

October 26, 2018

Shriram Transport Finance Company

Q2FY19 Result Update

AUM growth in line with estimates

AUM grew 21% YoY from to 1043.8bn on 46% growth in new vehicle book, 15% growth in used CV book, 105% growth in business loans and 80% YoY growth in working capital loans. Within book, share of HCV loans came at 46.3% (v/s 47.0% YoY), M&LCV came at 21% (v/s 20.6% YoY), PV came at 23.2% (v/s 24.1% YoY), tractors came at 3.9% (v/s 4.2% YoY).

Company added 266 branches on annual basis with 76 branch addition in urban area and 190 branch addition in rural area. AUM per rural branch improved from 54.7cr to 56.2cr, on near monsoon and higher crop yield while per urban branch it came at 104.2cr v/s 106.5cr YoY.

Increased proportion of commercial paper to fund short tenure assets

Company began tyre financing which is 6month tenure product. Average tenure of tyre financing book stands at 4 months. Company increased CP from 1.1% in Q2FY18 to 7.6% in Q2FY19.

Margin held due to superior pricing power

NIM came at 7.52% as compare to 7.46% in Q2FY18 and 7.44% in Q1FY19. Although, company expects rise in cost of funds by 100bps (recently securitization cost increased by 75-100bps, CP by 80-100bps), NIM can be expected at similar levels.

Update on SVL

With reference to press release, company notified that contingent liability with respect to SVL has been terminated.

Operational efficiency driven by rural centers

Cost to income ratio came at 21.1% as compare to 22.9% in Q1FY19 apparently accounting for realization of economies of scale.

Asset quality continue to improve

GNPA/NNPA came at 8.77%/2.75% as compare to 8.98%/2.74% in Q1FY19 and 8.06%/2.45% in Q2FY18. Standard asset provisioning was kept at 0.4%. PCR came at 70.60%.

Amortization of expenses aiding bottom line

Company raised ECB of \$350 million in first week of August. Under IndAS, company could amortize upfront expense as oppose to upfront recognition under IndGAAP. This aided bottom line by 71.7cr.

Valuations

PAT grew 23% YoY to 6.1bn. 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 1351 [see initiating coverage](#) by valuing stock at 1.8x P/BV FY20E from current levels of 1.5x, implying an upside potential of 25%.

(INR Crores)	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	7778	9530	9801	11003	16269	19716
Growth	24%	23%	3%	12%	48%	21%
Net Interest Income	3375	4456	4592	5594	7969	9399
Growth	42%	32%	3%	22%	42%	18%
Total Operating Income	4129	5094	5528	6746	7986	9803
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	1.7	1.5

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale

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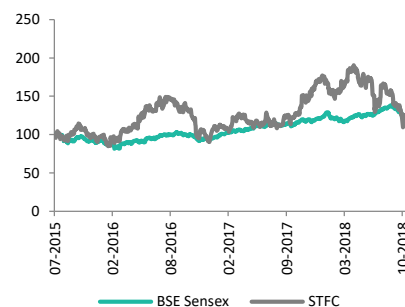
STRONG BUY*



Market Data	
Industry	BFSI
Sensex	33690
Nifty	10125
Bloomberg Code	SHTF:IN
Eq. Cap. (INR Crores)	227
Face Value (INR)	10
52-w L/H	902/1668
Market Cap (INR Crores)	24,533

Valuation Data	FY18A	FY19E	FY20E
NIM	7.7%	7.5%	7.7%
Book value	554	628	730
Adj BV	239	248	284
ROAA	1.9%	2.1%	2.3%
ROAE	13.1%	14.8%	17.0%

STFC Vs SENSEX



Shareholding Pattern

	Sept'18	Jun'18	Sept'17
Promoters	26.1	26.1	26.1
FII's	48.7	47.4	49.5
MF	4.1	5.3	2.5
Retail	6.1	6.1	6.3
Others	15.0	15.2	15.6
	100.0	100.0	100.0



Q2FY19 Result Analysis

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Interest Income	3913	3232	3707	21%	6%
Interest Expense	1849	1560	1836	19%	1%
Net Interest Income	2064	1672	1871	23%	10%
Other Income	35	28	27	26%	30%
Total Operating Income	2099	1700	1898	23%	11%
Operating Expenses	466	368	483	26%	-4%
Core Operating Profit	1633	1332	1416	23%	15%
Provisions	694	576	533	21%	30%
PBT	939	756	883	24%	6%
Tax	329	259	310	27%	6%
PAT	610	497	573	23%	6%

Source: Company, NSPL Research

- Interest income grew 21% YoY from 3232cr in Q2FY18 & 6% QoQ from 3707cr to 3913cr in Q2FY19 on the back of robust 21% YoY growth in AUM
- AUM grew 21% YoY from 86357cr in Q2FY18 & 4% QoQ from 100541cr to 104380cr in Q2FY19
- Net Interest income grew 23% YoY from 1672cr in Q2FY18 & 10% QoQ from 1871cr to 2064cr in Q2FY19 on the back of improvement in NIM to 7.52% (v/s 7.46% YoY, 7.44% QoQ)
- Total operating income grew 23% YoY from 1700cr in Q2FY18 & 11% QoQ from 1898cr to 2099cr in Q2FY19 on the back of strong 26% YoY / 30% QoQ growth in non-interest income.
- Cost to income ratio expanded from 21.6% in Q2FY18 to 22.2% in Q2
- GNPA/NNPA came at 8.8%/2.8%
- Provisions grew 21% YoY from 576cr in Q2FY18 & 30% QoQ from 533cr to 694cr in Q2FY19
- Tax rate remained constant at 35.1%.
- PAT grew 23% YoY from 497cr in Q2FY18 & 6% QoQ from 573cr to 610cr in Q2FY19

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
AUM	104380	86357	100541	20.9%	3.8%
On book AUM	87815	71113	82462	23.5%	6.5%
Gross NPA	7749	5773	7459	34.2%	3.9%
Net NPA	2278	1655	2132	37.6%	6.9%
Gross NPA %	8.8%	8.1%	9.0%		
Net NPA %	2.8%	2.5%	2.7%		

Source: Company, NSPL Research

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Conference Call Highlights

1. Economy is driven by consumption and government spending
2. Rural yield and growth was better than urban growth due to near monsoon and agricultural favoring policies.
3. Company witnessed nearly 100bps rise in cost of funds (securitization and commercial paper). However, due to superior pricing power, company was able to pass on rate hikes.
4. Company is looking for various sources of funding: raised 5000cr via retail bonds, raised \$350million via ECBs, raised 1480cr via securitization.
5. Contingent liability pertaining to SVL has been terminated.
6. Company has declared interim dividend of INR 5 per share in line with consistent dividend policy.
7. Branch count stood at 1301, rural centers were 864.
8. Company has guided for asset under management growth of 15-20% for next two years.
9. Company expects credit cost to reach 2-2.3% levels
10. With rising fuel cost, company expects slight moderation in growth, although axle policy augurs well for overall industry. Resultant, trucks have increased their capacity by travelling 250km per day from 180km per day.
11. Within, passenger vehicle segment, company is lending mostly for commercial purposes (taxi, Ola, Uber)
12. Disbursement figures: total came at 13803cr. Within which new vehicle disbursement came at 1695cr, used vehicle at 11508cr and others at 600cr

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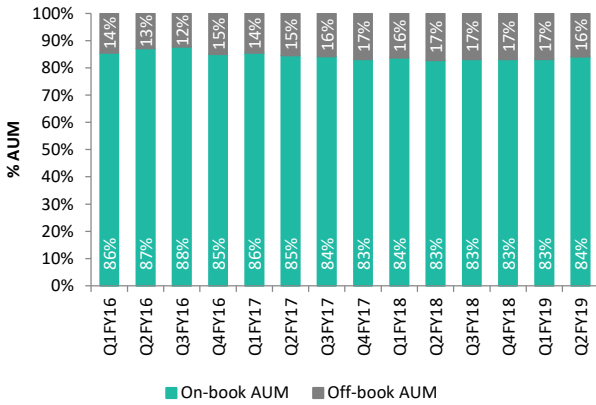
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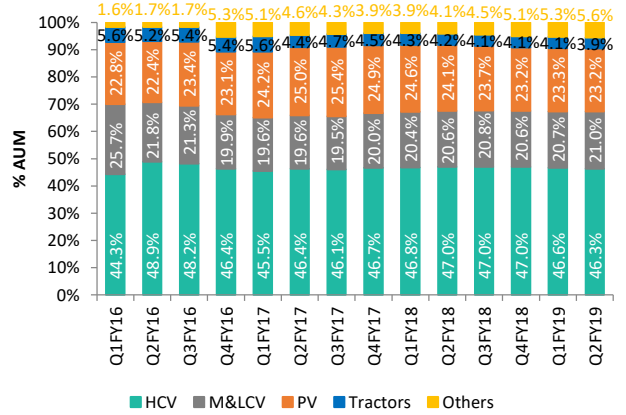
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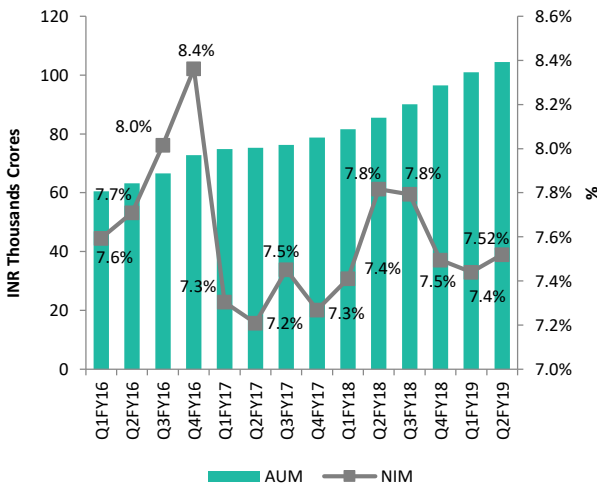
On-book v/s Off-book AUM



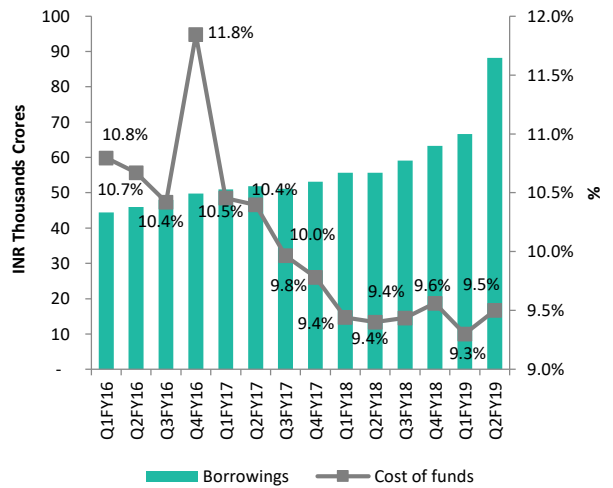
AUM Bifurcation



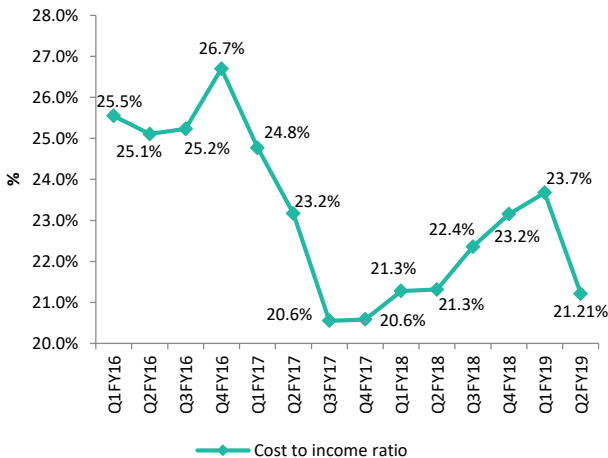
Realized NIMs



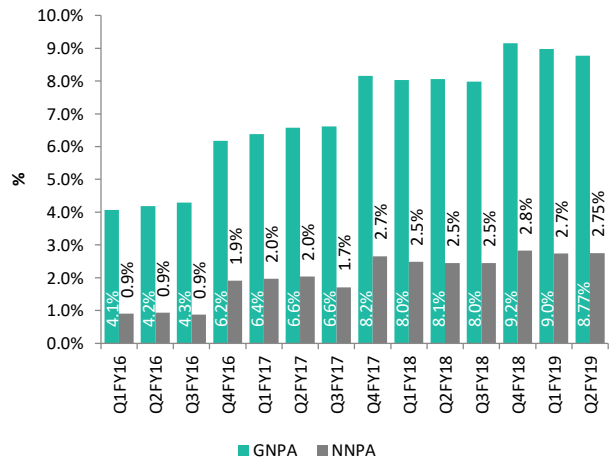
Cost of Borrowings



Cost to income ratio



Asset Quality



Source: Company, NSPL Research

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INR (Crores)	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	7778	9530	9801	11003	16269	19717
Income from Securitization	770	687	953	1165	0	1713
Total revenues	8551	10226	10761	12180	16286	21446
Interest Expense	4403	5074	5209	5409	8300	10317
Securitization expense	19	58	24	25	0	34
Net Interest Income	3,375	4,456	4,592	5,594	7,970	9,399
Growth yoy%	42%	32%	3%	22%	42%	18%
Net securitization Income	751	629	929	1140	0	388
Growth yoy%	-41%	-16%	48%	23%	-100%	#DIV/0!
Other fee based income	3	10	7	12	17	17
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

(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	1,265
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 (%)						
Yield on On-book	18.1%	17.2%	15.4%	15.1%	18.5%	18.8%
Cost of funds	11.0%	10.8%	10.1%	9.3%	11.8%	12.3%
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 (%)						
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						
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	12.4	9.4
P/BV (x)	2.5	2.3	2.2	2.2	1.7	1.5

Source: Company, NSPL Research

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Shriram Transport Finance Company				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
October 26, 2018	1081	1351	Strong Buy	Buy	5% - 15%
July 30, 2018	1415	1701	Strong Buy	Hold	0 - 5%
July 12, 2018 (IC)	1206	1643	Strong Buy	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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Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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