

Shriram Transport Ltd.

Industry	Financial
Bloomberg	SHTF IN
BSE CODE	511218

Margin remained steady with Tax Benefit boosting PAT

RATING	ACCUMULATE
CMP	1124
Price Target	1254
Potential Upside	12%

Rating Change	↓
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	1297/909
Mkt Capital (Rs Cr)	25509
Free float (%)	74%
Avg. Vol 1M (,000)	1077
No. of Shares (Cr)	23
Promoters Pledged %	

FINANCI	FY19	FY20E	FY21E
NII	7808	8167	8839
PPP	6158	6418	6961
PAT	2562	3018	3478
NIM %	7.8	7.6	7.9
EPS (Rs)	113	133	153
EPS	63	18	15
ROE (%)	19.6	17.6	17.3
ROA (%)	2.5	2.8	3.0
BV	698	817	957
P/B (X)	1.8	1.4	1.2
P/E (x)	11.3	8.4	7.3

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2QFY20 Results Update

- NII growth has remained steady on the back of steady loan growth of 4% YoY. Fee income stands improved YoY. PAT has grown at a rate of 26% majorly on the back of higher tax benefits. NIM stands improved sequentially from 7.49% to 7.71% QoQ.
- The yield has improved from 15.28% to 15.57% sequentially on the back of the rise in the share of used vehicles. The cost has increased sequentially from 9.16% to 9.26% while the spreads have improved from 7.16% to 7.19% QoQ.
- AUM has sequentially remained almost steady at 2% with growth driven by segments like used vehicles and working capital loans. The proportion of used vehicles stands improved sequentially to 84.4% as at 2QFY20 while the new vehicle has dropped from 11% to 10% as at 2QFY20. The disbursement in 2QFY20 stood at Rs 13120 Cr with 94% of the disbursement is contributed by the used segment.
- The gross stage 3 stands increased to 8.80% from 8.52% QoQ while Net stage 3 has increased to 6.15% from 5.97% QoQ. The ECL provision has remained stable at 32%. Management has decreased the ECL provision of stage 1 & 2 from 2.88% to 2.84% sequentially.
- Management has incrementally resorting to securitization (25%) & foreign borrowings (12%) for incremental growth.

Sequentially Muted AUM

AUM has remained almost stable QoQ at 2% on the back of sluggish disbursement growth. The growth was mainly towards used vehicle segment. The share of HCV, Tractor & business loans has decreased by 19 bps, 19 bps & 10 bps to 46%, 3% & 3% respectively while for the last few quarters management has been improving the share of M&LCVs to 23% while the share of passenger vehicle stood steady QoQ.

Diversifying Borrowing Profile

The share of securitization stands at 22% as at 2QFY20. Management has decreased the share of CP to almost negligible. During the quarter securitization stood at Rs 5500 Cr, retail deposit raised at Rs 100 Cr per month which was 3 year paper, Banks term loans raised stood at Rs 6000 Cr which are of medium term loans. The incremental cost of borrowings stood at 9%. For new initiative PSL benefit for on lending the cost 8.50-8.75%.

Other Details

- Total branches stand at 1669, out of which rural branches standing at 793 & urban branches at 876. Rural centers stands at 853. Field officers stand at 22745.
- Capital adequacy standing at 20.35% with Tier 1 at 16.31%.

View and Valuation

Relaxation of axle norms, slowdown in the infrastructure and mining activities, delayed monsoon, lower economic activities and flooding situation in the country had resulted in the slowdown in the commercial vehicle segment in 1HFY20 but management has guided 2HFY20 growth run rate to be around 9-12% with good rabi crop harvest and kick start of infrastructure and mining activities. Management remains optimistic about asset quality recovery in 2HFY20, GNPA is expected to improve by 30-40 bps. 94% of incremental disbursement is towards used vehicles segment, which is expected to provide adequate cushioning to the margin pressure in the high-cost liquidity availability. We remain slightly cautious on the back of CV slowdown and downgrade the stock to ACCUMULATE. We value the stock at 1.3x FY21E at Rs 1254.

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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2QFY20 Results In Line With Expectations

Muted Growth

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	3,917	3,968	3,845	4,001	4,113	5.0%	2.8%	12,168	13,271	9.1%
Interest Exp.	1,862	1,941	1,939	2,040	2,076	11.5%	1.8%	5,434	6,486	19.4%
Nil	2,055	2,027	1,906	1,962	2,037	-0.9%	3.8%	6,735	6,785	0.8%
Other Income	18	19	28	14	24	30.7%	68.6%	236	218	-7.5%
Total Income	2,080	2,053	1,941	1,989	2,080	0.0%	4.6%	6,982	7,015	0.5%
Opex Exp.	457	433	429	446	493	7.8%	10.3%	1,489	1,493	0.3%
PPP	1,623	1,620	1,512	1,543	1,588	-2.2%	2.9%	5,494	5,523	0.5%
Provisions	684	636	540	561	661	-3.4%	17.7%	3,122	1,722	-44.8%
PBT	939	984	972	982	927	-1.3%	-5.6%	2,372	3,801	60.2%
Tax	329	348	226	347	162	-51%	-53.4%	804	1,341	66.9%
Extra Items	-	-	-	-	-	-	-	-	-	-
Net Profit	610	635	746	634	765	25.5%	20.6%	1,568	2,459	57%

Concall Highlights

- Management has raised 200 \$ MN at a fully hedged cost of 10-10.2%. Securitization during the quarter stood at Rs 5500 Cr from Rs 5700 Cr QoQ, the retail deposit was raised at Rs 100 Cr per month which was a 3-year paper, Bank's term loans raised stood at Rs 6000 Cr which are of medium-term loans. The incremental cost of borrowings stood at 9%. For new initiative like PSL benefit for on lending the cost 8.50-8.75%.
- Disbursement stood at Rs 13120 Cr with new at Rs 666 Cr & Used at Rs 12282 Cr.
- C/I ratio has increased as SRTRANSFIN is focusing on newer areas in the rural market and increasing the number of collection people to maintain collection efficiency.
- The slowdown in the economic activities and delayed monsoon led to lower capacity addition in CV.
- Revision of axle norms has led to a capacity upgrade by 20% thus decreasing the demand for new vehicles.
- Management expects pre-buying demand to start from JAN onwards which will lead to a rise in the new vehicle demand. HCV has slowdown due to slowdown in the mining and infra segment. Management has guided with improved rabi crop and kick start of infrastructure and mining activities 2HFY20 growth to improve to 9-12%.
- Management has stated the delayed mining activities in the eastern market & flooding situation in the west has contributed to rising in GNPA. Management has guided gross stage 30-40 bps improvement in 2HFY20.
- The higher tax provision in 1Q resulted in a lower rate in the 2Q.
- Management has guided to bring down credit costs to below 2% in the next 1 and a half years. Strategically SRTRANSFIN is more tuned into M&LCV with 70-75% concentration in the agriculture & daily essentials like milk while only 15-20% share of infra and mining activities.
- The LTV in the Used stands at 70% higher from 60-65% range while the LTV in the new vehicle is 80-85% higher from 70-75%.
- The number of vehicles reposed stands at 3000 vehicles per month. The credit cost of 1% is because of the loss of value of the asset.
- The value of the guarantor is very important while disbursing loans.
- Capital adequacy is expected to remain in the range of 17% with Tier at 14-15%.
- Management is splitting up of urban branches to extend reach to an outside cities customer.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	20.9	23.6	22.0	21.1	22.1	22.4	23.7	1.71	1.24
Empl. Cost/ Tot. Exp. %	48.6	51.6	50.8	51.2	47.6	52.2	50.9	0.06	-1.36
Other Exp/Tot. Exp.%	49.0	46.1	46.9	46.3	49.7	40.3	41.9	-4.95	1.62
Provision/PPP %	6.0	37.7	42.1	39.3	35.7	36.4	41.6	-0.51	5.24
Tax Rate %	36.2	35.1	35.1	35.4	23.3	35.4	17.5	-17.62	-17.93
Int Exp./Int Inc. (%)	48.1	50.6	47.5	48.9	50.4	51.0	50.5	2.95	-0.50
Other Inc./NII %	1.6	0.1	0.2	0.3	0.3	0.2	0.3	0.12	0.08
PPP/ Net Income %	79.1	76.4	78.0	78.9	77.9	77.6	76.3	-1.71	-1.24
PAT/ Net Income %	47.4	30.9	29.3	30.9	38.4	31.9	36.8	7.46	4.89
NII Growth % (YoY)	32.9	19.6	24.6	16.1	2.8	6.6	(0.9)	-25.54	-7.50
PPP Growth YoY %	40.5	16.5	22.6	17.3	(5.8)	9.1	(2.2)	-24.82	-11.26
PAT Growth %	542.8	24.4	22.6	17	(22.4)	10.9	25.5	2.87	14.52

Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	16.0	15.9	16.0	15.7	14.9	15.3	15.6	-0.40	0.29
Cost Of Funds	9.0	9.5	8.9	9.0	8.8	9.2	9.3	0.31	0.10
Spreads	7.0	6.4	7.0	6.7	6.0	6.1	6.3	-0.71	0.19
NIM	8.3	7.9	8.4	8.0	7.4	7.5	7.7	-0.67	0.22

Exhibit: Calculated Yield and Cost Improved Spreads

■ Yield% (Cal.) ■ Cost of Fund % (Cal.)

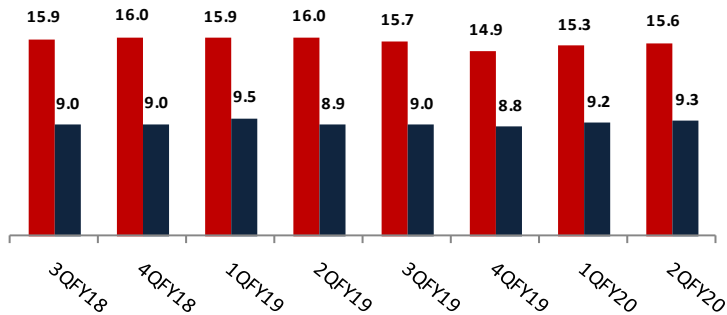
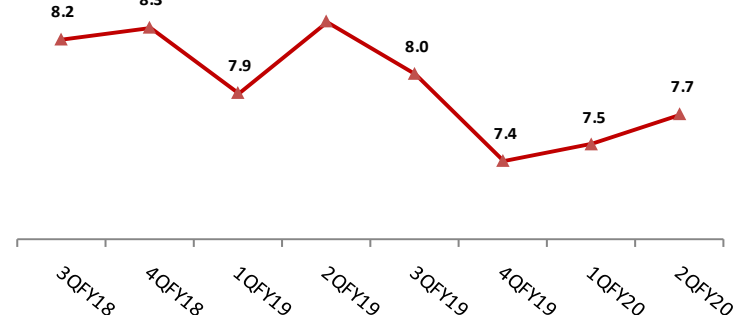


Exhibit: Net Interest Margin NIM has improved marginally

▲ NIM % (Reported)



Asset & Borrowings Growth Trend

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Disbursements	12377	13378	14157	13425	13799	9550	11959	12296	13120
Growth YoY %	26	65	35	24	11	-29	-16	14	6
AUM	86357	90964	96261	100972	104380	103818	104482	106343	108120
Growth YoY %	15	19	22	22	21	14	9	5	4
Borrowings	72978	77328	82131	85300	88202	89546	87968	90601	90593
Growth YoY %	37	39	48	19	21	16	7	6	3

Exhibit: AUM Growth %

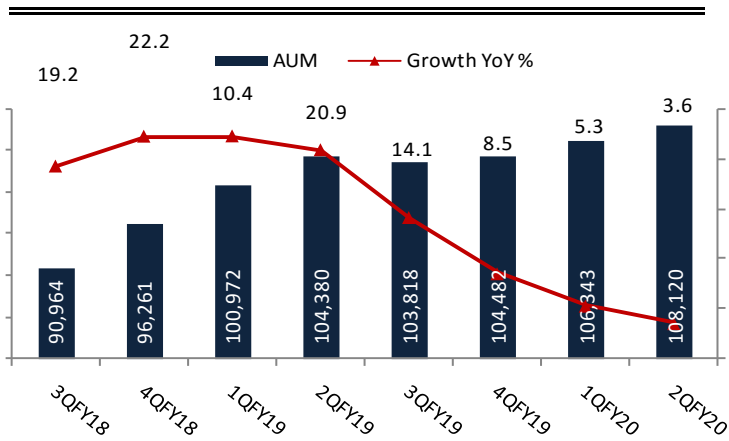
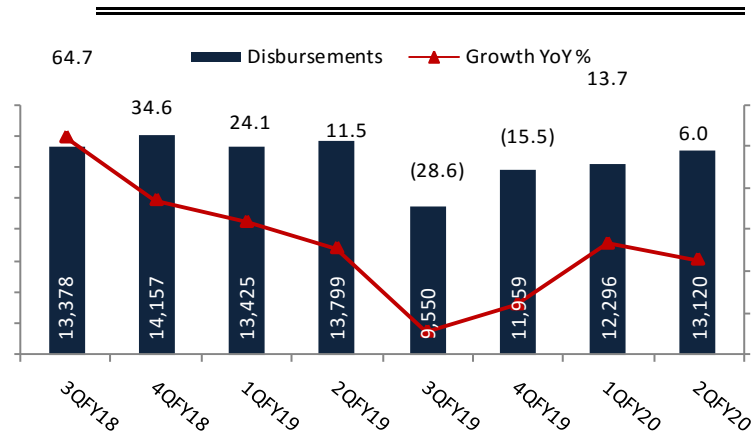


Exhibit: Disbursement Growth %



Asset Mix

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
HCVs	47.0	46.9	47.0	47.0	46.3	46.4	46.4	46.0	45.8
M&LCVs	20.6	20.7	20.6	20.7	21.0	21.6	22.0	22.5	22.9
Passenger Vehicles	24.1	23.6	23.2	23.3	23.2	22.9	22.5	22.6	22.6
Tractors	4.2	4.1	4.1	4.1	3.9	3.7	3.5	3.4	3.2
SEFCL Equipment Finance	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	2.6
Others	1.9	1.6	2.5	2.0	2.2	2.3	2.8	2.8	2.9

Asset Quality

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA	9,084	9,157	9,092	9,033	8,622	8,926	9,397	239	471
GNPA %	9.4	9.1	8.6	8.8	8.4	8.5	8.8	(0.3)	0.3
NNPA	5,989	5,839	5,979	5,846	5,655	6,085	6,380	541	295
NNPA %	6.2	6.1	6.0	5.9	5.5	6.0	6.2	0.0	0.2
Total Specific PCR %	34	36	34	35	34	32	32	(4)	0

Exhibit: Asset Quality

GNPA increased sequentially

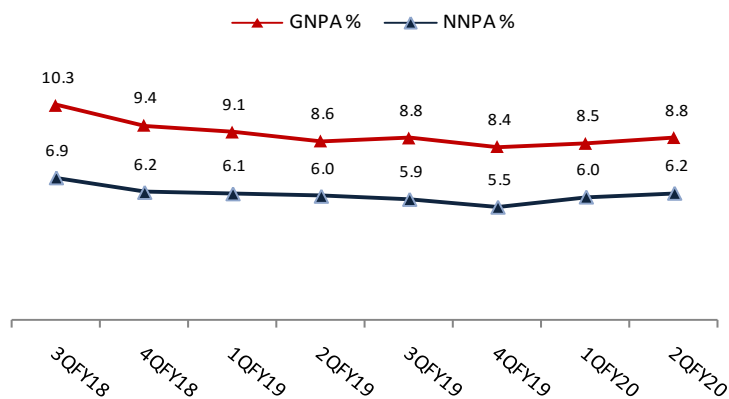


Exhibit: Provisions

PCR has Increased Marginally

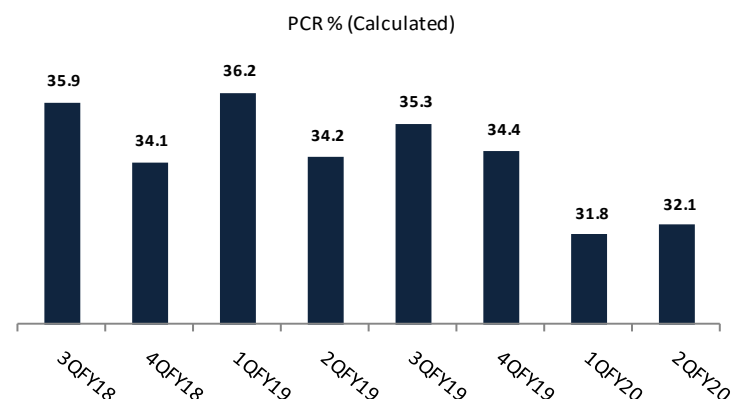


Exhibit: AUM Break Up

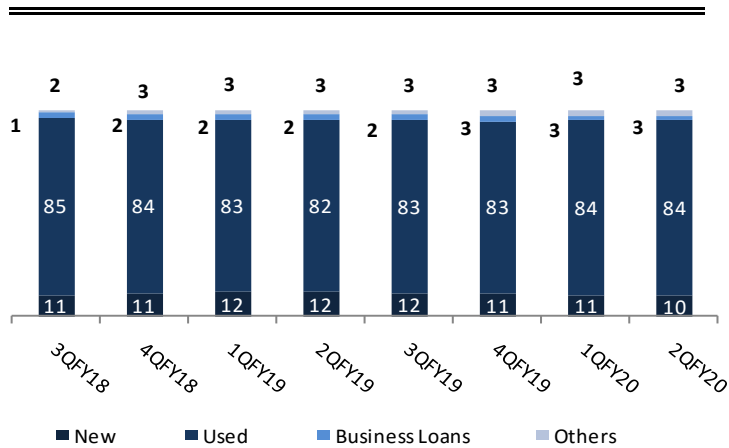
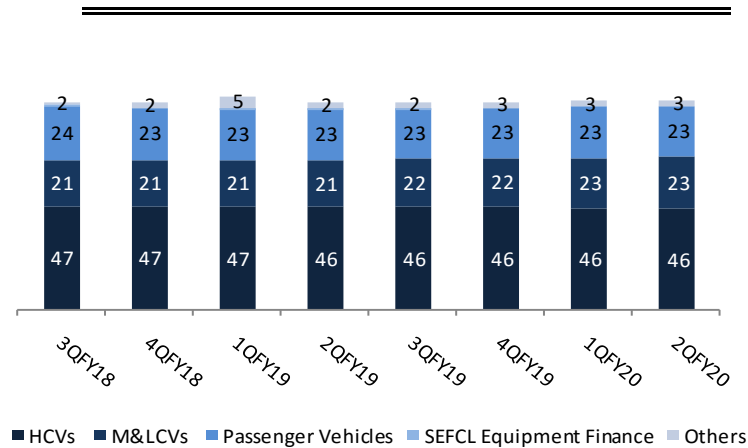


Exhibit: Portfolio Mix



Asset Quality

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Gross NPA (Stage 3)	9,434	9,084	9,157	9,092	9,033	8,622	8,926	9,397
Less: ECL Provisions (Stage 3)	3,389	3,095	3,318	3,113	3,187	2,967	2,841	3,017
Net NPA (Stage 3)	6,046	5,989	5,839	5,979	5,846	5,655	6,085	6,380
Coverage Ratio (%) Stage 3	36	34.1	36.2	34.2	35.3	34.4	31.8	32.1
Gross Stage 1 & 2	81,798	87620.1	91875.1	96172.6	93875	94358.5	95889.5	97405.7
ECL provision-Stage 1 & 2	2356	2365	2340.39	2604.26	2651	2604	2762	2766
Net Stage 1 & 2	79442.2	85255.1	89534.7	93568.3	91223.8	91754.8	93127.1	94639.3
ECL provision (%) Stage 1 & 2	2.9	2.7	2.6	2.7	2.8	2.8	2.9	2.8

Others

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Branch Offices	1121	1213	1230	1301	1348	1545	1585	1669
>> Rural	514	583	596	651	668	720	746	793
>> Urban	607	630	634	650	680	825	839	876

Exhibit: Provisions/Average AUM

Credit Cost

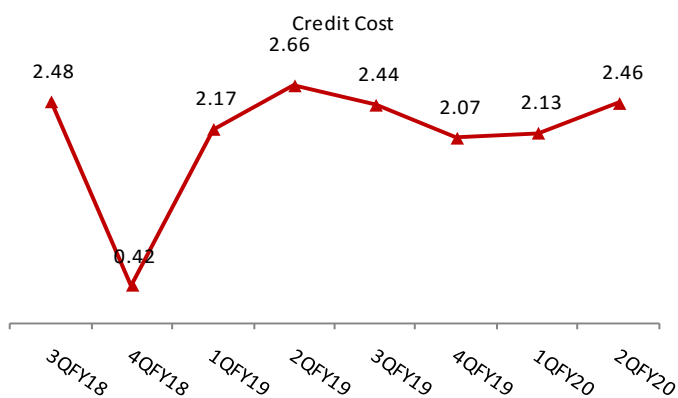
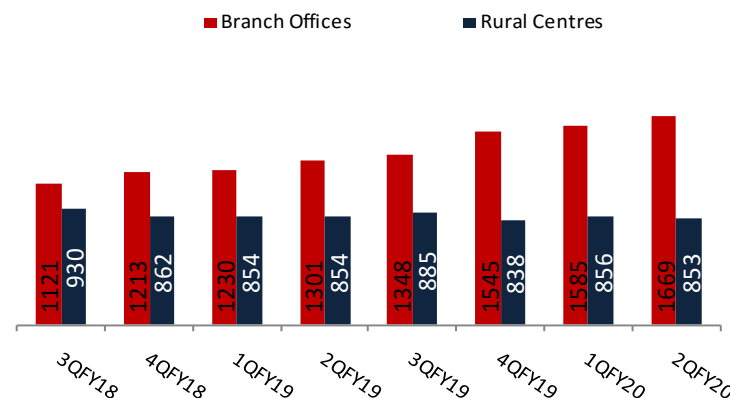


Exhibit: Branch

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	18,301	21,480
Networth	8,510	9,266	10,154	11,302	12,572	15,836	18,528	21,707
Change (%)	16	9	10	11	11	26	17	17
Total Borrowings	35,920	44,280	49,790	53,110	63,320	87,968	92190.3	96799.8
Change (%)	16	23	12	7	19	7	5	5
Provisions	1,565	1,984	3,352	4,291	5,876	133	140	147
Other Liabilities	3,477	3,825	4,667	5,707	6,702	1,355	1,477	1,551
Total Liabilities	49235.5	59327.2	67963.3	74410.3	88470.4	105292	112335	120204
Investments	2,725	3,327	1,356	1,549	1,480	3,999	4,388	4,608
Loans	38,898	50,764	63,770	67,840	82,740	96,751	101589	106669
Change (%)	14	31	26	6	22	7	5	5
Fixed Assets	101	101	101	84	120	147	155	163
Other Assets	426	412	372	496	493	413	434	455
Cash Balances	7,086	4,723	2,364	4,441	3,638	3,981	5,769	8,310
Total Assets	49235.5	59327.2	67963.3	74410.3	88470.4	105292	112335	120204

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	16,478	17,518
Interest expended	3,955	4,435	5,096	5,233	5,434	7,637	8,312	8,678
Net Interest Income	3,668	4,113	5,121	5,521	6,735	7,808	8,167	8,839
Change (%)	6	12	25	8	22	15	5	8
Other Income	145	71	76	76	248	101	131	114
Change (%)	(23)	(51)	8	(0)	227	(56)	30	(13)
Total Net Income	3,813	4,184	5,197	5,597	6,982	7,909	8,298	8,953
Change (%)	5	10	24	8	25	13	5	8
Operating Expenses	956	1,078	1,309	1,229	1,489	1,750	1,880	1,992
Change (%)	22	13	21	(6)	21	17	7	6
>> Employee Expenses	409	430	589	548	747	883	970	1,021
Change (%)	6	5	37	(7)	36	19	10	5
>> Other Expenses	518	608	684	647	705	824	805	909
Pre-provisioning Profit	2,857	3,105	3,888	4,368	5,494	6,158	6,418	6,961
Change (%)	(0)	9	25	12	26	12	4	8
Provisions	1,029	1,263	2,107	2,444	3,122	2,382	2,379	2,260
Change (%)	22	23	67	16	28	38	(0)	(5)
PBT	1,828	1,842	1,781	1,924	2,372	3,776	4,038	4,701
Tax	564	605	603	667	804	1,214	1,020	1,222
Profit After Tax	1,264	1,238	1,178	1,257	1,568	2,562	3,018	3,478
Change (%)	(7)	(2)	(5)	7	25	4	18	15
Adjusted Profit After Tax	1,264	1,238	1,178	1,257	1,568	2,562	3,018	3,478
Change (%)	(7)	(2)	(5)	7	25	4	18	15

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	109706	115192
>> Off-Book AUM	14204	8344	8991	10921	12566	7731	8117	8523
AUM Growth (%)	6.9	11.3	23.1	8.2	21.0	8.5	5.0	5.0
Borrowing Growth (%)	15.9	23.3	12.4	6.7	19.2	7.1	4.8	5.0
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	58223	68226
Disbursement Growth (%)	9.0	17.8	24.4	(6.7)	29.7	(3.9)	19.5	17.2
CRAR (%)	23	21	18	17	17	20	17	17
>> Tier 1 (%)	17.7	16.4	14.7	15.2	14.2	15.6	17.2	18.8
>> Tier 2 (%)	5.7	4.1	2.9	1.7	2.6	4.7	4.4	4.1
Debt/Equity(x)	4.3	4.8	4.9	4.7	5.0	5.6	5.0	4.5
Assets Quality Metrics								
Gross NPA (Rs)	1451	1894	3870	5408	7376	8622	9435	8985
Gross NPA (%)	3.9	3.8	6.2	8.2	9.2	8.4	8.6	7.8
Net NPA (Rs)	303	379	1144	1659	2131	5655	6416	6200
Net NPA (%)	0.8	0.8	1.9	2.7	2.8	5.7	5.8	5.4
Specific Provision Coverage (%)	79	80	70	69	71	34	32	31
Provision/Average Advances (%)	2.0	2.3	3.2	3.2	3.6	2.4	2.2	2.0

Margin Metrics

Yield On Advances (%)	14.8	15.2	15.5	14.2	14.0	15.4	15.4	15.6
Cost Of Funds (%)	11.8	11.1	10.8	10.2	9.3	9.0	9.2	9.2
Spread (%)	3.0	4.2	4.7	4.0	4.6	6.4	6.2	6.4
NIM on AUM (%)	7.1	7.3	7.8	7.3	7.7	7.8	7.6	7.9

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	51.9	51.9	49.9	48.7	44.7	49.4	50.4	49.5
Other Income/NII (%)	4.0	1.7	1.5	1.4	3.7	1.3	1.6	1.3
Operating Profit/Net Income (%)	74.9	74.2	74.8	78.0	78.7	77.9	77.3	77.7
Net Profit/Net Income (%)	33.2	29.6	22.7	22.5	22.5	32.4	36.4	38.9
Cost to Income (%)	25.1	25.8	25.2	22.0	21.3	22.1	22.7	22.3
Employee Exp/Net Income (%)	10.7	10.3	11.3	9.8	10.7	11.2	11.7	11.4
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	37.1	32.5
Tax Rate (%)	30.8	32.8	33.9	34.6	33.9	32.2	25.3	26.0

Valuation Ratio Metrics

EPS (Rs)	56	55	52	55	69	113	133	153
Change (%)	(7.1)	(2.1)	(4.8)	6.7	24.7	63	17.8	15.3
ROAE (%)	16.0	13.9	12.1	11.7	13.1	19.6	17.6	17.3
ROAA (%)	2.7	2.3	1.9	1.8	1.9	2.5	2.8	3.0
Dividend Payout (%)	14.7	17.2	22.5	19.5	19.1	12.8	9.9	8.6
Dividend yield (%)	1.1	0.8	1.1	0.8	0.9	0.9	1.0	1.0
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	817	957
Change (%)	16	9	10	11	11	26	17	17
P/B (X)	2.0	2.7	2.1	2.2	2.6	1.8	1.4	1.2
P/E (X)	13.7	20.4	18.4	19.5	20.8	11.3	8.4	7.3

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	16.3	15.7	16.1	15.1	14.9	15.3	15.1	15.1
<i>Interest expended</i>	8.4	8.2	8.0	7.4	6.7	7.5	7.6	7.5
<i>Net Interest Income</i>	7.8	7.6	8.0	7.8	8.3	7.7	7.5	7.6
<i>Non-Fund Based Income</i>	0.3	0.1	0.1	0.1	0.3	0.1	0.1	0.1
<i>Total Income</i>	8.1	7.7	8.2	7.9	8.6	7.8	7.6	7.7
<i>Total Operating Expenses</i>	2.0	2.0	2.1	1.7	1.8	1.7	1.7	1.7
<i>>> Employee Expenses</i>	0.9	0.8	0.9	0.8	0.9	0.9	0.9	0.9
<i>>> Other Expenses</i>	1.2	1.2	1.1	1.0	0.9	0.9	0.8	0.8
<i>Operating Profit</i>	6.1	5.7	6.1	6.1	6.7	6.1	5.9	6.0
<i>Provisions</i>	2.2	2.3	3.3	3.4	3.8	2.4	2.2	1.9
<i>Others</i>	-	-	-	-	-	-	-	-
<i>PBT</i>	3.9	3.4	2.8	2.7	2.9	3.7	3.7	4.0
<i>Tax</i>	1.2	1.1	0.9	0.9	1.0	1.2	0.9	1.1
<i>PAT/RoAA</i>	2.7	2.3	1.9	1.8	1.9	2.5	2.8	3.0
<i>Equity Multiplier (x)</i>	6.1	6.2	6.6	6.6	6.8	6.9	6.3	5.8
<i>ROAE</i>	16.3	14.1	12.2	11.7	13.1	17.4	17.6	17.3

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