

# Shriram Transport Finance Co.

**BUY**

<b>INDUSTRY</b>	<b>NBFCs</b>
<b>CMP (as on 23 Jan 2015)</b>	<b>Rs 1,080</b>
<b>Target Price</b>	<b>Rs 1,248</b>
Nifty	8,836
Sensex	29,279

**KEY STOCK DATA**

Bloomberg/Reuters	SHTF IN/SRTR.BO
No. of Shares (mn)	227
MCap (Rs bn) / (\$ mn)	245 / 3,980
6m avg traded value (Rs mn)	711

**STOCK PERFORMANCE (%)**

<b>52 Week high / low</b>	<b>Rs 1,224 / 549</b>		
	3M	6M	12M
Absolute (%)	16.8	22.9	74.8
Relative (%)	7.8	11.0	37.8

**SHAREHOLDING PATTERN (%)**

Promoters	26.05
FIs & Local MFs	7.27
FIIIs	48.07
Public & Others	18.61

Source : BSE

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## RoA improvement imminent

*SHTF's core earnings (+11% YoY) and operating profits (+9% YoY) were in line with estimates. However, higher provisions (ann. 2.3%) led to the PAT (+3% YoY) coming in marginally below estimates. Key positives include third consecutive quarter of NIM improvement, stable asset quality and improving growth trends.*

*SHTF is at the inflexion point and remains the preferred play on the anticipated CV cycle revival. Further positives are improving macros, falling interest rates and a better earning profile of its borrowers. We thus expect SHTF's RoA to inch back to +3.1% from 2.5/2.9% in FY15E/14. Niche business segment (used CVs), higher market share and a well cushioned B/S (CRAR: 21% & PCR: 80%) too provide comfort. Maintain BUY with a TP of Rs 1,248 (2.3x FY17E ABV).*

- Led by a sharp pick-up in disbursements (+40/10% YoY/QoQ), SHTF's AUM grew ~6.7/2.5% YoY/QoQ to Rs 570bn. Used CV segment (91% of AUM) grew 14% YoY, while the new CV portfolio continued its downward

trajectory (down 32/8% YoY/QoQ). Management hinted at a gradual pick up in business, initially led by HCVs (41% of the AUM). With a pick-up in macros, favorable base & +25% market share in used vehicles, we believe SHTF is well placed to deliver a ~14% AUM CAGR over FY14-17E.

- Sharp decline in funding cost and a marginal pick-up in business led to the NIM improvement (6.6%, 4bps QoQ and 18bps FYTD). As 56% of the borrowings are floating in nature and are expected to be re-priced in FY16, SHTF's CoF would further drive a NIM expansion. **With a fixed nature of its asset book, we expect NIMs to improve by ~80bps (FY14-17E) to 7.2%.**
- Asset quality was stable with GNPA increasing a mere 6% QoQ to Rs 17.8bn (3.6%). Coverage improved QoQ to 80% and thus NNPA increased by a mere 2% to Rs 3.6bn (0.74%). We believe a gradual improvement in macros and the fall in diesel prices augurs well for SHTF's borrowers; thus, we expect an improving asset quality trend going ahead. **We factor GNPA of 3.7% over FY15-17E. With a higher coverage ratio, SHTF is one of the better placed CV financiers for a gradual transmission to 90-days NPA recognition.**

FINANCIAL SUMMARY (Rs mn)	3QFY15	3QFY14	YoY (%)	2QFY15	QoQ (%)	FY14	FY15E	FY16E	FY17E
Net Interest Income	10,524	9,347	12.6	10,067	4.5	36,499	42,025	49,059	56,879
PPOP	7,973	7,276	9.6	7,661	4.1	30,059	33,765	39,490	45,479
PAT	3,125	3,026	3.3	3,022	3.4	12,642	12,445	16,960	20,866
EPS (Rs)	13.8	13.3	3.3	13.3	3.4	55.7	54.8	74.7	92.0
ROAE (%) (ex revaluations)						16.3	14.14	16.87	17.89
ROAA (%)						2.89	2.48	2.88	3.12
Adj. BVPS (Rs)						351	393	455	537
P/ABV (x)						3.07	2.75	2.38	2.01
P/E (x)						19.4	19.7	14.4	11.7

Source: Company, HDFC sec Inst Research

HDFC securities Institutional Research is also available on Bloomberg HSLB &lt;GO&gt; &amp; Thomson Reuters

- With marginal rise in GNPA and improvement in PCR to ~80%, SHTF's provisions increased ~9% to Rs 3.3bn (ann. 2.3%). With expected improvement in macros and pick up in business, **we have factored an LLP of 2.2% over FY14-17E vs 2.2% in FY14.**
- With the gradual improvement in macros coupled with reduction in interest rates and better health of

its borrowers, we expect SHTF to report a sharp improvement in RoA to +3% from the current levels of 2.7%. Improvement in RoA is expected to be driven by higher growth trajectory (14% CAGR), NIM improvement (80bps) and decline in credit costs.

**FIVE QUARTER AT A GLANCE**

(Rs mn)	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	YoY Growth	QoQ Growth
Net Interest Income	9,347	9,124	9,646	10,067	10,524	12.6%	4.5%
Non Interest Income	379	242	266	169	151	-60.3%	-10.7%
Operating income	9,726	9,367	9,912	10,236	10,675	9.8%	4.3%
Operating expenses	2,450	2,467	2,515	2,575	2,702	10.3%	4.9%
Pre provision profits	7,276	6,900	7,398	7,661	7,973	9.6%	4.1%
Provisions and contingencies	2,997	2,458	2,966	3,154	3,269	9.1%	3.6%
PBT	4,279	4,442	4,432	4,506	4,704	9.9%	4.4%
Provision for Tax	1,254	1,493	1,368	1,484	1,580	26.0%	6.4%
PAT	3,026	2,950	3,064	3,022	3,125	3.3%	3.4%
<b>Other details</b>							
<b>Balance Sheet items</b>							
AUM	533.8	531.0	543.6	556.2	569.8	6.7%	2.4%
<i>Pre owned</i>	452.1	465.5	480.9	496.6	516.1	14.2%	3.9%
<i>New</i>	69.9	62.5	56.3	52.2	47.8	-31.5%	-8.4%
<i>On Books</i>	379.2	364.7	404.8	442.0	489.0	29.0%	10.6%
<i>Off Books</i>	154.6	166.3	138.7	114.3	80.8	-47.7%	-29.3%
Borrowings	362	359	364	407	438	21.2%	7.8%
<b>Profitability (calculated)</b>							
Yield on Advances (%)	14.7	14.4	14.5	15.3	15.5	80 bps	27 bps
Cost of Funds (%)	11.5	11.1	10.9	11.3	10.7	-79 bps	-58 bps
Spreads	3.2	3.3	3.6	3.9	4.8	158 bps	86 bps
NIM (%)	6.5	6.5	6.5	6.6	6.6	13 bps	4 bps
Cost-Income ratio (%)	25.2	26.3	25.4	25.2	25.3	12 bps	15 bps
Tax rate (%)	29.3	33.6	30.9	32.9	33.6	428 bps	64 bps
<b>Asset quality</b>							
Gross NPA (Rs mn)	13,872	14,505	15,466	16,745	17,797	28.3%	6.3%
Net NPA (Rs mn)	2,817	3,029	3,135	3,492	3,561	26.4%	2.0%
Gross NPAs (%)	3.6	3.9	3.7	3.7	3.6	3 bps	-15 bps
Net NPAs (%)	0.8	0.8	0.8	0.8	0.7	-1 bps	-6 bps
Coverage ratio (%)	79.7	79.1	79.7	79.1	80.0	30 bps	84 bps

Driven by 13bps NIM improvement and 7% AUM growth

LLP elevated at 2.3% as PCR improves

HCV and M&LCV form ~70% of AUM. Used Vehicle forms ~91%

Borrowing growth was much higher compared to AUM growth

Third consecutive qtr of NIM improvement

Asset quality no major deterioration; PCR remains elevated

CHANGE IN ESTIMATES (Rs mn)	FY15E			FY16E		
	Old	New	Change	Old	New	Change
NII	41,877	42,025	0.4%	48,532	49,059	1.1%
PPOP	33,859	33,765	-0.3%	39,036	39,490	1.2%
PAT	13,128	12,445	-5.2%	17,197	16,960	-1.4%
Adj. BVPS (Rs)	398	393	-1.3%	464	455	-2.0%

Source: HDFC sec Inst Research

**AUM growth of 7% YoY driven by pre-owned segment**

**New CV AUM decreased by 31/8% YoY/QoQ; forms ~ 8% of AUM**

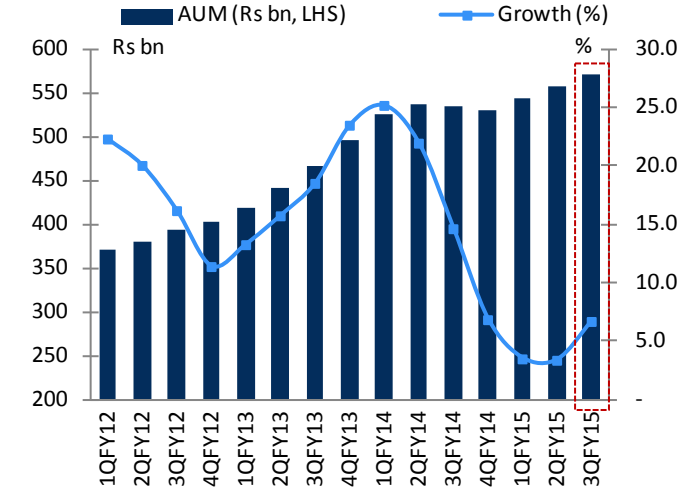
**Off-balance sheet book declines ~ 48/29% YoY/QoQ**

**Mgmt hinted for 10/15% AUM growth in FY15/16**

**We expect 14% CAGR over FY14-17E.**

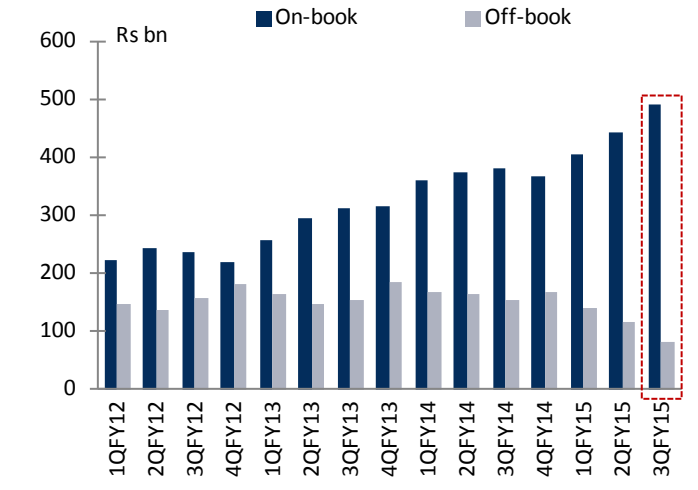
**HCV and M&LCV continue to form major proportion of AUM**

**AUM growth further improves 7%**



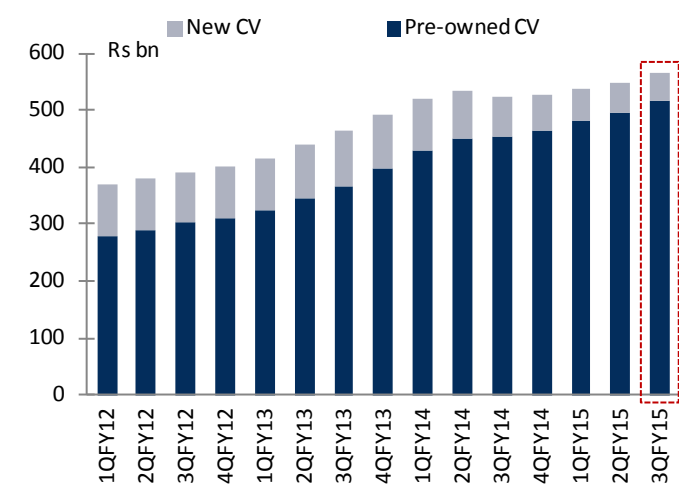
Source : Company

**Led by on-book segment (86% of AUM)**



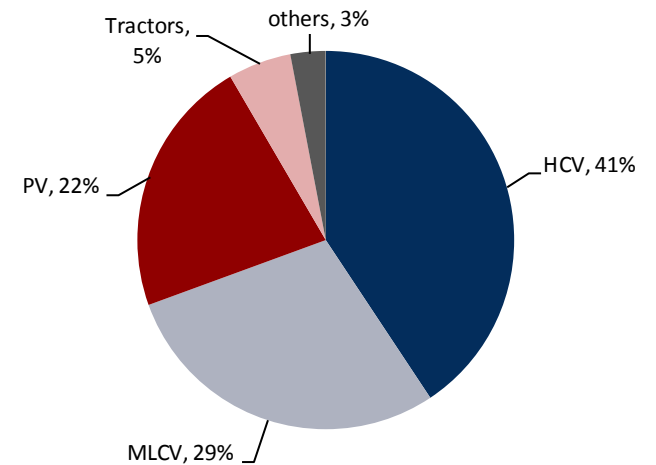
Source : Company

**Pre-owned vehicles form ~91% of AUM**



Source : Company

**AUM Break Up**



Source : Company, HDFC sec Inst Research

**Lower bond borrowings cost led to NIL securitization during the qtr**

**Rs 30bn worth of AUM expected to be securitized in 4Q**

**Third consecutive qtr of NIM improvement**

**NIM marginally improved QoQ to 6.64%**

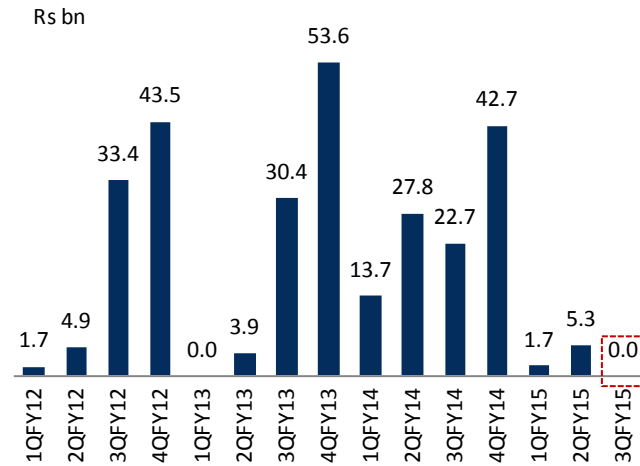
**We expect calc. NIMs to improve to 7.2% over FY14-17E**

**Coverage ratio maintained at 80%**

**GNPA & NNPA ratios decline QoQ**

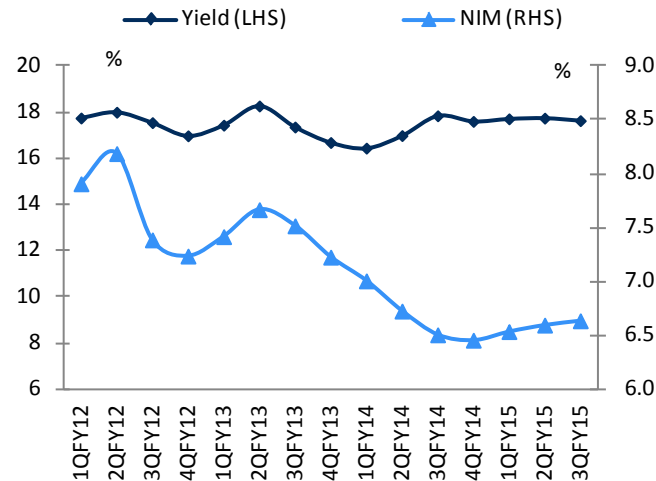
**We have factored GNPA at 3.7% for FY16-17E**

**Securitisation : no deals in 3Q**



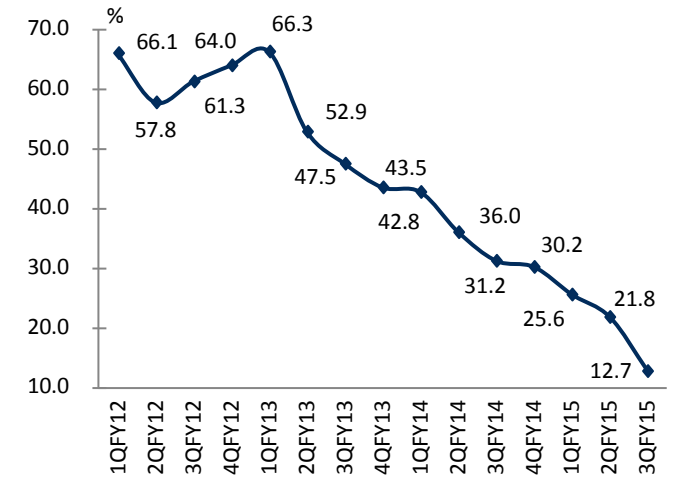
Source : Company

**NIM improvement continues**



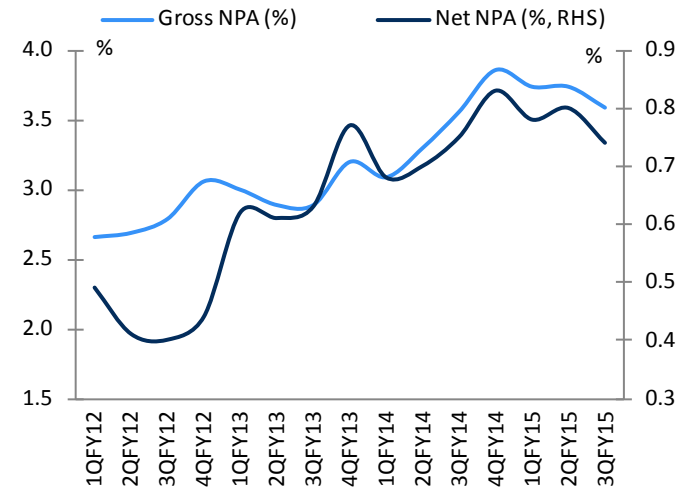
Source : Company

**Securitisation income at 13% of NII**



Source : Company

**GNPA up 8% QoQ to 3.7% of AUM**



Source : Company

**PEER VALUATIONS**

NBFC	CMP (Rs)	Mcap (Rs bn)	Reco	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
				FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
LICHF	486	245	BUY	149	177	208	17.7	14.6	12.3	3.26	2.75	2.34	18.02	19.77	19.99	1.43	1.48	1.47
MMFS	252	142	NEU	80	99	115	16.1	12.7	10.3	3.04	2.45	2.12	15.85	17.81	19.14	2.51	2.74	2.85
SCUF	1,990	131	BUY	627	732	853	21.7	16.9	14.0	3.17	2.72	2.33	16.96	16.99	17.66	3.36	3.63	3.65
<b>SHTF</b>	<b>1,080</b>	<b>245</b>	<b>BUY</b>	<b>393</b>	<b>455</b>	<b>537</b>	<b>19.7</b>	<b>14.4</b>	<b>11.7</b>	<b>2.75</b>	<b>2.38</b>	<b>2.01</b>	<b>14.14</b>	<b>16.87</b>	<b>17.89</b>	<b>2.48</b>	<b>2.88</b>	<b>3.12</b>

Source : Company, HDFC sec Inst Research

**INCOME STATEMENT**

(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Interest Earned	63,278	73,084	85,424	98,770	113,427
Interest Expended	26,520	36,586	43,399	49,711	56,547
<b>Net Interest Income</b>	<b>36,758</b>	<b>36,499</b>	<b>42,025</b>	<b>49,059</b>	<b>56,879</b>
Other Income	2,358	2,851	2,522	2,900	2,971
<b>Total Income</b>	<b>39,116</b>	<b>39,349</b>	<b>44,548</b>	<b>51,959</b>	<b>59,850</b>
Total Operating Exp	10,262	9,290	10,783	12,469	14,371
<b>PPOP</b>	<b>28,854</b>	<b>30,059</b>	<b>33,765</b>	<b>39,490</b>	<b>45,479</b>
Provisions & Contingencies	8,692	11,779	15,051	13,987	14,102
<b>PBT</b>	<b>20,162</b>	<b>18,280</b>	<b>18,714</b>	<b>25,503</b>	<b>31,377</b>
Provision for Tax	6,556	5,638	6,269	8,544	10,511
<b>PAT</b>	<b>13,606</b>	<b>12,642</b>	<b>12,445</b>	<b>16,960</b>	<b>20,866</b>

Source: Company, HDFC sec Inst Research

**BALANCE SHEET**

(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
<b>SOURCES OF FUNDS</b>					
Share capital	2,269	2,269	2,269	2,269	2,269
Reserves and surplus	69,679	80,463	91,050	105,477	123,227
Shareholders' funds	71,947	82,732	93,319	107,746	125,496
Long term debt	190,530	227,121	268,003	319,014	343,719
Current maturity of long term debt	78,025	102,266	120,674	143,643	154,767
Short term debt	41,469	29,859	35,234	41,940	45,188
Total debt	310,024	359,246	423,910	504,597	543,675
Long term Liabilities, provs	28,077	22,587	23,697	25,767	28,712
<b>Total</b>	<b>410,048</b>	<b>464,566</b>	<b>540,926</b>	<b>638,110</b>	<b>697,882</b>
<b>APPLICATION OF FUNDS</b>					
Fixed Assets & WIP	601	1,007	940	1,005	1,109
Non current investments	7,625	7,822	9,166	10,190	11,394
Current investments	29,766	20,375	23,431	25,774	28,996
Cash and cash equivalents	63,193	70,860	15,070	13,920	22,668
Loans and advances	343,538	388,882	517,305	613,368	661,529
Other current assets	772	800	840	882	926
Total current assets (ex-cash)	30,538	21,175	24,271	26,656	29,922
Other current Liabilities	38,284	27,691	28,336	29,540	31,252
<b>Net Current Assets</b>	<b>(7,746)</b>	<b>(6,517)</b>	<b>(4,066)</b>	<b>(2,884)</b>	<b>(1,330)</b>
Deferred tax assets	2,838	2,512	2,512	2,512	2,512
<b>Total Assets</b>	<b>410,049</b>	<b>464,566</b>	<b>540,926</b>	<b>638,110</b>	<b>697,882</b>

Source: Company, HDFC sec Inst Research

**KEY RATIOS**

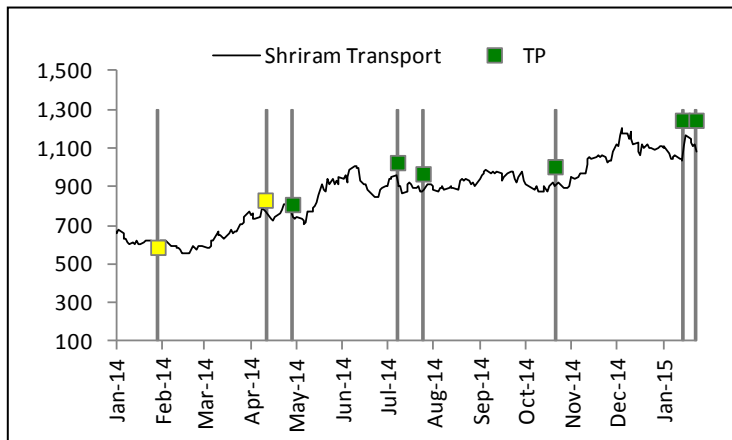
	FY13	FY14	FY15E	FY16E	FY17E
<b>VALUATION RATIOS</b>					
EPS	60.0	55.7	54.8	74.7	92.0
Earnings Growth (%)	8.7	(7.1)	(1.6)	36.3	23.0
BVPS (ex reval.)	317.1	364.6	411.3	474.8	553.1
Adj. BVPS (ex reval. & 100% cover)	306.5	351.3	393.0	454.6	536.7
ROAA (%)	3.7	2.9	2.5	2.9	3.1
ROAE (%)	20.6	16.3	14.1	16.9	17.9
P/E (x)	18.0	19.4	19.7	14.4	11.7
P/ABV (x)	3.5	3.1	2.7	2.4	2.0
P/PPOP (x)	8.5	8.2	7.3	6.2	5.4
Dividend Yield (%)	0.6	0.6	0.6	0.9	1.1
<b>PROFITABILITY</b>					
Yield on Advances (%)	16.3	17.3	17.5	17.1	17.1
Cost of Funds (%)	9.8	10.9	11.1	10.8	10.5
Core Spread (%)	6.5	6.3	6.4	6.3	6.6
NIM (%)	7.0	6.4	6.9	7.2	7.2
<b>OPERATING EFFICIENCY</b>					
Cost/Avg. Asset Ratio (%)	2.5	2.0	2.0	2.0	2.1
Cost-Income Ratio	20.7	24.1	23.7	23.5	23.5
<b>BALANCE SHEET STRUCTURE RATIOS</b>					
Loan Growth (%)	23.5	6.9	8.7	15.0	18.5
Borrowing Growth (%)	34.1	15.9	18.0	17.0	17.0
Equity/Assets (%)	16.0	16.8	16.4	16.1	17.2
Equity/Loans (%)	20.9	21.3	18.0	17.6	19.0
Total Capital Adequacy Ratio (CAR)	20.7	23.4	19.6	18.8	18.3
Tier I CAR	16.0	16.8	16.0	15.7	15.6

	FY13	FY14	FY15E	FY16E	FY17E
<b>ASSET QUALITY</b>					
Gross NPLs (Rsm)	10,254	14,505	18,403	21,614	23,287
Net NPLs (Rsm)	2,416	3,029	4,150	4,592	3,718
Gross NPLs (%)	3.2	3.9	3.8	3.7	3.7
Net NPLs (%)	0.8	0.8	0.8	0.8	0.6
Coverage Ratio (%)	76.4	79.1	77.5	78.8	84.0
Provision/Avg. AUM (%)	1.9	2.2	2.6	2.1	1.8
<b>ROAA TREE</b>					
Net Interest Income	10.03	8.35	8.36	8.32	8.51
Non Interest Income	0.64	0.65	0.50	0.49	0.44
Operating Cost	2.80	2.12	2.14	2.12	2.15
Provisions	2.37	2.69	2.99	2.37	2.11
Tax	1.79	1.29	1.25	1.45	1.57
ROAA	3.71	2.89	2.48	2.88	3.12
Leverage (x)	5.56	5.65	5.71	5.86	5.73
ROAE	20.63	16.35	14.14	16.87	17.89

Source: Company, HDFC sec Inst Research



**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
30-Jan-14	616	NEU	582
11-Apr-14	782	NEU	830
30-Apr-14	745	BUY	812
8-Jul-14	908	BUY	1,029
28-Jul-14	885	BUY	971
22-Oct-14	900	BUY	1,008
15-Jan-15	1,034	BUY	1,248
27-Jan-15	1,080	BUY	1,248

**Rating Definitions**

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

## INSTITUTIONAL RESEARCH

**Disclosure:**

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