

Industry  
Bloomberg  
BSE CODE

Financial  
SHTF IN  
511218

## Lower Provisioning Drives Profitability

RATING	BUY
CMP	1047
Price Target	1334
Potential Upside	27%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	1297/909
Mkt Capital (Rs Cr)	23766
Free float (%)	74%
Avg. Vol 1M (,000)	38
No. of Shares (Crs)	23
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	7808	8175	8951
PPP	6158	6424	7026
PAT	2562	3023	3471
NIM %	7.8	7.6	7.9
EPS (Rs)	113	133	153
EPS growth (%)	63	18	15
ROE (%)	17.4	17.6	17.3
ROA (%)	2.5	2.8	3.0
BV	698	817	957
P/B (X)	1.8	1.3	1.1
P/E (x)	11.3	7.9	6.8

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### 3QFY20 Result Update

- PAT has grown at a rate of 38% YoY mainly on the back of lower credit cost of 1.64%. NII has growth has remained steady on the back of steady AUM growth of 5%. The other expense has grown at the rate of 10% which lead to a slight rise in the C/I ratio sequentially to 23.88%. Management has guided the C/I ratio to remain in the range of 23-24% in spite of the conversion of rural centers into branches.
- NIM calculated declined to 7.69% v/s 7.71% QoQ. The yield has remained steady at 15.5% while the cost of the fund has marginally declined to 9.22% v/s 9.26% QoQ. The foreign borrowings raised are at a higher cost than the bonds though there has been a decline from 10.20% range the interest still stands at 9.7% range.
- AUM has grown at a rate of 5%/1% YoY/QoQ. The share of new vehicles stood at 9.6%, used stood at 85%, business loans stood at 2.4% & working capital loan stood at 2.9%.
- Management has guided for single digit growth numbers in FY21. The disbursement has grown at the rate of 11% with almost 93% share is of used vehicle segment.
- There has been a green shoot in the infrastructure, construction & Mining. Moderate revival in industrial activity post the good monsoon post has resulted in pick up of cement & steel as an industrial material. IIP number grew by 1.8% in November degrowth by 3.84% in October. Mining grew by 1.7% in November against the contraction of 8% in October. Manufacturing output stood at 2.7% in November 2.1% in October.
- The share of HCV has declined in the portfolio to 45.76% v/s 46.35% YoY while M&LCV has increased to 23.34% from 21.56% YoY, passenger vehicles has declined to 22.48% from 22.51% YoY while tractor declined to 3.06% from 3.70% YoY, working capital loan share has increased to 2.88% from 2.28% while business loan & other segment declined to 2.43% & 5 bps of the portfolio from 3.07% & 19 bps respectively.
- The GNPA has remained steady on a value basis. The GNPA % has declined to 8.71% from 8.80% while NNPA has declined to 6.09% from 6.15% QoQ. The PCR has remained stable at 32% sequentially. Credit cost has declined from 2.46% to 1.64% QoQ, management has optimistically guided to decline the credit cost to below 2% level.
- Total branches stood at 1714 with 831 Rural branches & 883 urban branches.
- The CRAR stood at 20.68% while tier 1 stood at 16.82%.

### View and Valuation

The growth remains muted on the back of sluggish economic condition, though there has been slight uptake in the month of November in the mining, infrastructure & construction segments. Management has cautiously declined the LTV & focus towards the used vehicle segment. Management has optimistically guided to decline the credit cost level to 2% or below it in FY21. The rural outlook is positive as the Kharif crop output has been at a 5 year high while good monsoon (LPA 110%) has increased reservoir level thus keeping us positive for the Rabi crop harvest. However, we remain cautious on the growth and asset quality front due to moderating economy growth, however the stock is trading at 1x P/B at FY21 which gives us comfort on the valuation front. We maintain our BUY rating at the previous target price of Rs 1334 at 1.4x BV FY21E.

### Key Risks to our rating and target

- Slowdown in auto industry will hamper the growth
- Rise in the number of repossession will affect credit cost.

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## Muted Growth

### 3QFY20 Results

### Above Our Expectations

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	3,968	3,845	4,001	4,113	4,133	4.2%	0.5%	12,168	13,271	9.1%
Interest Exp.	1,941	1,939	2,040	2,076	2,078	7.0%	0.1%	5,434	6,486	19.4%
NII	2,027	1,906	1,962	2,037	2,055	1.4%	0.9%	6,735	6,785	0.8%
Other Income	19	28	14	24	64	233.1%	166.8%	236	218	-7.5%
Total Income	2,053	1,941	1,989	2,080	2,142	4.4%	3.0%	6,982	7,015	0.5%
Ope Exp.	433	429	446	493	512	18.1%	3.9%	1,489	1,493	0.3%
PPP	1,620	1,512	1,543	1,588	1,631	0.7%	2.7%	5,494	5,523	0.5%
Provisions	636	540	561	661	444	-30.2%	-32.7%	3,122	1,722	-44.8%
PBT	984	972	982	927	1,186	20.6%	28.0%	2,372	3,801	60.2%
Tax	348	226	347	162	307	-12%	89.8%	804	1,341	66.9%
Extra Items	-	-	-	-	-	-	-	-	-	-
Net Profit	635	746	634	765	879	38.4%	14.9%	1,568	2,459	57%

### Concall Highlights

- HCV volumes have declined by 40% YoY basis whereas LCV growth was moderate at 15% YoY on the back of strong last year base. BSIV inventory level has declined on the back of higher discount which led to a delay in purchasing decisions by the consumer.
- Freight has remained stable for consumption and utilization based vehicles.
- SRTRANSFIN is majorly converting rural centers with more than 500 customers to branches. Management keeps around 1000 people under training, it recruit only fresher no lateral entry. C/I ratio to range in 21-23%.
- The pre-buying is expected to happen in 4QFY20, January month has not seen much of a pick-up. Post March BS-IV cannot be sold or registered. The price hike of 10-15% is expected with BSVI implementation which will further lead to a rise in the used vehicle prices.
- Fuel credit with HPCL & BPCL has reached 30000 outlets. Tyre credit is also being looked into with partnerships with fewer tyre majors. Both of the segment amounting to 1% of the total volumes.
- NIM was impacted on the back of high-cost borrowing costs and higher liquidity in the balance sheet.
- Credit cost guidance stood at 2% or below it. Stage 2 asset stood at 20.4% at Rs 21991 Cr.
- Loan growth guidance for FY21 is lower double-digit growth.
- In Jan SRTRANSFIN raised amounting 500\$ mn with 3.1 years maturity, the issuance was oversubscribed 4 times. The coupon rate stood at 5.1% while the landed cost will be around 9.6% v/s 10.20% prior. The retail deposit rate stood at 8.75% with a tenure of 3 years.
- Securitization stood at almost Rs 3000 Cr, Loans are written off during the quarter stood at Rs 530 Cr with recovery standing at Rs 85 Cr.
- 73-75% of the assets are of tenure of 5-10 years, up to 5-10% is more than 10 years while less than 4 years is around 21%.
- There has been no repossession in the used vehicle segment as the rural sentiments have improved.

## Profitability Matrix

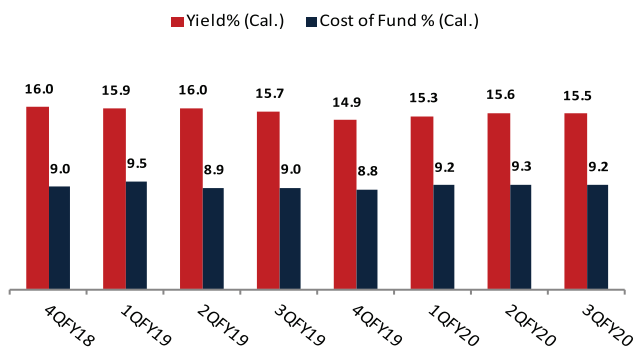
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	23.6	22.0	21.1	22.1	22.4	23.7	23.9	2.79	0.20
Empl. Cost/ Tot. Exp. %	51.6	50.8	51.2	47.6	52.2	50.9	49.8	-1.36	-1.02
Other Exp/Tot. Exp.%	46.1	46.9	46.3	49.7	40.3	41.9	43.1	-3.22	1.15
Provision/PPP %	37.7	42.1	39.3	35.7	36.4	41.6	27.3	-12.02	-14.36
Tax Rate %	35.1	35.1	35.4	23.3	35.4	17.5	25.9	-9.53	8.43
Int Exp./Int Inc. (%)	50.6	47.5	48.9	50.4	51.0	50.5	50.3	1.35	-0.21
Other Inc./NII %	0.6	1.2	1.3	1.8	1.4	2.1	4.2	2.94	2.10
PPP/ Net Income %	76.4	78.0	78.9	77.9	77.6	76.3	76.1	-2.79	-0.20
PAT/ Net Income %	30.9	29.3	30.9	38.4	31.9	36.8	41.0	10.09	4.26
NII Growth % (YoY)	19.6	24.6	16.1	2.8	6.6	(0.9)	1.4	-14.72	2.31
PPP Growth YoY %	16.5	22.6	17.3	(5.8)	9.1	(2.2)	0.7	-16.62	2.84
PAT Growth %	24.4	22.6	17.2	-22	10.9	25.5	38.4	21.15	12.93

## Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	15.9	16.0	15.7	14.9	15.3	15.6	15.5	-0.21	-0.11
Cost Of Funds	9.5	8.9	9.0	8.8	9.2	9.3	9.2	0.22	-0.04
Spreads	6.4	7.0	6.7	6.0	6.1	6.3	6.2	-0.42	-0.07
NIM	7.9	8.4	8.0	7.4	7.5	7.7	7.7	-0.31	-0.02

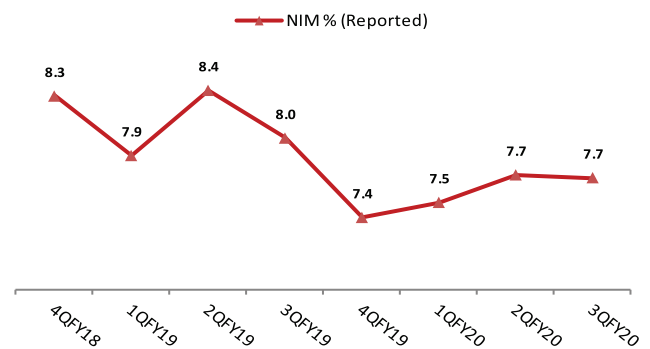
### Exhibit: Calculated Yield and Cost

Spreads has Declined Sequentially



### Exhibit: Net Interest Margin

NIM has Remained Stable Sequentially

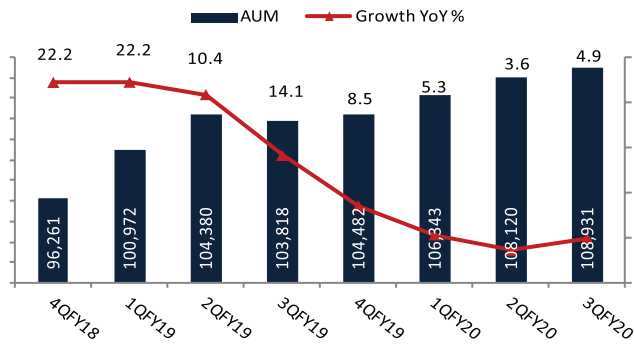


## Asset & Borrowings Growth Trend

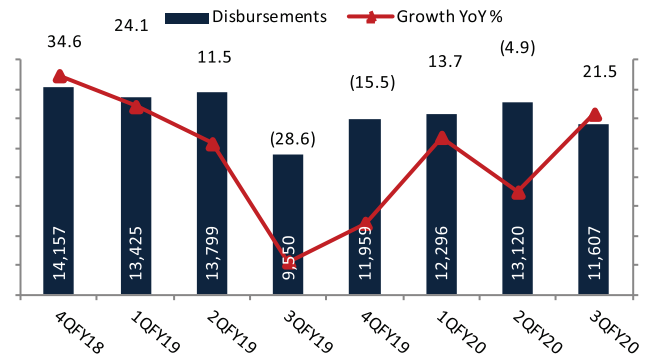
Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Disbursements	13378	14157	13425	13799	9550	11959	12296	13120	11607
Growth YoY %	65	35	24	11	-29	-16	14	-5	22
AUM	90964	96261	100972	104380	103818	104482	106343	108120	108931
Growth YoY %	19	22	22	21	14	9	5	4	5
Borrowings	77328	82131	85300	88202	89546	87968	90601	90593	91516
Growth YoY %	39	48	19	21	16	7	6	3	2

## Exhibit: AUM Growth %



## Exhibit: Disbursement Growth %



## Asset Mix

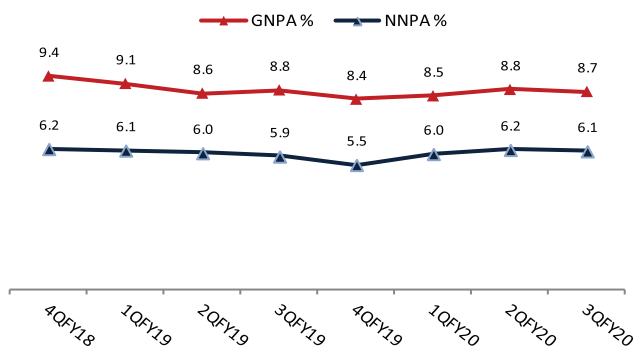
	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
HCVs	46.9	47.0	47.0	46.3	46.4	46.4	46.0	45.8	45.8
M&LCVs	20.7	20.6	20.7	21.0	21.6	22.0	22.5	22.9	23.3
Passenger Vehicles	23.6	23.2	23.3	23.2	22.9	22.5	22.6	22.6	22.5
Tractors	4.1	4.1	4.1	3.9	3.7	3.5	3.4	3.2	3.1
SEFCL Equipment Finance	0.7			0.2					
Business Loans	2.4	2.7	3.0	3.2	3.1	2.8	2.7	2.6	2.4
Working Capital Loans	1.6	2.5	2.0	2.2	0.2	2.8	2.8	2.9	0.1
Others					2.3				2.9

## Asset Quality

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA	9,157	9,092	9,033	8,622	8,926	9,397	9,392	300	(4)
GNPA %	9.1	8.6	8.8	8.4	8.5	8.8	8.7	0.1	(0.1)
NNPA	5,839	5,979	5,846	5,655	6,085	6,380	6,375	395	(5)
NNPA %	6.1	6.0	5.9	5.7	6.0	6.2	6.1	0.1	(0.1)
Total Specific PCR %	36	34	35	34	32	32	32	(2)	0

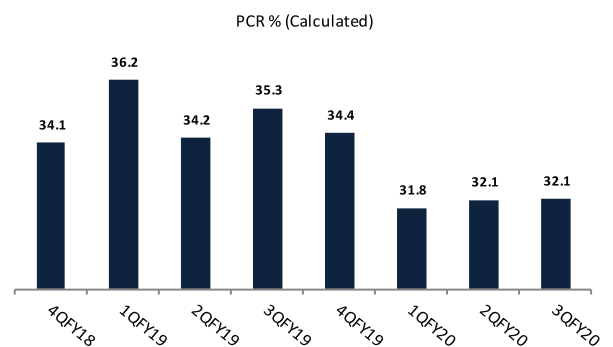
## Exhibit: Asset Quality

GNPA has remained Stable

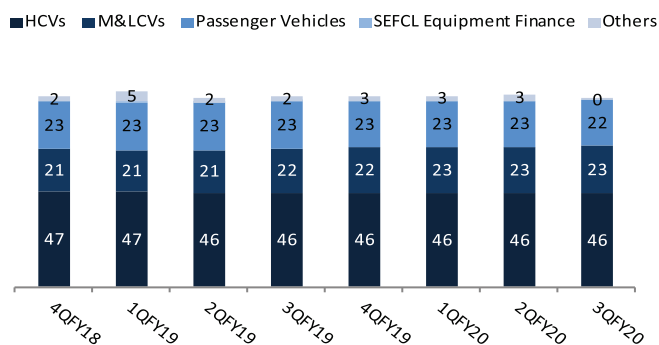


## Exhibit: Provisions

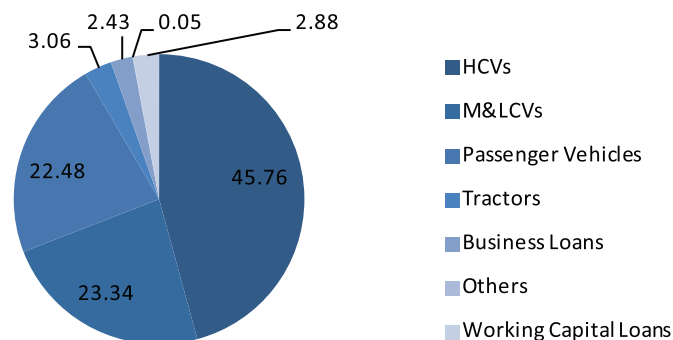
PCR has Remained Stable



## Exhibit: AUM Break Up



## Exhibit: Portfolio Mix



## Asset Quality

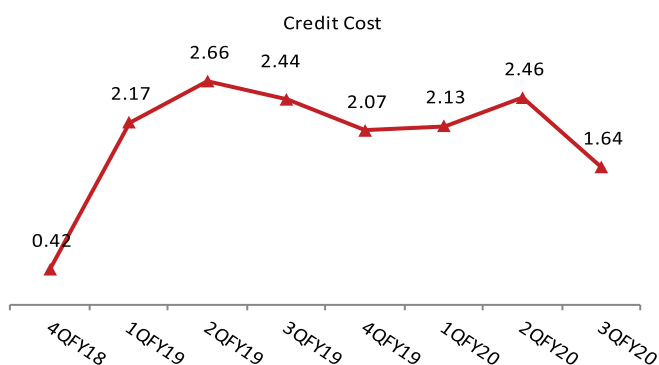
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Gross NPA (Stage 3)	9,084	9,157	9,092	9,033	8,622	8,926	9,397	9,392
Less: ECL Provisions (Stage 3)	3,095	3,318	3,113	3,187	2,967	2,841	3,017	3,018
Net NPA (Stage 3)	5,989	5,839	5,979	5,846	5,655	6,085	6,380	6,375
Coverage Ratio (%) Stage 3	34	36.2	34.2	35.3	34.4	31.8	32.1	32.1
Gross Stage 1 & 2	87,620	91,875	96,173	93,875	94,358	95,889	97,406	98,385
ECL provision-Stage 1 & 2	2,365	2,340	2,604.3	2,651.1	2,604	2,762	2,766	2,679
Net Stage 1 & 2	85,255	89,535	93,568	91,224	91,755	93,127	94,639	95,706
ECL provision (%) Stage 1 & 2	2.7	2.6	2.7	2.8	2.8	2.9	2.8	2.7

## Others

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Branch Offices	1213	1230	1301	1348	1545	1585	1669	1714
Rural	583	596	651	668	720	746	793	831
Urban	630	634	650	680	825	839	876	883

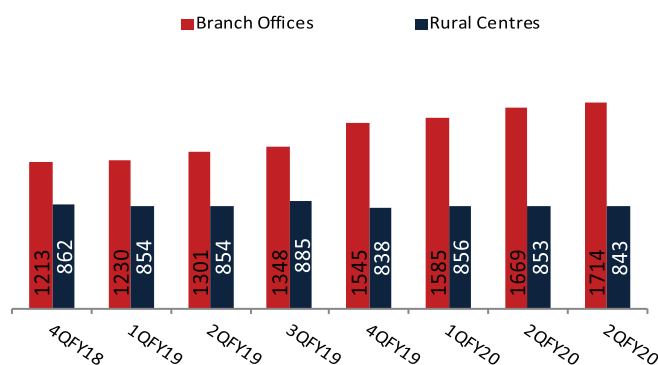
## Exhibit: Provisions/Average AUM

Credit Cost has Declined



## Exhibit: Branch

Branch increased



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>227</b>	<b>227</b>	<b>227</b>	<b>227</b>	<b>227</b>	<b>227</b>	<b>227</b>	<b>227</b>
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	18,306	21,478
<b>Networth</b>	<b>8,510</b>	<b>9,266</b>	<b>10,154</b>	<b>11,302</b>	<b>12,572</b>	<b>15,836</b>	<b>18,533</b>	<b>21,705</b>
Change (%)	16	9	10	11	11	26	17	17
Total Borrowings	35,920	44,280	49,790	53,110	63,320	87,968	91422	96907
Change (%)	16	23	12	7	19	7	4	6
Provisions	1,565	1,984	3,352	4,291	5,876	133	139	147
Other Liabilities	3,477	3,825	4,667	5,707	6,702	1,355	1,465	1,553
<b>Total Liabilities</b>	<b>49235</b>	<b>59327</b>	<b>67963</b>	<b>74410</b>	<b>88470</b>	<b>105292</b>	<b>111558</b>	<b>120311</b>
Investments	2,725	3,327	1,356	1,549	1,480	3,999	4,388	4,652
Loans	38,898	50,764	63,770	67,840	82,740	96,751	101589	107684
Change (%)	14	31	26	6	22	7	5	6
Fixed Assets	101	101	101	84	120	147	155	164
Other Assets	426	412	372	496	493	413	434	460
Cash Balances	7,086	4,723	2,364	4,441	3,638	3,981	4,992	7,352
<b>Total Assets</b>	<b>49235</b>	<b>59327</b>	<b>67963</b>	<b>74410</b>	<b>88470</b>	<b>105292</b>	<b>111558</b>	<b>120311</b>

### Income Statement

Fig in Rs Cr

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	16,474	17,620
Interest expended	3,955	4,435	5,096	5,233	5,434	7,637	8,298	8,669
Net Interest Income	3,668	4,113	5,121	5,521	6,735	7,808	8,175	8,951
Change (%)	6	12	25	8	22	15	5	15
Other Income	145	71	76	76	248	101	188	126
Change (%)	(23)	(51)	8	(0)	227	(56)	86	25
Total Net Income	3,813	4,184	5,197	5,597	6,982	7,909	8,363	9,077
Change (%)	5	10	24	8	25	13	6	15
Operating Expenses	956	1,078	1,309	1,229	1,489	1,750	1,939	2,051
Change (%)	22	13	21	(6)	21	17	11	17
Employee Expenses	409	430	589	548	747	883	984	1,035
Change (%)	6	5	37	(7)	36	19	11	17
Other Expenses	518	608	684	647	705	824	833	953
Pre-provisioning Profit	2,857	3,105	3,888	4,368	5,494	6,158	6,424	7,026
Change (%)	(0)	9	25	12	26	12	4	14
Provisions	1,029	1,263	2,107	2,444	3,122	2,382	2,349	2,335
Change (%)	22	23	67	16	28	38	(1)	(2)
PBT	1,828	1,842	1,781	1,924	2,372	3,776	4,074	4,691
Tax	564	605	603	667	804	1,214	1,051	1,220
Profit After Tax	1,264	1,238	1,178	1,257	1,568	2,562	3,023	3,471
Change (%)	(7)	(2)	(5)	7	25	4	18	36
Adjusted Profit After Tax	1,264	1,238	1,178	1,257	1,568	2,562	3,023	3,471
Change (%)	(7)	(2)	(5)	7	25	4	18	36

## Financial Details

### Key Ratios

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Balance Sheet Metrics</b>								
AUM	53102	59108	72761	78761	95306	104482	109706	116289
Off-Book AUM	14204	8344	8991	10921	12566	7731	8117	8604
AUM Growth (%)	6.9	11.3	23.1	8.2	21.0	8.5	5.0	6.0
Borrowing Growth (%)	15.9	23.3	12.4	6.7	19.2	7.1	3.9	6.0
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	50188	68863
Disbursement Growth (%)	9.0	17.8	24.4	(6.7)	29.7	(3.9)	3.0	37.2
CRAR (%)	23	21	18	17	17	20	17	17
Tier 1 (%)	17.7	16.4	14.7	15.2	14.2	15.6	17.3	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	4.9	4.5
<b>Assets Quality Metrics</b>								
Gross NPA (Rs)	1451	1894	3870	5408	7376	8622	9435	9071
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	6259
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	2.1
<b>Margin Metrics</b>								
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	9.3	9.2
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	7.6	7.9
<b>Profitability &amp; Efficiency Metrics</b>								
Int. Expense/Int.Income (%)	51.9	51.9	49.9	48.7	44.7	49.4	50.4	49.2
Other Income/NII (%)	4.0	1.7	1.5	1.4	3.7	1.3	2.3	1.4
Operating Profit/Net Income (%)	74.9	74.2	74.8	78.0	78.7	77.9	76.8	77.4
Net Profit/Net Income (%)	33.2	29.6	22.7	22.5	22.5	32.4	36.1	38.2
Cost to Income (%)	25.1	25.8	25.2	22.0	21.3	22.1	23.2	22.6
Employee Exp/Net Income (%)	10.7	10.3	11.3	9.8	10.7	11.2	11.8	11.4
Cost on Average Assets (%)	2.0	2.0	2.1	1.7	1.8	1.7	1.8	1.8
Provision/PPP (%)	36.0	40.7	54.2	56.0	56.8	38.7	36.6	33.2
Tax Rate (%)	30.8	32.8	33.9	34.6	33.9	32.2	25.8	26.0
<b>Valuation Ratio Metrics</b>								
EPS (Rs)	56	55	52	55	69	113	133	153
Change (%)	(7.1)	(2.1)	(4.8)	6.7	24.7	63	18.0	14.8
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	1.1	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	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	1.3	1.1
P/E (X)	13.7	20.4	18.4	19.5	20.8	11.3	7.9	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	15.2	15.2
Interest expended	8.4	8.2	8.0	7.4	6.7	7.5	7.7	7.5
<b>Net Interest Income</b>	<b>7.8</b>	<b>7.6</b>	<b>8.0</b>	<b>7.8</b>	<b>8.3</b>	<b>7.7</b>	<b>7.5</b>	<b>7.7</b>
Non-Fund Based Income	0.3	0.1	0.1	0.1	0.3	0.1	0.2	0.1
Total Income	8.1	7.7	8.2	7.9	8.6	7.8	7.7	7.8
Total Operating Expenses	2.0	2.0	2.1	1.7	1.8	1.7	1.8	1.8
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	0.9	0.9
Operating Profit	6.1	5.7	6.1	6.1	6.7	6.1	5.9	6.1
Provisions	2.2	2.3	3.3	3.4	3.8	2.4	2.2	2.0
Others	-	-	-	-	-	-	-	-
PBT	3.9	3.4	2.8	2.7	2.9	3.7	3.8	4.0
Tax	1.2	1.1	0.9	0.9	1.0	1.2	1.0	1.1
<b>PAT/RoAA</b>	<b>2.7</b>	<b>2.3</b>	<b>1.9</b>	<b>1.8</b>	<b>1.9</b>	<b>2.5</b>	<b>2.8</b>	<b>3.0</b>
Equity Multiplier (x)	6.1	6.2	6.6	6.6	6.8	6.9	6.3	5.8
<b>ROAE</b>	<b>16.3</b>	<b>14.1</b>	<b>12.2</b>	<b>11.7</b>	<b>13.1</b>	<b>17.4</b>	<b>17.6</b>	<b>17.3</b>



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