

## SHRIRAM TRANSPORT FINANCE

Industry **BANKING**  
 Bloomberg **SHTF IN**  
 BSE Code **511218**  
 NSE Code **SRTRANSFIN**

Monday, September 03, 2018

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>1339</b>
<b>Price Target</b>	<b>1649</b>
<b>Previous Target</b>	<b>1809</b>
<b>Potential Upside</b>	<b>23%</b>

## Stock Info

52wk Range H/L	1670/969
Mkt Capital (Rs Cr)	30441
Free float (%)	74%
Avg. Vol 1M (,000)	1453
No. of Shares (Crore)	23
Promoters Pledged %	

## Strong loan growth and Disbursement

## Key Highlights

- ☑ AUM growth has regained momentum after the GST effect, efficiency increased by about 25-30%. Overall commercial vehicle industry has registered a growth of 51% during the quarter while LCV, Used & Tractor segment continues to perform well. 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.
- ☑ Provision still stands at 71% as per IGAAP norms going ahead we expect provisioning to decline to the range of 55-60% under INDAS norms.
- ☑ The shift to IND-AS has positively impacted the net worth by Rs 900 Cr by 1QFY19. PAT has increased by 6% largely due to lower credit cost.
- ☑ Hardening of bond yield has led to increase in the borrowing cost. NIM has declined by 7 bps to 7.44%. However management is confident of maintaining NIM going ahead.

## 1Q FY19 Result:

SRTRANSFIN reported strong 1QFY19 numbers. NII grew by 20% YoY backed by strong 24% growth of AUM. Total income has grown by 20% while operating expenditure has grown by 30% YoY, which resulted in rise of cost to income (C/I) ratio to 24% from 22% YoY. Provision percentage to the AUM has decreased to 2.17% from 2.53% YoY. Provision has grown at the rate of 4% YoY. Operating profit grew at 16% YoY and PAT grew at 24% YoY. Total Gross stage 3 stood at 8.78% Cr, Net stage 2.74% and Stage 3 provision coverage stood at 36.24%. CAR stood at 17.06% as at 1QFY19.

## 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. IND-AS transition has been positive, SRTRANSFIN net worth has positive impact by Rs 1000 Cr. PCR is around 71% and management expect it to be in the range of 55-60% under IND-AS which will significantly reduce the credit cost to 2% going ahead. Due to continuous rise in bond yield, cost of fund has increased, thus NIM has come under pressure. However management expect the NIM to maintain at current level. Group exposure to SVL has been classified as standard assets under IND AS. We believe uncertainty over AXLE norm and SVL exposure will have impact on stock performance in near term. Further rising bond yield gives us concern over the NIM. Hence we reduce our PAT estimate for FY20 by 5% and also reduce the target price to Rs 1649 at 2.1x P/BV FY20e. We maintain BUY.

## Key Risks to our rating and target

- ◆ Bad monsoon and slowdown in infrastructure activity would impact AUM growth.
- ◆ Significant increase in cost of fund to rising bond yield.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	5121	5521	6735	7775	9120
PPP	3888	4368	5494	5996	7047
PAT	1178	1257	1568	2417	2966
NIM %	7.8	7.3	7.7	7.4	7.3
EPS (Rs)	52	55	69	107	131
EPS growth (%)	-4.8	6.7	24.7	54.1	22.7
ROE (%)	12.1	11.7	13.1	17.2	17.5
ROA (%)	1.9	1.8	1.9	2.3	2.3
BV	448	498	554	687	804
P/B (X)	2.1	2.2	2.6	1.7	1.4
P/E (x)	18.4	19.5	20.8	10.7	8.7

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1Q FY 19 Results  
In line

## Healthy Income Growth

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	3,108	2,948	3,067	3,277	3,726	19.9%	13.7%	10,755	12,168	13.1%
Interest Exp.	1,569	1,315	1,358	1,470	1,851	18.0%	26.0%	5,233	5,434	3.8%
NII	1,539	1,632	1,709	1,808	1,875	21.8%	3.7%	5,521	6,735	22.0%
Other Income	10	30	19	168	6	-35.9%	-96.2%	69	236	240.3%
Total Income	1,549	1,665	1,731	1,979	1,885	21.7%	-4.8%	5,597	6,982	24.8%
Ope Exp.	335	349	383	419	472	41.0%	12.6%	1,229	1,489	21.1%
PPP	1,214	1,316	1,349	1,560	1,413	16.4%	-9.4%	4,368	5,494	25.8%
Provisions	511	588	585	1,367	533	4.3%	-61.0%	2,444	3,122	27.7%
PBT	704	728	763	193	880	25.0%	355.0%	1,924	2,372	23.3%
Tax	244	249	268	49	310	27.1%	535.9%	667	804	20.6%
Extraordinary	-	-	-	-	-			-	-	
Net Profit	460	479	496	145	570	23.8%	294.0%	1,257	1,568	24.7%

### Marginal decline in NIMs

NII growth has been strong at 20% YoY, backed by AUM growth of 24% YoY & disbursement growth of also 24% YoY. NIM has declined by 8 bps QoQ to 7.44% level in 1QFY19. The yield on advances has decreased by 21 bps YoY to 15.20% while the cost of funds has increased by 12 bps YoY to 9.20% as at 1QFY19 which has resulted in spread compression to 6% from 6.33% in 1QFY18. With the hardening of bond yield incremental borrowing cost may rise further. However, management is confident that the margins will remain protected.

### Rise in C/I ratio

Cost to income ratio has increased to 24% with the rise in employee and other expenses. Employee expense has risen at 37% as number of employee has increased to 24,533 (including 15,356 field executives) in Q1 FY19 against 20,489 in Q1 FY18. Other expenses have increased due to rise in number of branches to 1230 from 918 in 4QFY18. Operating profit has grown at 16% YOY while operating expenses has grown at 30% yoy. PAT has grown 24% yoy.

### Loan Book Growth

Loan book growth was strong at 24%, comprising of 47% in HCVs, 21% in M&LCVs, 23% in Passenger vehicles, tractors at 4.1%, Equipment finance at 0.4% and others standing at 4.9%. Disbursement has grown at 24% yoy. Development in the rural economy has increased the demand of LCV and used vehicles. The share of New Vehicle portfolio stands at 12%, Used vehicle at 83%, Business loans is at 3% and together working capital and others portfolio stood at less than 2%. Management has guided to maintain the portfolio mix going ahead. Securitization has remained at 18% of the total AUM. Management has guided for 18-20% AUM growth in the year FY19.

### Asset Quality

Gross Stage 3 stands at Rs 9157 Cr, Net stage 3 stands at Rs 5839 Cr and ECL Stage 3 provision stands at Rs 3318 Cr. GNPA as per IGAAP stands at 8.98% while 2.74% as at 1QFY19. Management has guided to reduce GNPA to 8.5% by 4QFY19 from like to like basis of 9.5% in 4QFY18 as per I-GAAP. PCR ratio as per IGAAP stands at 71%.

### Concall

- ✓ Yield is affected due to rising share of new vehicle demand in this quarter. Going ahead with the implementation of new axle norms new vehicle demand may get affected.
- ✓ AUM growth to remain between 18-20% throughout the year.
- ✓ Though Removal of Border check post has improved efficiency but the rise in fuel prices have offset the incurred benefits.
- ✓ Cumulative disbursement is at Rs13425 Cr, while New Vehicle is at Rs 1936 Cr, Used vehicle is at Rs 10955 Cr and Business loan is at Rs 534 Cr.
- ✓ With the scrapage policy extension to 20 year vehicle, the resale value of old vehicle is likely to increase.
- ✓ Due to new axle norms new vehicle demand may get affected.
- ✓ In Stage 1 – 78% of Asset is present with 2% provisioning, In Stage 2- 9% of Asset is present with 4.5% provision, Stage 3 - 13% of asset is present with 34% provisioning.
- ✓ New tie up with HPCL to provide fuel credit, SRTRANSFIN intends to target 1 lakh customer by Jun,19.

# SHRIRAM TRANSPORT FINANCE

## Profitability Matrix

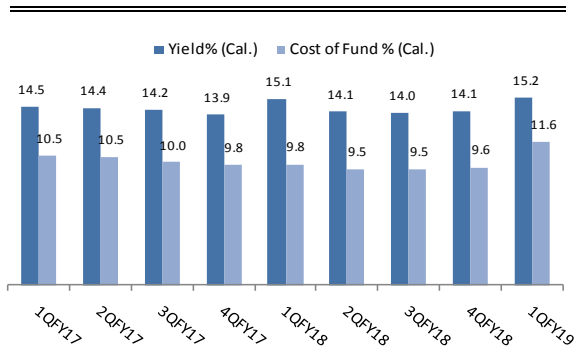
	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY(+/-)	QoQ(+/-)
C/I Ratio %	20.3	20.3	21.6	20.9	22.1	21.2	23.6	1.99	2.41
Empl. Cost/ Tot. Exp. %	44.8	43.5	49.0	47.1	47.2	49.1	51.6	2.57	2.45
Other Exp./Tot. Exp.%	52.3	53.8	48.6	50.3	50.4	48.5	46.1	-2.42	-2.31
Provision/PPP %	53.6	79.8	42.1	44.7	43.4	87.6	37.7	-4.36	-49.92
Tax Rate %	34.7	35.2	34.7	34.2	35.1	25.2	35.1	0.42	9.90
Int Exp./Int Inc. (%)	47.7	47.6	50.5	44.6	44.3	44.8	50.6	0.16	5.81
Other Inc./NII %	0.2	0.2	0.1	0.3	0.2	1.2	0.1	0.00	-1.13
PPP/ Net Income %	79.7	79.7	78.4	79.1	77.9	78.8	76.4	-1.99	-2.41
PAT/ Net Income %	24.2	10.4	29.7	28.8	28.6	7.3	30.9	1.22	23.58
NII Growth % (YoY)	8.6	(2.4)	16.4	20.6	21.1	28.3	19.6	3.19	-8.73
PPP Growth YoY %	15.0	6.4	18.1	25.0	18.4	36.6	16.5	-1.61	-20.10
PAT Growth %	(7.9)	4.0	22.8	23.6	43.5	(3.4)	24.4	1.57	27.79

## Margin Performance

Margin %	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY(+/-)	QoQ(+/-)
Yield on Advances	14.2	13.9	15.1	14.1	14.0	14.1	15.2	0.06	1.05
Cost Of Funds	10.0	9.8	9.1	9.5	9.5	9.6	11.6	2.53	2.03
Spreads	4.2	4.1	6.3	4.7	4.5	4.5	3.6	-2.73	-0.97
NIM	7.5	7.3	7.4	7.8	7.8	7.8	7.5	0.09	-0.30

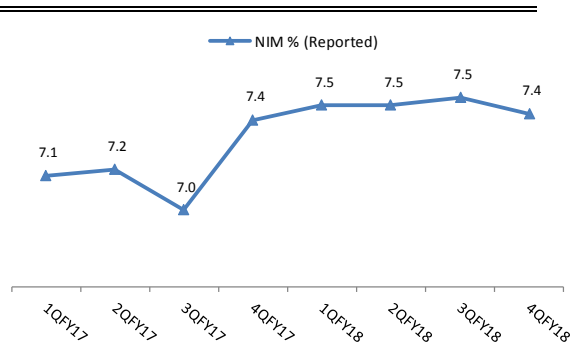
### Exhibit: Yield and Cost

Stable Margins



### Exhibit: Net Interest Margin

NIM has remained stable



## Asset & Borrowings Growth Trend

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Disbursements	10663	9800	8121	10517	10818	12377	13378	14157	13425
Growth YoY %	0	3	-23	-17	1	26	65	35	24
AUM	74808	75323	76281	78761	81612	85463	90019	95306	100978
Growth YoY %	24	19	15	8	9	13	18	21	24
Borrowings	50950	51830	51130	53110	55650	55680	59120	63320	85300
Growth YoY %	15	13	7	7	9	7	16	19	53

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Exhibit: AUM Growth %

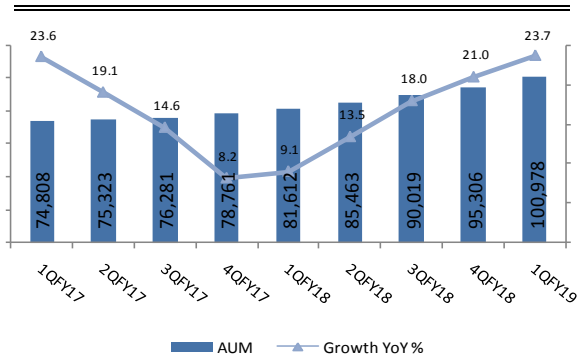
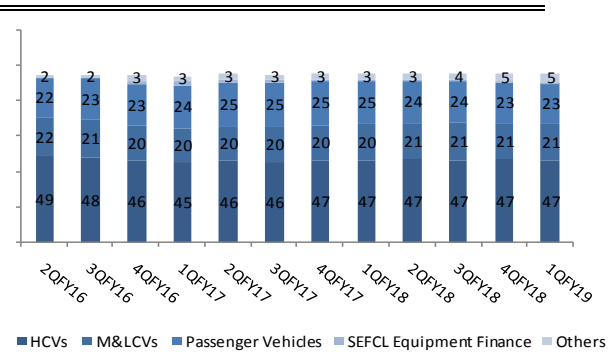


Exhibit: AUM portfolio Mix



## Borrowing Mix

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
HCVs	45	46	46	47	47	47	47	47	47
M&LCVs	20	20	20	20	20	21	21	21	21
Passenger Vehicles	24	25	25	25	25	24	24	23	23
Tractors	6	4	5	5	4	4	4	4	4
SEFCL Equipment Finance	2	2	2	1	1	1	1	1	0
Others	3	3	3	3	3	3	4	5	5
Total	100	100	100	100	100	100	100	100	100

## Asset Quality

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY(+/-)	QoQ(+/-)
GNPA (Rs in Cr)	4,306	5,408	5,549	5,773	6,046	7,376	7,459	34%	1%
GNPA %	6.6	8.2	8.0	8.1	8.0	9.2	9.0	1.0	-0.17
NNPA (Rs in Cr)	1,058	1,659	1,620	1,655	1,751	2,131	2,132	32%	0%
NNPA %	1.7	2.7	2.5	2.5	2.5	2.8	2.7	0.25	-0.09
Specific PCR %	75.4	69.3	70.8	71.3	71.0	71.1	71.4	0.61	0.31

Exhibit: Asset Quality

Shift to 90 dpd

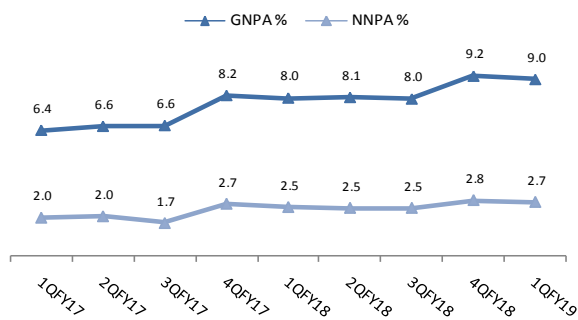
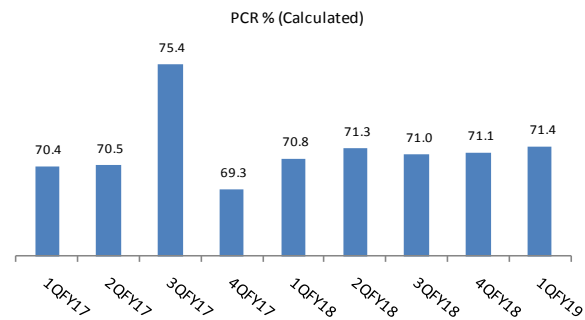


Exhibit: Provisions

Healthy PCR



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	esv	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	15,358	18,025
<b>Networth</b>	<b>7,337</b>	<b>8,510</b>	<b>9,266</b>	<b>10,154</b>	<b>11,302</b>	<b>12,572</b>	<b>15,585</b>	<b>18,252</b>
Change (%)	21.6	16.0	8.9	9.6	11.3	11.2	24.0	17.1
Total Borrowing	31,000	35,920	44,280	49,790	53,110	63,320	97,719	113,375
Change (%)	34.1	15.9	23.3	12.4	6.7	19.2	54.3	16.0
Provisions	1,420	1,565	1,984	3,352	4,291	5,876	1,270	1,701
Other Liability	4,843	3,477	3,825	4,667	5,707	6,702	3,804	4,983
<b>Total Liabilities</b>	<b>44,458</b>	<b>49,235</b>	<b>59,327</b>	<b>67,963</b>	<b>74,410</b>	<b>88,470</b>	<b>118,378</b>	<b>138,310</b>
Investments	3,569	2,725	3,327	1,356	1,549	1,480	2,629	2,940
Loans	33,978	38,898	50,764	63,770	67,840	82,740	110,528	129,318
Change (%)	30	14	31	26	6	22	34	17
Fixed Assets	60	101	101	101	84	120	139	149
Other Assets	531	426	412	372	496	493	718	840
Cash Balances	6,319	7,086	4,723	2,364	4,441	3,638	4,364	5,062
<b>Total Assets</b>	<b>44,458</b>	<b>49,235</b>	<b>59,327</b>	<b>67,963</b>	<b>74,410</b>	<b>88,470</b>	<b>118,378</b>	<b>138,310</b>

### 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	16,043	18,965
Interest expended	2,911	3,955	4,435	5,096	5,233	5,434	8,268	9,844
<b>Net Interest Income</b>	<b>3,459</b>	<b>3,668</b>	<b>4,113</b>	<b>5,121</b>	<b>5,521</b>	<b>6,735</b>	<b>7,775</b>	<b>9,120</b>
Change (%)	7.2	6.0	12.1	24.5	7.8	22.0	15.4	17.3
Other Income	189	145	71	76	76	248	50	59
Change (%)	46.8	(22.8)	(51.4)	7.8	(0.4)	227.0	(79.9)	18.3
<b>Total Net Income</b>	<b>3,647</b>	<b>3,813</b>	<b>4,184</b>	<b>5,197</b>	<b>5,597</b>	<b>6,982</b>	<b>7,825</b>	<b>9,179</b>
Change (%)	9	5	10	24	8	25	12	17
Operating Expenses	786	956	1,078	1,309	1,229	1,489	1,829	2,132
Change (%)	10	22	13	21	(6)	21	23	17
Employee Expenses	385	409	430	589	548	747	942	1,102
Change (%)	4.0	6.3	5.1	37.1	(6.9)	36.2	26.2	16.9
Other Expenses	383	518	608	684	647	705	847	975
<b>Pre-provisioning Profit</b>	<b>2,861</b>	<b>2,857</b>	<b>3,105</b>	<b>3,888</b>	<b>4,368</b>	<b>5,494</b>	<b>5,996</b>	<b>7,047</b>
Change (%)	8.3	(0.1)	8.7	25.2	12.3	25.8	9.1	17.5
Provisions	845	1,029	1,263	2,107	2,444	3,122	2,276	2,484
Change (%)	10.9	21.8	22.7	66.8	16.0	27.7	(27.1)	9.2
PBT	2,016	1,828	1,842	1,781	1,924	2,372	3,720	4,563
Tax	656	564	605	603	667	804	1,303	1,597
<b>Profit After Tax</b>	<b>1,361</b>	<b>1,264</b>	<b>1,238</b>	<b>1,178</b>	<b>1,257</b>	<b>1,568</b>	<b>2,417</b>	<b>2,966</b>
Change (%)	8.2	(7.1)	(2.1)	(4.8)	6.7	24.7	54.1	22.7
<b>Adjusted Profit</b>	<b>1,361</b>	<b>1,264</b>	<b>1,238</b>	<b>1,178</b>	<b>1,257</b>	<b>1,568</b>	<b>2,417</b>	<b>2,966</b>
Change (%)	8.2	(7.1)	(2.1)	(4.8)	6.7	24.7	54.1	22.7

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Balance Sheet Metrics</b>								
AUM	49,676	53,102	59,108	72,761	78,761	95,306	115,797	135,483
Off Book AUM	15,698	14,204	8,344	8,991	10,921	12,566	5,269	6,164
AUM Growth (%)	23.5	6.9	11.3	23.1	8.2	21.0	21.5	17.0
Borrowing Growth (%)	34.1	15.9	23.3	12.4	6.7	19.2	54.3	16.0
Loan to Borrowing Ratio (%)	1.1	1.1	1.1	1.3	1.3	1.3	1.1	1.1
Disbursement	26,233	28,600	33,700	41,919	39,100	50,730	62,386	73,604
Disbursement Growth	35	9	18	24	(7)	30	23	18
CRAR (%)	20.6	23.4	20.5	17.6	16.9	16.9	17.4	17.4
>> Tier 1 (%)	-	17.7	16.4	14.7	15.2	14.2	12.5	12.0
>> Tier 2 (%)	-	5.7	4.1	2.9	1.7	2.6	1.1	0.9
Debt-Equity ratio	4.3	4.3	4.8	4.9	4.7	5.0	6.3	6.2
<b>Assets Quality Metrics</b>								
Gross NPA	1,025	1,451	1,894	3,870	5,408	7,376	8,169	8,434
Gross NAP (%)	3.2	3.9	3.8	6.2	8.2	9.2	8.5	7.5
Net NPA	242	303	379	1,144	1,659	2,131	5,228	5,229
Net NPA (%)	0.8	0.8	0.8	1.9	2.7	2.8	5.4	4.7
Specific Provision Coverage (%)	76.4	79.1	80.0	70.5	69.3	71.1	36.0	38.0
Provision/Average Advances (%)	1.9	2.0	2.3	3.2	3.2	3.6	2.2	2.0

### Margin Metrics

Yield On Aum (%)	14.2	14.8	15.2	15.5	14.2	14.0	15.2	15.1
Cost Of Funds (%)	10.8	11.8	11.1	10.8	10.2	9.3	10.3	9.3
Spread (%)	3.4	3.0	4.2	4.7	4.0	4.6	4.9	5.8
NIM (%)	7.7	7.1	7.3	7.8	7.3	7.7	7.4	7.3

### Profitability & Efficiency Metrics

Int. Expended/Int. Earned (%)	46	52	52	50	49	45	52	52
Other Income/NIH (%)	5	4	2	1	1	4	1	1
Operating Profit/ Net Income (%)	78	75	74	75	78	79	77	77
Net Profit/Net Income (%)	37	33	30	23	22	22	31	32
Cost to Income (%)	22	25	26	25	22	21	23	23
Employee Exp/ Net Income (%)	11	11	10	11	10	11	12	12
Cost on Average Assets (%)	2	2	2	2	2	2	2	2
Provisions/PPP (%)	30	36	41	54	56	57	38	35
Tax Rate (%)	33	31	33	34	35	34	35	35

### Valuation Ratio Metrics

EPS (Rs)	60	56	55	52	55	69	107	131
Change (%)	7.9	(7.1)	(2.1)	(4.8)	6.7	24.7	54.1	22.7
ROAE (%)	20.4	16.0	13.9	12.1	11.7	13.1	17.2	17.5
ROAA (%)	3.4	2.7	2.3	1.9	1.8	1.9	2.3	2.3
Dividend Payout (%)	13.7	14.7	17.2	23.1	19.5	19.1	12.4	10.1
Dividend yield (%)	0.6	0.6	0.4	0.7	0.6	0.5	0.5	0.5
Dividend Per Share	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	687	804
Change (%)	21.3	16.0	8.9	9.6	11.3	11.2	24.0	17.1
P/B (X)	2.2	2.0	2.7	2.1	2.2	2.6	1.7	1.4
P/E (X)	11.6	13.7	20.4	18.4	19.5	20.8	10.7	8.7

## Financial Details

### Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	16.3	15.7	16.1	15.1	14.9	15.5	14.8
Interest expended	8.4	8.2	8.0	7.4	6.7	8.0	7.7
Net Interest Income	7.8	7.6	8.0	7.8	8.3	7.5	7.1
Other Income	0.3	0.1	0.1	0.1	0.3	0.0	0.0
Total Income	8.1	7.7	8.2	7.9	8.6	7.6	7.2
Total Operating Expenses	2.0	2.0	2.1	1.7	1.8	1.8	1.7
>> Employee Expenses	0.9	0.8	0.9	0.8	0.9	0.9	0.9
>> Other Expenses	1.2	1.2	1.1	1.0	0.9	0.9	0.8
Operating Profit	6.1	5.7	6.1	6.1	6.7	5.8	5.5
Provisions	2.2	2.3	3.3	3.4	3.8	2.2	1.9
Others	-	-	-	-	-	-	-
PBT	3.9	3.4	2.8	2.7	2.9	3.6	3.6
Tax	1.2	1.1	0.9	0.9	1.0	1.3	1.2
PAT/RoA	2.7	2.3	1.9	1.8	1.9	2.3	2.3
>> Equity Multiplier (x)	6.1	6.2	6.6	6.6	6.8	7.3	7.6
RoE	16.3	14.1	12.2	11.7	13.1	17.2	17.5

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