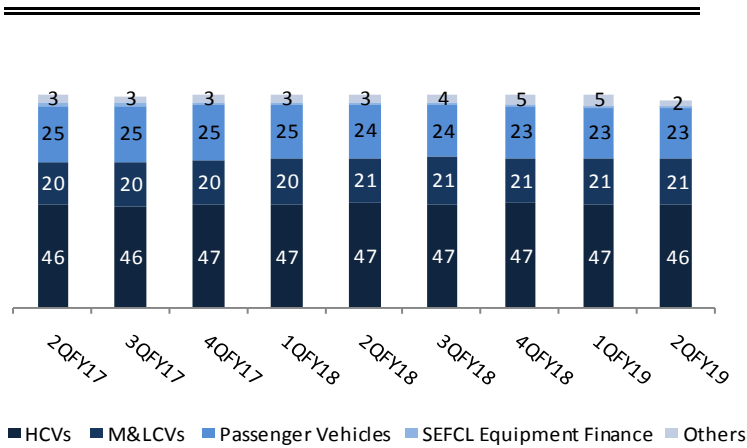
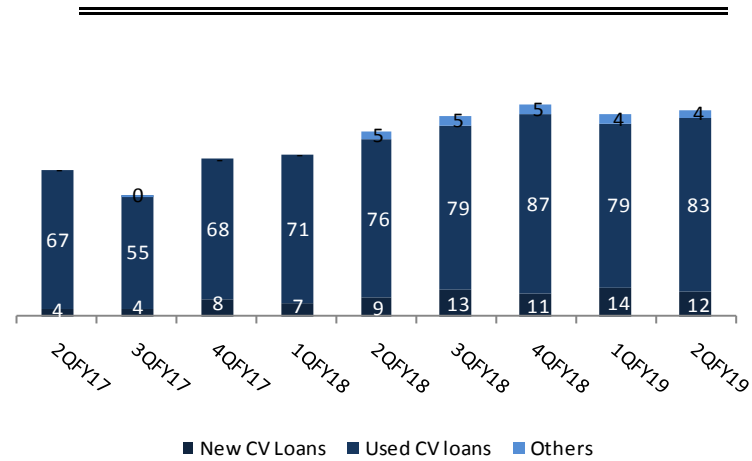


Exhibit: Liability Break Up



Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Gross NPA (Stage 3)	8,972	9,191		9,084	9,157	9,092
Less: ECL Provisions (Stage 3)	3,389	3,301		3,286	3,318	3,113
Net NPA (Stage 3)	5,583	5,890		5,799	5,839	5,979
Coverage Ratio (%) Stage 3	37.8	35.9		36.2	36.2	34.2
Gross Stage 1 & 2	73482.8	77281.8		87617.5	91875.1	96172.6
ECL provision-Stage 1 & 2	2147.54	2279.7		2364.01	2340.39	2604.26
Net Stage 1 & 2	71335.3	75002.1		85253.5	89534.7	93568.3
ECL provision (%) Stage 1 & 2	2.9	3.0		2.7	2.6	2.7

* 3QFY18 has not being stated

Others

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Branch Offices	962	1035	1121	1213	1230	1301
>> Rural	401.0	461.0	514.0	583.0	596.0	651.0
>> Urban	561	574	607	630	634	650

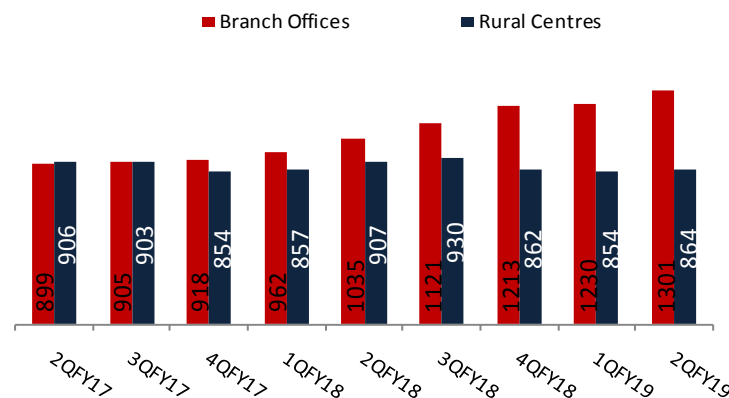
Exhibit: Asset Quality

Lower Credit Cost



Exhibit: Provisions

Branch



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	227	227	227	227	227	227	227	227
>> Equity Capital	227	227	227	227	227	227	227	227
>> Preference Capital								
Reserves & Surplus	6,968	8,046	9,011	9,927	11,075	12,345	15,429	18,152
Networth	7,337	8,510	9,266	10,154	11,302	12,572	15,655	18,379
Change (%)	22	16	9	10	11	11	25	17
Total Borrowings	31,000	35,920	44,280	49,790	53,110	63,320	97750.1	116357
Change (%)	34	16	23	12	7	19	54	19
Provisions	1,420	1,565	1,984	3,352	4,291	5,876	2,444	1,745
Other Liabilities	4,843	3,477	3,825	4,667	5,707	6,702	758	669
Total Liabilities	44,458	49,235	59,327	67,963	74,410	88,470	116607	137150
Investments	3,569	2,725	3,327	1,356	1,549	1,480	2,596	2,904
Loans	33,978	38,898	50,764	63,770	67,840	82,740	110113	128832
Change (%)	30	14	31	26	6	22	33	17
Fixed Assets	60	101	101	101	84	120	137	147
Other Assets	531	426	412	372	496	493	766	1,566
Cash Balances	6,319	7,086	4,723	2,364	4,441	3,638	2,994	3,701
Total Assets	44,458	49,235	59,327	67,963	74,410	88,470	116607	137150

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	6,369	7,623	8,548	10,217	10,755	12,168	16,115	19,306
Interest expended	2,911	3,955	4,435	5,096	5,233	5,434	8,068	10,037
Net Interest Income	3,459	3,668	4,113	5,121	5,521	6,735	8,047	9,270
Change (%)	7	6	12	25	8	22	19	15
Other Income	189	145	71	76	76	248	62	58
Change (%)	47	(23)	(51)	8	(0)	227	(75)	(5)
Total Net Income	3,647	3,813	4,184	5,197	5,597	6,982	8,109	9,328
Change (%)	9	5	10	24	8	25	16	15
Operating Expenses	786	956	1,078	1,309	1,229	1,489	1,867	2,152
Change (%)	10	22	13	21	(6)	21	25	15
>> Employee Expenses	385	409	430	589	548	747	942	1,073
Change (%)	4	6	5	37	(7)	36	26	14
>> Other Expenses	383	518	608	684	647	705	883	1,023
Pre-provisioning Profit	2,861	2,857	3,105	3,888	4,368	5,494	6,242	7,176
Change (%)	8	(0)	9	25	12	26	14	15
Provisions	845	1,029	1,263	2,107	2,444	3,122	2,412	2,526
Change (%)	11	22	23	67	16	28	(23)	5
PBT	2,016	1,828	1,842	1,781	1,924	2,372	3,830	4,650
Tax	656	564	605	603	667	804	1,342	1,628
Profit After Tax	1,361	1,264	1,238	1,178	1,257	1,568	2,488	3,023
Change (%)	8	(7)	(2)	(5)	7	25	59	22
Adjusted Profit After Tax	1,361	1,264	1,238	1,178	1,257	1,568	2,488	3,023
Change (%)	8	(7)	(2)	(5)	7	25	59	22

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
AUM	49676	53102	59108	72761	78761	95306	114368	133810
>> Off-Book AUM	15698	14204	8344	8991	10921	12566	4254	4978
AUM Growth (%)	23.5	6.9	11.3	23.1	8.2	21.0	20.0	17.0
Borrowing Growth (%)	34.1	15.9	23.3	12.4	6.7	19.2	54.4	19.0
Loan/Borrowing (%)	1.1	1.1	1.1	1.3	1.3	1.3	1.1	1.1
Disbursement (Rs Cr)	26233	28600	33700	41919	39100	50730	60586	73056
Disbursement Growth (%)	34.6	9.0	17.8	24.4	(6.7)	29.7	19.4	20.6
CRAR (%)	21	23	21	18	17	17	17	17
>> Tier 1 (%)	-	17.7	16.4	14.7	15.2	14.2	12.8	12.2
>> Tier 2 (%)	-	5.7	4.1	2.9	1.7	2.6	1.1	0.9
Debt/Equity(x)	4.3	4.3	4.8	4.9	4.7	5.0	6.2	6.3

Assets Quality Metrics

Gross NPA (Rs)	1025	1451	1894	3870	5408	7376	9721	10036
Gross NPA (%)	3.2	3.9	3.8	6.2	8.2	9.2	8.5	7.5
Net NPA (Rs)	242	303	379	1144	1659	2131	6805	7025
Net NPA (%)	0.8	0.8	0.8	1.9	2.7	2.8	6.0	5.3
Specific Provision Coverage (%)	76	79	80	70	69	71	30	30
Provision/Average Advances (%)	1.9	2.0	2.3	3.2	3.2	3.6	2.3	2.0

Margin Metrics

Yield On Advances (%)	14.2	14.8	15.2	15.5	14.2	14.0	15.4	15.6
Cost Of Funds (%)	10.8	11.8	11.1	10.8	10.2	9.3	10.0	9.4
Spread (%)	3.4	3.0	4.2	4.7	4.0	4.6	5.4	6.2
NIM on AUM (%)	7.7	7.1	7.3	7.8	7.3	7.7	7.7	7.5

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	45.7	51.9	51.9	49.9	48.7	44.7	50.1	52.0
Other Income/NII (%)	5.4	4.0	1.7	1.5	1.4	3.7	0.8	0.6
Operating Profit/Net Income (%)	78.4	74.9	74.2	74.8	78.0	78.7	77.0	76.9
Net Profit/Net Income (%)	37.3	33.2	29.6	22.7	22.5	22.5	30.7	32.4
Cost to Income (%)	21.6	25.1	25.8	25.2	22.0	21.3	23.0	23.1
Employee Exp/Net Income (%)	10.5	10.7	10.3	11.3	9.8	10.7	11.6	11.5
Cost on Average Assets (%)	2.0	2.0	2.0	2.1	1.7	1.8	1.8	1.7
Provision/PPP (%)	29.5	36.0	40.7	54.2	56.0	56.8	38.6	35.2
Tax Rate (%)	32.5	30.8	32.8	33.9	34.6	33.9	35.0	35.0

Valuation Ratio Metrics

EPS (Rs)	60	56	55	52	55	69	110	133
Change (%)	7.9	(7.1)	(2.1)	(4.8)	6.7	25	58.6	21.5
ROAE (%)	20.4	16.0	13.9	12.1	11.7	13.1	17.6	17.8
ROAA (%)	3.4	2.7	2.3	1.9	1.8	1.9	2.4	2.4
Dividend Payout (%)	13.7	14.7	17.2	23.1	19.5	19.1	12.0	9.9
Dividend yield (%)	1.1	1.1	0.8	1.1	0.8	0.9	1.0	1.0
DPS	7.0	7.0	8.0	10.0	9.0	11.0	11.0	11.0
Book Value(Rs)	323	375	408	448	498	554	690	810
Change (%)	21	16	9	10	11	11	25	17
P/B (X)	2.2	2.0	2.7	2.1	2.2	2.6	1.6	1.3
P/E (X)	11.6	13.7	20.4	18.4	19.5	20.8	9.8	8.1

Financial Details

Exhibit: DuPont Analysis

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Interest Income</i>	15.9	16.3	15.7	16.1	15.1	14.9	15.7	15.2
<i>Interest expended</i>	7.3	8.4	8.2	8.0	7.4	6.7	7.9	7.9
<i>Net Interest Income</i>	8.6	7.8	7.6	8.0	7.8	8.3	7.8	7.3
<i>Non-Fund Based Income</i>	0.5	0.3	0.1	0.1	0.1	0.3	0.1	0.0
<i>Total Income</i>	9.1	8.1	7.7	8.2	7.9	8.6	7.9	7.4
<i>Total Operating Expenses</i>	2.0	2.0	2.0	2.1	1.7	1.8	1.8	1.7
<i>>> Employee Expenses</i>	1.0	0.9	0.8	0.9	0.8	0.9	0.9	0.8
<i>>> Other Expenses</i>	1.0	1.2	1.2	1.1	1.0	0.9	0.9	0.9
<i>Operating Profit</i>	7.1	6.1	5.7	6.1	6.1	6.7	6.1	5.7
<i>Provisions</i>	2.1	2.2	2.3	3.3	3.4	3.8	2.4	2.0
<i>Others</i>	-	-	-	-	-	-	-	-
<i>PBT</i>	5.0	3.9	3.4	2.8	2.7	2.9	3.7	3.7
<i>Tax</i>	1.6	1.2	1.1	0.9	0.9	1.0	1.3	1.3
PAT/RoAA	3.4	2.7	2.3	1.9	1.8	1.9	2.4	2.4
<i>Equity Multiplier (x)</i>	6.1	6.1	6.2	6.6	6.6	6.8	7.3	7.5
ROAE	20.6	16.3	14.1	12.2	11.7	13.1	17.6	17.8

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*The name of the Company has been changed from “Microsec Capital Limited” to “Narnolia Financial Advisors Limited” pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of “Narnolia Financial Advisors Limited” pursuant to change of control is under process with SEBI.

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