

July 30, 2018

Shriram Transport Finance Company

Q1FY19 Result Update

Robust AUM growth AUM grew 22% YoY from 825.9bn to 1009.8bn on the back of strong 48% YoY growth in new vehicles from 81.8bn to 121.4bn, aggressive 148% YoY growth in business loans from 11.9bn to 29.7bn, 55% YoY growth in working capital loans from 12.2bn to 18.9bn and 17% YoY growth in used segment from 719.5bn to 839.1bn.

Pricing power intact; constant NIMs NIM improved by 3bps from 7.41% in Q1FY18 to 7.44% in Q1FY19. Company has been able to maintain NIM around 7.5% from last many quarters.

Cost to income expanded Operating expenses grew 30.5% YoY to 4.3bn on the back of 37% YoY growth in employee expense because of aggressive branch expansion, while operating income grew 20% YoY to 18.4bn. This resulted in expansion of cost to income ratio by 200bps from 21.7% to 23.7%.

Asset quality improved; provision significantly reduced due to transition to IndAS

GNPA came at 8.98% from 9.15% in Q4FY18. NNPA came at 2.74% from 2.83%. Provision coverage ratio increased from 71.1% in Q4FY18 to 71.42%. However, as per IndAS, provision on securitization is not recognized. Adjusting, PCR stood at 57% in Q4FY18 & Q1FY19. This resultant in improving credit cost to 2.6% in Q1FY19. Subsequently, under IndAS, management has guided for credit cost of 2% by FY19 from range of 2.5-2.6% earlier.

Major changes due to IndAS transition a) Securitization income to be part of interest income and securitization expense to be part of interest expense. On balance sheet, securitization would become part of borrowings instead of remaining off-book loans. b) Provisions recognition would be stage wise through probability of default mechanism.

Regarding SVL guarantee Company has recognized guarantee as standard asset in the books. Guarantee is due for payment in June'19.

Regarding axle load capacity Company expects 4-5% volume shrinkage in new vehicles due to decline in demand.

Regarding scrappage policy Earlier value of vehicles aged over 10 years was very low due to a) significant depreciation in price b) remaining lifetime of 2-4 years. But now due to 20 year vehicle life, perceived price would be relatively higher and also volumes would rise. STFC has majorly catered to vehicles between 5-10 years. This represents new market opportunity for STFC.

Valuations

PAT grew 24% YoY to 5.7bn. With expected AUM growth of CAGR 19% till FY20, constant NIMs and reducing credit cost due to a) improvement in asset quality b) lower provisioning requirement under IndAS, we re-iterate BUY with a target price of 1701 (earlier – INR 1643, [see initiating coverage](#)) by valuing stock at 2.3x P/BV FY20E from current levels of 1.9x, implying an upside potential of 20%.

(INR Crores)	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	7778	9530	9801	11003	16269	19717
Growth	24%	23%	3%	12%	48%	21%
Net Interest Income	3375	4456	4592	5594	7970	9399
Growth	42%	32%	3%	22%	42%	18%
Total Operating Income	4129	5094	5528	6746	7986	9804
Growth	13%	23%	9%	22%	18%	23%
Provisions	1278	2071	2444	3,122	3,146	3,614
PAT	1238	1178	1257	1,568	1,980	2,618
Growth	-2%	-5%	7%	25%	26%	32%
Book Value (INR)	407	448	498	554	628	730
P/BV (x)	2.5	2.3	2.2	2.2	2.2	1.9

* Read last page for disclaimer & rating rationale

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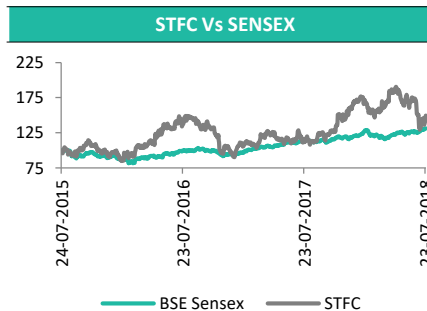
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STRONG BUY *



Stock Details	
Industry	BFSI
Sensex	37336
Nifty	11278
Bloomberg Code	SHTF:IN
Eq. Cap. (Rs. Cr)	227
Face Value (Rs.)	10
52-w L/H	918/1668
Market Cap (Cr)	32,082

Valuation Data			
	FY18A	FY19E	FY20E
NIM	7.6%	7.5%	7.6%
Book value	555	632	735
Adj BV	239	252	289
ROAA	1.9%	2.0%	2.3%
ROAE	13.2%	14.5%	16.4%



Shareholding Pattern			
	Jun'18	Mar'18	Jun'17
Promoters	26.1	26.1	26.1
FII's	47.4	49.5	49.5
MF	5.3	3.7	2.5
Retail	6.1	6.0	6.3
Others	15.2	14.8	15.6
	100.0	100.0	100.0



Q1FY19 Result Analysis

(INR crores)	Q1FY19	Q1FY18	Q4FY18*	Y-o-Y
Interest Income	3729	3108	2950	20%
Interest Expense	1889	1569	1463	20%
Net Interest Income	1840	1539	1487	20%
Other fee based income	4	3	4	47%
Total Operating Income	1844	1542	1811	20%
Operating Expenses	437	335	419	30%
Core Operating Profit	1408	1207	1392	17%
Other Income	6	7	168	-13%
Provisions	533	511	1367	4%
PBT	881	704	193	25%
Tax	310	244	49	27%
PAT	572	460	145	24%

*Q4FY18 cannot be compared due to reporting differences. Q4FY18 are as per IGAAP while Q1FY18 and Q1FY19 are as per IndAS

- Interest income grew 20% YoY from 3108cr in Q1FY18 to 3729cr in Q1FY19 on the back of robust 22% YoY growth in AUM
- Net interest income grew 20% YoY from 1539cr in Q1FY18 to 1840cr in Q1FY19 in line with interest income growth due to near constant NIMs.
- Cost to income ratio expanded from 21.7% in Q1FY18 to 23.7% in Q1FY19 due to 37% YoY growth in employee cost from 164cr to 225cr and 32% YoY growth in other expenses from 187cr to 247cr in Q1FY19.
- Provisions increased by 4% YoY from 511cr to 533cr.
- Tax rate increased from 34.6% to 35.1%.
- PAT grew 24% YoY from 460cr in Q1FY18 to 572cr in Q1FY19.

(INR crores)	Q1FY19	Q1FY18	Y-o-Y
AUM	100978	82597	22%
Investments	2431	2523	-4%
Financial liabilities	88672	72943	22%
Equity	14023	11542	21%
Total assets	103410	85241	21%

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Conference Call Highlights

1. Demand in north eastern states such as UP, Bihar is picking up with arrival of monsoon. Although, sowing of Kharif crop is late but increase in MSP can boost consumption. Management expects demand of LCV and tractors to witness robustness.
2. Typically, July-Aug quarter is moderate for HCVs and good for LCVs. With new axle load policy, demand of new HCV would decline and thus company expects 4-5% volume impact in new HCV segment.
3. Management believes improvement in efficiency to offset high fuel cost. It is estimated that GST & cross border removal have improved efficiency by 20-25%, thus enabling higher revenues for operators, and lower GNPA for financiers.
4. Management is confident of passing rates to customer, thus guided on maintaining NIM in range of 7.5%.
5. Company is focusing on north eastern areas for new branch opening. During the quarter total 17 new branches were opened, taking total tally of branches to 1230. In Mar'18 earnings call, management guided opening of 200 new branches during the fiscal.
6. Company has adopted IndAS accounting standard. Major changes would occur in recognition of securitization (off-book loan). Under IndAS, securitization income would be included in interest income, while securitization expense would be part of interest expense. Also, securitization, on balance sheet, would become part of borrowings. In quarter ended, securitization constituted 22% of total borrowings.
7. Recognition of Provisions: non-repayment is classified into 3 stages. Stage 1 consists of non-repayment from 30days. Stage 2 consists of 31-90 days and stage 3 is above 90days. Provision on stage 1 book stood at 2%, on stage 2 stood at 4.5% and on stage 3 stood at 34%. Also, under IndAS, company would not have to provide provision on securitized book. Resultant, credit cost would reduce significantly. Under IndAS, provision coverage ratio stood at 57% in Q4FY18, while under IGAAP company had to recognize PCR of 71.1%. This has enabled company to improve its guidance on credit cost from 2.5% to 2% by FY19.
8. Disbursement stood at 13425cr. New vehicles at 1936cr, used vehicles at 10955cr and business loan at 534cr.
9. Company has considered guarantee given to SVL in books as standard assets as per IndAS.
10. Total number of rural centers stood at 854.
11. Company has tied up with HPCL to provide credit to customer for fuel filling. Under which, a truck driver can avail credit at petrol pump and repay the money few days later to STFC. Company would charge daily interest rate to customer.
12. Company is aggressively providing business loans and personal loans to its existing customer tagging vehicle as a collateral. Working capital loans for tyres/insurance range for 6-9 months and earn yield of 20%. While business loan typically range for 3-5 years and earn yield of 16%.
13. In regard with scrapage policy, company mentioned demand for used vehicle aged more than 10 years would go up. Earlier, vehicles aged above 10 years used to witness substantial decline in their value. But now, both volume and value is expected to rise.

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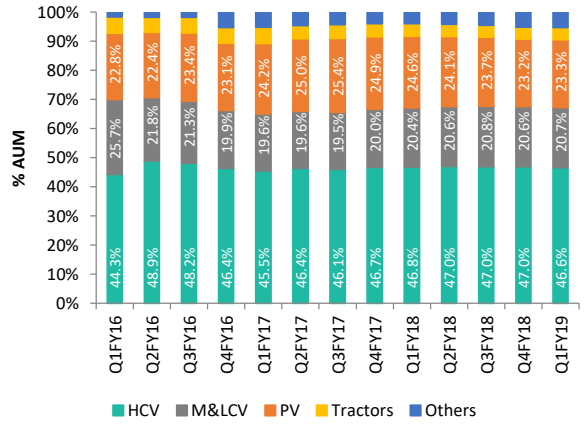
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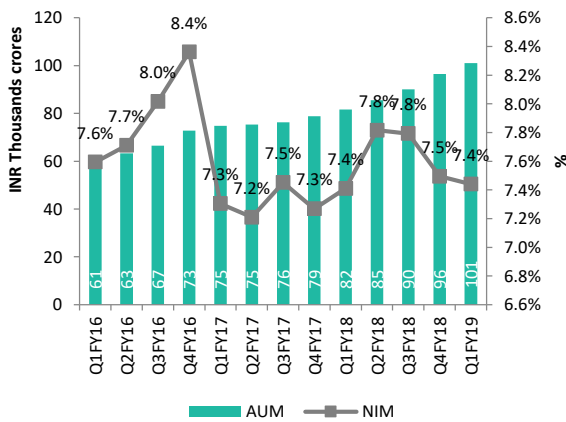
On-book v/s Off-book AUM



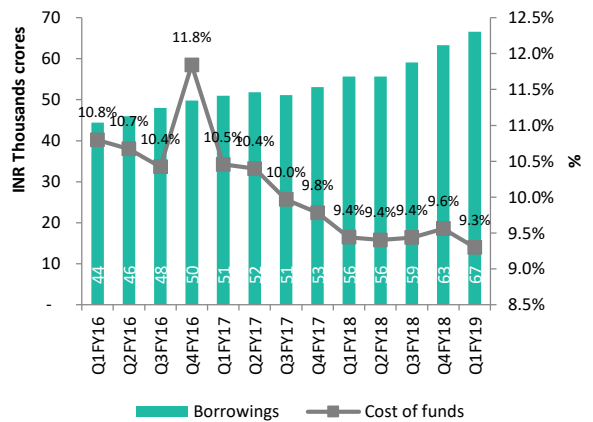
AUM Bifurcation



Realized NIMs



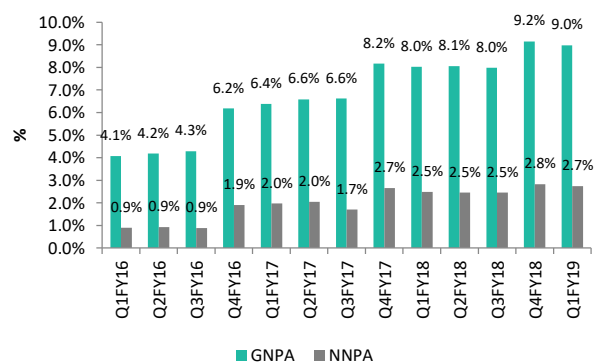
Cost of Borrowings



Cost to income ratio



Asset Quality



Source: Company, NSPL Research



INR Crores	FY15	FY16	FY17	FY18	FY19E	FY20E
Total revenues	8551	10226	10761	12180	16286	21446
Interest Expense	4403	5074	5209	5409	8300	10317
Net Interest Income	3,375	4,456	4,592	5,594	7,970	9,399
Growth yoy%	42%	32%	3%	22%	42%	18%
Total Operating Income	4,129	5,094	5,528	6,746	7,986	9,804
Growth yoy%	13%	23%	9%	22%	18%	23%
Operating Expenses	1,078	1,309	1,229	1,489	1,891	2,301
Pre-provisioning Profit	3,050	3,786	4,299	5,258	6,096	7,502
as % of TOI	74%	74%	78%	78%	76%	77%
Provisions	1,278	2,071	2,444	3,122	3,146	3,614
PBT	1,842	1,781	1,924	2,372	3,052	4,035
Tax	605	603	667	804	1,072	1,417
PAT	1,238	1,178	1,257	1,568	1,980	2,618
Growth %	-2%	-5%	7%	25%	26%	32%
PAT as % of TOI	30%	23%	23%	23%	25%	27%

INR Crores	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	227	227	227	227	227	227
Reserves & Surplus	9,011	9,927	11,075	12,345	14,025	16,342
Net Worth	9,238	10,154	11,302	12,572	14,252	16,569
Borrowings	44,276	49,791	53,110	63,319	77,120	91,265
Total Liabilities	59,327	67,963	74,410	88,470	103,950	120,413
Cash & Investments	6,936	2,468	4,493	3,638	2,677	1,171
Advances	50,764	63,770	67,840	82,740	99,174	117,140
Total Assets	59,327	67,963	74,410	88,470	103,950	120,413

RATIOS	FY15	FY16	FY17	FY18	FY19E	FY20E
Operating ratios (%)						
Net Interest Margins	7.4%	7.7%	7.3%	7.7%	7.5%	7.7%
Cost to Income	26.1%	25.7%	22.2%	22.1%	23.7%	23.5%
Tax rate	32.8%	33.9%	34.6%	33.9%	35.1%	35.1%

Balance sheet ratios (%)	FY15	FY16	FY17	FY18	FY19E	FY20E
AUM growth	11.3%	23.1%	8.2%	22.5%	19.8%	18.7%
Borrowing growth	23.3%	12.4%	6.7%	19.2%	21.8%	18.3%
Gross NPA	3.8%	6.2%	8.2%	9.2%	8.1%	7.7%
Net NPA	0.8%	1.9%	2.7%	2.8%	2.3%	2.3%
Provision Coverage	80.0%	70.4%	69.3%	71.1%	71.4%	70.0%

Valuation metrics	FY15	FY16	FY17	FY18	FY19E	FY20E
EPS (INR)	54.6	51.9	55.4	69.1	87.3	115.4
Book Value (INR)	407.2	447.5	498.2	554.1	628.2	730.3
Adj Book Value (INR)	407.2	332.7	269.5	238.7	248.0	284.4
P/E (x)	18.7	20.2	19.7	17.4	16.2	12.2
P/BV (x)	2.5	2.3	2.2	2.2	2.2	1.9

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Shriram Transport Finance Company				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
July 12, 2018 (IC)	1206	1643	Strong Buy	Buy	5% - 15%
July 30, 2018	1415	1701	Strong Buy	Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
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Other disclosures	NO

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