

Industry
Bloomberg
BSE CODE

Financial
SHTF IN
511218

Slowdown in loan Growth along with margin pressure

RATING	HOLD
CMP	986
Price Target	1125
Potential Upside	14%

Rating Change	↓
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	1476/903
Mkt Capital (Rs Cr)	22154
Free float (%)	74%
Avg. Vol 1M (,000)	3240
No. of Shares (Cr)	23
Promoters Pledged %	

FINANCIAL	FY19	FY20E	FY21E
NII	7808	8274	9609
PPP	6158	6524	7584
PAT	2562	2758	3292
NIM %	7.8	7.5	7.9
EPS (Rs)	113	122	145
EPS growth (%)	63	8	19
ROE (%)	19.6	16.2	16.7
ROA (%)	2.5	2.5	2.7
BV	698	805	937
P/B (X)	1.8	1.2	1.1
P/E (x)	11.3	8.1	6.8

1QFY20 Result Update

- NII growth has remained muted at 7% YoY on the back of sluggish loan book growth of 5% YoY. C/I ratio has improved on a YoY basis by 115 bps to 22%. Credit cost has marginally increased by 6 bps to 2.13%. PAT growth has remained muted at 11% YoY. NIM has declined to 7.16% from 7.44% YoY.
- AUM growth has slowed to 5% YoY growth on the back of liquidity crisis. The new vehicle segment & business loan segment has recorded a decline in growth by 6% & 2% respectively, while that of the used segment, working capital loan & others segment has grown at the rate of 6%, 53% and 36% respectively.
- Gross stage 3 has increased from 8.37% to 8.52% QoQ while Net stage 3 has increased from 5.65% to 5.97% QoQ. The PCR has declined from 34% to 32% QoQ.

Subdued AUM Growth

The disbursement has remained affected due to the elections which resulted in muted AUM growth at the rate of 5% YoY. The share of new vehicle segment stands at 11%, used vehicle segment stands at 84% and business loan & working capital segment both constitute upto 4%. All the segments have remained stable QoQ basis, except for used vehicle which has grown at 2% QoQ. The share of HCV has decline by 1% to 46%, Passenger vehicle, and Tractor has declined by 71 bps & 67 bps to 22.58% & 3.38% while M&LCVs & other segment has increased by 2% & 1% to 22.52% & 2.78% respectively.

NIM Remains under Pressure

NIM remained under pressure due to rise in cost of borrowings. The Cost of borrowings has remained in the range of 9.5- 9.75%, management expects the cost of borrowings to trend in this range going ahead. Management has titled its portfolio disbursement to used vehicle in order to protect the margins. Even though the liquidity situation has been fairly manageable for SRTRANSFIN It has prudentially maintaining a substantial amount (2 month disbursement) as liquid assets which further puts pressure on the margins.

GNPA Decreased Slightly

The GNPA has decreased from 9.06% from 8.52% YoY. Rise in stage 2 provision is mainly due to rise in GNPA due to elections period as the cash carrying at hand was banned. PCR has declined as management has written off added provisioning provided for the Kerala flood and TN flood. Management has guided to maintain PCR in 32% range going ahead.

Other Details

- Total branches stand at 1585, out of which rural branches standing at 746 & urban branches at 839. Rural centers stands at 856. Field officers stand at 16471.
- Capital adequacy standing at 20.07% with Tier 1 at 15.87%.

View and Valuation

The growth has remained muted due to election & weakening in the demand of new CV. Nonetheless sturdy pricing power of SRTRANSFIN in the rural areas has helped it to sustain spreads amid liquidity stress. Asset quality has remained robust with temporary hiccup due to election period; management has re-iterated credit cost guidance of 2% for FY20. However due to slowdown in the infrastructure & construction activity management has revised it's the loan book guidance to 14-16% from 18-20% rate. We expects margin to remain under pressure due high cost of borrowings and maintenance of buffer liquid asset. We remain cautious on the growth and have decreased the estimate by 10% for FY20. We value the stock at 1.2x for FY21 at Rs 1125. We downgrade the stock to HOLD.

Key Risks to our rating and target

- Slowdown in auto industry will hamper the growth
- Increase in cost of fund and unable to pass on the burden will impact Margins.

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Muted Growth

1QFY20 Results

In-Line With Expectation

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	3,729	3,917	3,968	3,845	4,001	7.3%	4.1%	12,168	13,271	9.1%
Interest Exp.	1,889	1,862	1,941	1,939	2,040	8.0%	5.2%	5,434	6,486	19.4%
NII	1,840	2,055	2,027	1,906	1,962	6.6%	2.9%	6,735	6,785	0.8%
Other Income	6	18	19	28	14	123.4%	-48.1%	236	218	-7.5%
Total Income	1,851	2,080	2,053	1,941	1,989	7.5%	2.5%	6,982	7,015	0.5%
Ope Exp.	437	457	433	429	446	2.2%	4.1%	1,489	1,493	0.3%
PPP	1,414	1,623	1,620	1,512	1,543	9.1%	2.0%	5,494	5,523	0.5%
Provisions	533	684	636	540	561	5.3%	4.0%	3,122	1,722	-44.8%
PBT	881	939	984	972	982	11.4%	1.0%	2,372	3,801	60.2%
Tax	310	329	348	226	347	12%	53.5%	804	1,341	66.9%
Extra Items	-	-	-	-	-	-	-	-	-	-
Net Profit	572	610	635	746	634	10.9%	-15.0%	1,568	2,459	57%

Concall Highlights

- Management has pricing power in used vehicle thus rising share of used vehicle is aiding NIM expansion. The cost of borrowings stands at 9.5% while the landed cost of foreign borrowings stood at 10%. Interest rate on the securitization varies from 8.5%-9.5%. Management expects decrease in the bank rates will improve NIM.
- 40 branches were added in the quarter along with 500 field officers. Management is converting the matured rural centers (3 years operational & 500 customers) into branches. The conversion cost includes increase of rent from Rs 5000 to Rs 25000 along with basic furnishing cost of Rs 500000.
- Disbursement in the new vehicle stood at Rs 891 Cr, Used vehicle stood at Rs 11260 Cr and Other segment stood at Rs 145 Cr.
- Management has revised its 18-20% loan book guidance to 14-16% for FY20 if it is backed by reasonably good monsoon & BS-IV demand before implementation of BS-VI.
- Management expects prices to increase by 10-15% after BS-VI implementation so customer may pre-pone buying before implementation, post September festival season will provide favorable condition.
- The working capital loan is majorly 5- 10% of additional loan to existing customers. The additional loan can be by tyre, fuel & insurance loans. New CV loan is an upgrade provided to existing customer, who is willing to dispose off their used vehicle and get a new CV. Management has fuel credit agreement with HPCL & BPCL.
- Rural demand is steady while the urban passenger vehicle & taxi demand is slow.
- Rise in stage 2 provision is mainly due to rise in GNPA due to elections as the cash carrying was banned.
- PCR has declined as management has written off added provisioning provided for the Kerala flood and TN flood.
- Management guided to maintain 32% provisioning going ahead.
- Market share of used vehicle segment is at 25-30%.
- LTV of new segment stood at 80% while that of used vehicle stood at 65%. The last reduction was done in October by 5% in new segment /10% for other.
- Private financiers are local financiers having a good track record of credit basically having 3 wheeler and taxi portfolio. This revenue sharing arrangement with full responsibility of private financiers for collection. This share of the portfolio is below 2% of total AUM.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	21.6	20.9	23.6	22.0	21.1	22.1	22.4	-1.15	0.35
Empl. Cost/ Tot. Exp. %	47.3	48.6	51.6	50.8	51.2	47.6	52.2	0.61	4.64
Other Exp/Tot. Exp.%	50.3	49.0	46.1	46.9	46.3	49.7	40.3	-5.84	-9.45
Provision/PPP %	39.6	6.0	37.7	42.1	39.3	35.7	36.4	-1.31	0.67
Tax Rate %	35.0	36.2	35.1	35.1	35.4	23.3	35.4	0.26	12.12
Int Exp./Int Inc. (%)	48.1	48.1	50.6	47.5	48.9	50.4	51.0	0.32	0.54
Other Inc./NII %	0.1	1.6	0.1	0.2	0.3	0.3	0.2	0.12	-0.09
PPP/ Net Income %	78.4	79.1	76.4	78.0	78.9	77.9	77.6	1.15	-0.35
PAT/ Net Income %	30.7	47.4	30.9	29.3	30.9	38.4	31.9	1.00	-6.55
NII Growth % (YoY)	24.5	32.9	19.6	24.6	16.1	2.8	6.6	-12.98	3.84
PPP Growth YoY %	21.2	40.5	16.5	22.6	17.3	(5.8)	9.1	-7.36	14.90
PAT Growth %	56.8	542.8	24.4	23	17.2	(22.4)	10.9	-13.47	33.38

Margin Performance

MARGIN %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	15.9	16.0	15.9	16.0	15.7	14.9	15.3	-0.65	0.41
Cost Of Funds	9.0	9.0	9.5	8.9	9.0	8.8	9.2	-0.35	0.32
Spreads	6.9	7.0	6.4	7.0	6.7	6.0	6.1	-0.30	0.09
NIM	8.2	8.3	7.9	8.4	8.0	7.4	7.5	-0.37	0.12

Exhibit: Calculated Yield and Cost

Improved Spreads

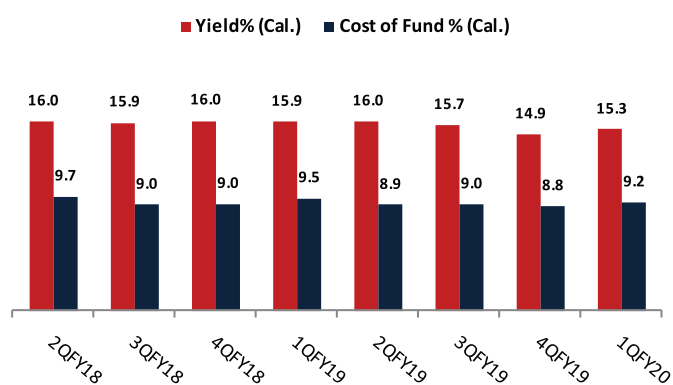
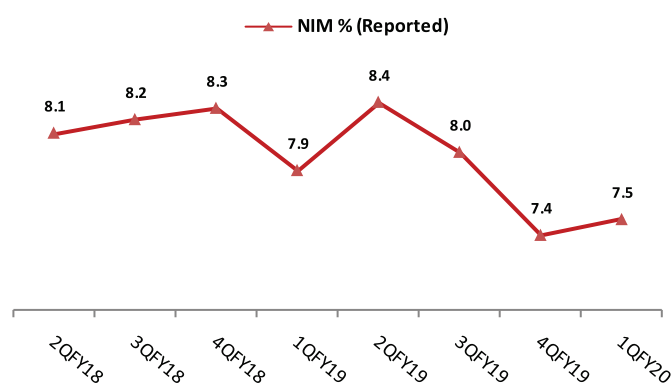


Exhibit: Net Interest Margin

NIM has improved marginally



Asset & Borrowings Growth Trend

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Disbursements	10818	12377	13378	14157	13425	13799	9550	11959	12296
Growth YoY %	1	26	65	35	24	11	-29	-16	14
AUM	82597	86357	90964	96261	100972	104380	103818	104482	106343
Growth YoY %	10	15	19	22	22	21	14	9	5
Borrowings	71860	72978	77328	82131	85300	88202	89546	87968	90601
Growth YoY %	41	37	39	48	19	21	16	7	6

Exhibit: AUM Growth %

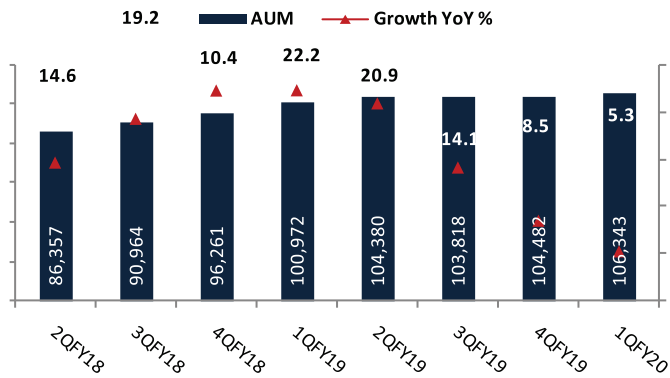
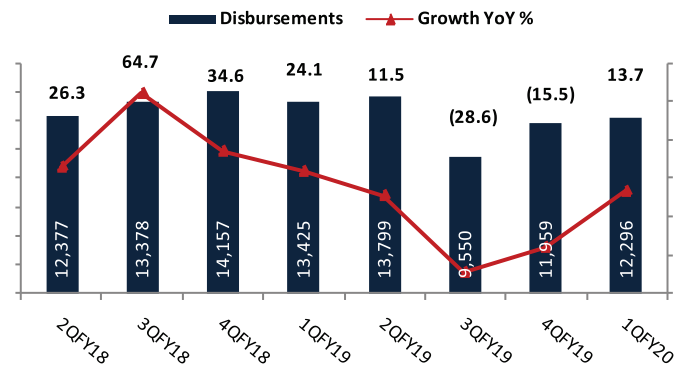


Exhibit: Disbursement Growth %



Asset Mix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
HCVs	46.8	47.0	46.9	47.0	47.0	46.3	46.4	46.4	46.0
M&LCVs	20.4	20.6	20.7	20.6	20.7	21.0	21.6	22.0	22.5
Passenger Vehicles	24.6	24.1	23.6	23.2	23.3	23.2	22.9	22.5	22.6
Tractors	4.3	4.2	4.1	4.1	4.1	3.9	3.7	3.5	3.4
SEFCL Equipment Finance	0.9	1.5	0.7			0.2	0.1		
Business Loans		0.8	2.4	2.7	3.0	3.2	3.1	2.8	2.7
Others	3.0	1.9	1.6	2.5	2.0	2.2	2.3	2.8	2.8

Asset Quality

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA	9,434	9,084	9,157	9,092	9,033	8,622	8,926	(159)	303
GNPA %	10.3	9.4	9.1	8.6	8.8	8.4	8.5	(0.9)	0.2
NNPA	6,046	5,989	5,839	5,979	5,846	5,655	6,085	96	430
NNPA %	6.9	6.2	6.1	6.0	5.9	5.7	6.0	(0.2)	0.3
Total Specific PCR %	36	34	36	34	35	34	32	(2)	(3)

Exhibit: Asset Quality

GNPA increased sequentially

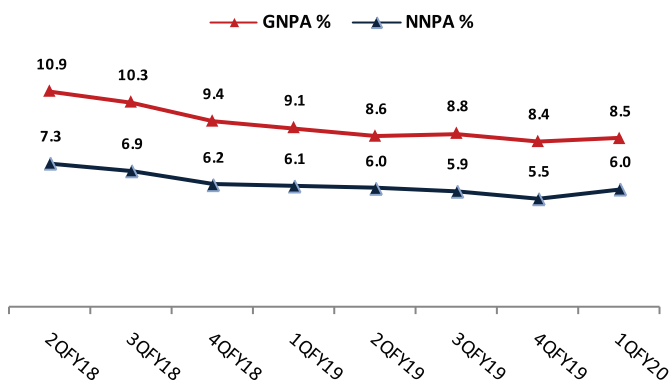


Exhibit: Provisions

PCR has declined

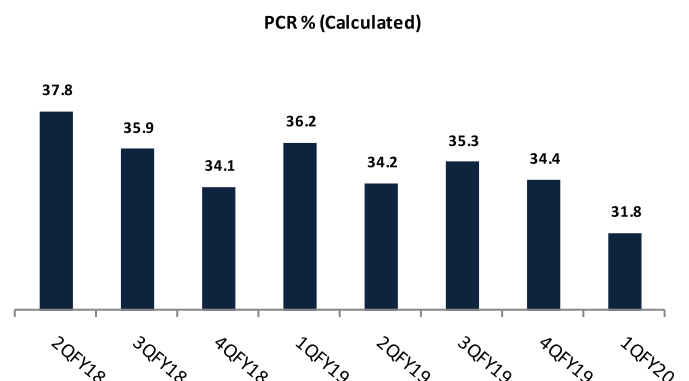


Exhibit: AUM Break Up

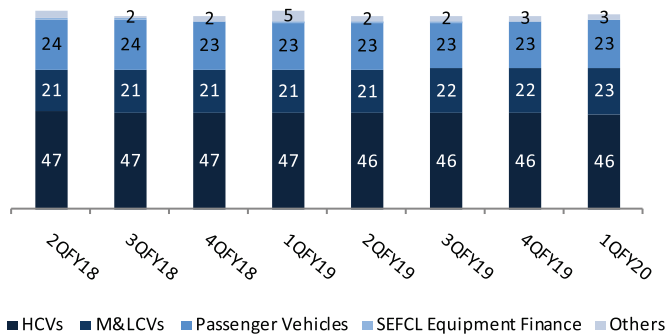
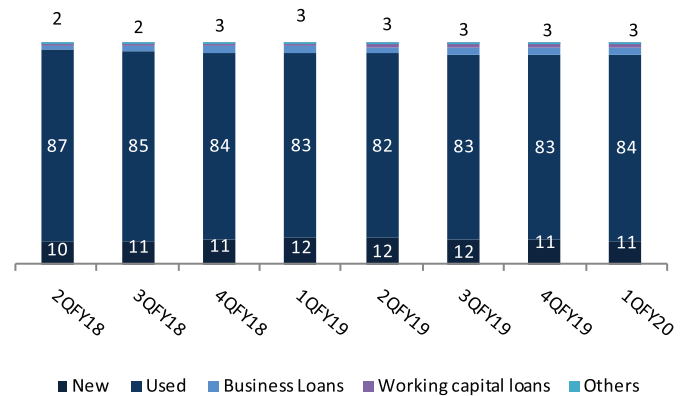


Exhibit: Portfolio Mix



Asset Quality

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Gross NPA (Stage 3)	9,191	9,434	9,084	9,157	9,092	9,033	8,622	8,926
Less: ECL Provisions (Stage 3)	3,301	3,389	3,095	3,318	3,113	3,187	2,967	2,841
Net NPA (Stage 3)	5,890	6,046	5,989	5,839	5,979	5,846	5,655	6,085
Coverage Ratio (%) Stage 3	36	35.9	34.1	36.2	34.2	35.3	34.4	32.0
Gross Stage 1 & 2	77,282	81,798	87,620	91,875	96,173	93,875	94,358	95,889
ECL provision-Stage 1 & 2	2,280	2,356	2,365	2,340.4	2,604	2,651	2,604	2,762
Net Stage 1 & 2	75,002	79,442	85,255	89,535	93,568	91,224	91,755	93,127
ECL provision (%) Stage 1 & 2	3.0	2.9	2.7	2.6	2.7	2.8	2.8	2.9

Others

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Branch Offices	1035	1121	1213	1230	1301	1348	1545	1585
Rural	461	514	583	596	651	668	720	746
Urban	574	607	630	634	650	680	825	839

Exhibit: Provisions/Average AUM

Lower Credit Cost

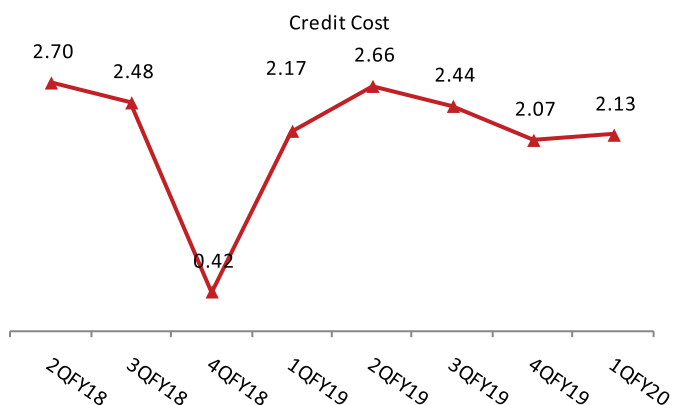
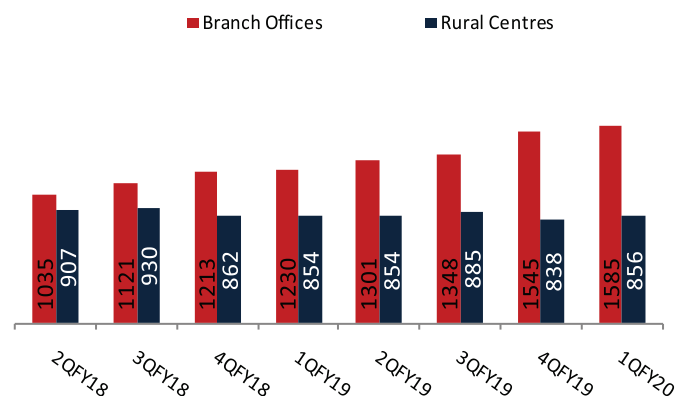


Exhibit: Branch

Branch increased



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	227	227	227	227	227	227	227	227
Equity Capital	227	227	227	227	227	227	227	227
Preference Capital								
Reserves & Surplus	8,046	9,011	9,927	11,075	12,345	15,609	18,041	21,034
Networth	8,510	9,266	10,154	11,302	12,572	15,836	18,268	21,261
Change (%)	16	9	10	11	11	26	15	16
Total Borrowings	35,920	44,280	49,790	53,110	63,320	87,968	95775	107268
Change (%)	16	23	12	7	19	7	9	12
Provisions	1,565	1,984	3,352	4,291	5,876	133	145	163
Other Liabilities	3,477	3,825	4,667	5,707	6,702	1,355	1,534	1,719
Total Liabilities	49235	59327	67963	74410	88470	105292	115723	130410
Investments	2,725	3,327	1,356	1,549	1,480	3,999	3,908	3,862
Loans	38,898	50,764	63,770	67,840	82,740	96,751	106427	119198
Change (%)	14	31	26	6	22	7	10	12
Fixed Assets	101	101	101	84	120	147	162	182
Other Assets	426	412	372	496	493	413	454	509
Cash Balances	7,086	4,723	2,364	4,441	3,638	3,981	4,772	6,660
Total Assets	49235	59327	67963	74410	88470	105292	115722	130410

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	7,623	8,548	10,217	10,755	12,168	15,444	16,608	18,747
Interest expended	3,955	4,435	5,096	5,233	5,434	7,637	8,333	9,138
Net Interest Income	3,668	4,113	5,121	5,521	6,735	7,808	8,274	9,609
Change (%)	6	12	25	8	22	15	6	16
Other Income	145	71	76	76	248	101	114	85
Change (%)	(23)	(51)	8	(0)	227	(56)	13	(25)
Total Net Income	3,813	4,184	5,197	5,597	6,982	7,909	8,388	9,695
Change (%)	5	10	24	8	25	13	6	16
Operating Expenses	956	1,078	1,309	1,229	1,489	1,750	1,864	2,110
Change (%)	22	13	21	(6)	21	17	6	13
Employee Expenses	409	430	589	548	747	883	950	1,073
Change (%)	6	5	37	(7)	36	19	8	13
Other Expenses	518	608	684	647	705	824	845	984
Pre-provisioning Profit	2,857	3,105	3,888	4,368	5,494	6,158	6,524	7,584
Change (%)	(0)	9	25	12	26	12	6	16
Provisions	1,029	1,263	2,107	2,444	3,122	2,382	2,275	2,519
Change (%)	22	23	67	16	28	38	(4)	11
PBT	1,828	1,842	1,781	1,924	2,372	3,776	4,249	5,065
Tax	564	605	603	667	804	1,214	1,491	1,773
Profit After Tax	1,264	1,238	1,178	1,257	1,568	2,562	2,758	3,292
Change (%)	(7)	(2)	(5)	7	25	4	8	19
Adjusted Profit After Tax	1,264	1,238	1,178	1,257	1,568	2,562	2,758	3,292
Change (%)	(7)	(2)	(5)	7	25	4	8	19

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	53102	59108	72761	78761	95306	104482	114931	128722
Off-Book AUM	14204	8344	8991	10921	12566	7731	8504	9524
AUM Growth (%)	6.9	11.3	23.1	8.2	21.0	8.5	10.0	12.0
Borrowing Growth (%)	15.9	23.3	12.4	6.7	19.2	7.1	8.9	12.0
Loan/Borrowing (%)	1.1	1.1	1.3	1.3	1.3	1.1	1.1	1.1
Disbursement (Rs Cr)	28600	33700	41919	39100	50730	48733	62557	74772
Disbursement Growth (%)	9.0	17.8	24.4	(6.7)	29.7	(3.9)	28.4	19.5
CRAR (%)	23	21	18	17	17	20	17	17
Tier 1 (%)	17.7	16.4	14.7	15.2	14.2	15.6	16.4	17.0
Tier 2 (%)	5.7	4.1	2.9	1.7	2.6	4.7	4.2	3.8
Debt/Equity(x)	4.3	4.8	4.9	4.7	5.0	5.6	5.2	5.0
Assets Quality Metrics								
Gross NPA (Rs)	1451	1894	3870	5408	7376	8622	8620	9654
Gross NPA (%)	3.9	3.8	6.2	8.2	9.2	8.4	7.5	7.5
Net NPA (Rs)	303	379	1144	1659	2131	5655	5689	6372
Net NPA (%)	0.8	0.8	1.9	2.7	2.8	5.7	5.0	5.0
Specific Provision Coverage (%)	79	80	70	69	71	34	34	34
Provision/Average Advances (%)	2.0	2.3	3.2	3.2	3.6	2.4	2.1	2.1
Margin Metrics								
Yield On Advances (%)	14.8	15.2	15.5	14.2	14.0	15.4	15.1	15.4
Cost Of Funds (%)	11.8	11.1	10.8	10.2	9.3	9.0	9.1	9.0
Spread (%)	3.0	4.2	4.7	4.0	4.6	6.4	6.1	6.4
NIM on AUM (%)	7.1	7.3	7.8	7.3	7.7	7.8	7.5	7.9
Profitability & Efficiency Metrics								
Int. Expense/Int.Income (%)	51.9	51.9	49.9	48.7	44.7	49.4	50.2	48.7
Other Income/NII (%)	4.0	1.7	1.5	1.4	3.7	1.3	1.4	0.9
Operating Profit/Net Income (%)	74.9	74.2	74.8	78.0	78.7	77.9	77.8	78.2
Net Profit/Net Income (%)	33.2	29.6	22.7	22.5	22.5	32.4	32.9	34.0
Cost to Income (%)	25.1	25.8	25.2	22.0	21.3	22.1	22.2	21.8
Employee Exp/Net Income (%)	10.7	10.3	11.3	9.8	10.7	11.2	11.3	11.1
Cost on Average Assets (%)	2.0	2.0	2.1	1.7	1.8	1.7	1.7	1.7
Provision/PPP (%)	36.0	40.7	54.2	56.0	56.8	38.7	34.9	33.2
Tax Rate (%)	30.8	32.8	33.9	34.6	33.9	32.2	35.1	35.0
Valuation Ratio Metrics								
EPS (Rs)	56	55	52	55	69	113	122	145
Change (%)	(7.1)	(2.1)	(4.8)	6.7	24.7	63	7.7	19.4
ROAE (%)	16.0	13.9	12.1	11.7	13.1	19.6	16.2	16.7
ROAA (%)	2.7	2.3	1.9	1.8	1.9	2.5	2.5	2.7
Dividend Payout (%)	14.7	17.2	22.5	19.5	19.1	12.8	10.9	9.1
Dividend yield (%)	1.1	0.8	1.1	0.8	0.9	0.9	1.1	1.1
DPS	7.0	8.0	10.0	9.0	11.0	12.0	11.0	11.0
Book Value(Rs)	375	408	448	498	554	698	805	937
Change (%)	16	9	10	11	11	26	15	16
P/B (X)	2.0	2.7	2.1	2.2	2.6	1.8	1.2	1.1
P/E (X)	13.7	20.4	18.4	19.5	20.8	11.3	8.1	6.8

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	16.3	15.7	16.1	15.1	14.9	15.3	15.0	15.2
Interest expended	8.4	8.2	8.0	7.4	6.7	7.5	7.5	7.4
Net Interest Income	7.8	7.6	8.0	7.8	8.3	7.7	7.5	7.8
Non-Fund Based Income	0.3	0.1	0.1	0.1	0.3	0.1	0.1	0.1
Total Income	8.1	7.7	8.2	7.9	8.6	7.8	7.6	7.9
Total Operating Expenses	2.0	2.0	2.1	1.7	1.8	1.7	1.7	1.7
Employee Expenses	0.9	0.8	0.9	0.8	0.9	0.9	0.9	0.9
Other Expenses	1.2	1.2	1.1	1.0	0.9	0.9	0.8	0.8
Operating Profit	6.1	5.7	6.1	6.1	6.7	6.1	5.9	6.2
Provisions	2.2	2.3	3.3	3.4	3.8	2.4	2.1	2.0
Others	-	-	-	-	-	-	-	-
PBT	3.9	3.4	2.8	2.7	2.9	3.7	3.8	4.1
Tax	1.2	1.1	0.9	0.9	1.0	1.2	1.3	1.4
PAT/RoAA	2.7	2.3	1.9	1.8	1.9	2.5	2.5	2.7
Equity Multiplier (x)	6.1	6.2	6.6	6.6	6.8	6.9	6.5	6.2
ROAE	16.3	14.1	12.2	11.7	13.1	17.4	16.2	16.7

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