

# Shriram Transport Finance (SHTF IN)

Pick up in disbursement strengthens revival hope

INDIA | BFSI | Quarterly Update

27 January 2015

Shriram Transport Q3FY15 NII came in at Rs10.5bn marginally ahead of estimates aided by 39.4%yoy growth in disbursement and 4bps qoq expansion in NIMs to 6.64%. However as credit cost continue to remain higher at 2.3%, net profit grew by a moderate 3.7%yoy to Rs3.12bn. Asset quality showed slight improvement as GNPA/ NNPA declined by 15bps/ 6bps qoq to 3.6%/ 0.7% respectively. SHTF being a dominant player in used CV segment, is well placed to benefit from the up cycle in CV segment. Maintain BUY with price target of Rs1,300.

## Key highlights for Q3FY15

- NII grew by 12.9%yoy to Rs10.5bn, marginally ahead of expectation. The NII growth picked up slight pace helped by gradual improvement in AUM growth to 6.9%yoy and 4bps qoq improvement in NIM's to 6.6%. The improvement in NIM was driven by higher proportion (93%) of high yielding used vehicle segment. There was no securitization during the quarter due to lack of demand from banks. Management has guided for pick up in securitization deals going forward, which along with downtrend in interest rate cycle will aid in lower cost of funds.
- Disbursement picked up pace as it grew by a significant 39.4%yoy to Rs90bn, helped by 32.9%yoy growth in used CVs, which contribute 93% to the total disbursement. Large part of the disbursement growth was in the HCV segment led by higher replacement demand. Resultantly AUM growth was a bit better at 6.9% as against 3% in Q2, though still remain soft.
- Asset quality showed slight improvement as GNPA/ NNPA ratio declined 15bps/ 6bps qoq to 3.6%/ 0.7% respectively. However as the NPLs moved down to lower buckets, the credit cost remained higher at 2.3%. As the CV recovery pick up pace over FY16/17 the GNPA ratio is expected to moderate to 3.2% by FY17.

## Outlook & Valuation

We believe that STFC is well positioned to benefit from a pickup in demand in used HCV segment. As the recovery gets broad based and spread to other segments of CV, the AUM growth will show gradual improvement over the next two years. We expect the overall AUM growth to be in the range of 14-15% over FY16/17. On the back of slower top line growth, constant decline in securitization income and higher credit costs, RoAs have declined to 2.2% during 9MFY15. We believe that the NIMs and securitization income have bottomed, and going forward, these should improve giving a boost to return ratios. At the CMP, STFC trades at 2.1x FY17E Adj BV with RoA/ RoE of 2.5%/ 15%. We introduced FY17 estimates and rolled our target multiple to FY17 book value. Maintain BUY with PT of Rs1,300.

## BUY (Maintain)

CMP RS 1100

TARGET RS 1300 (+18%)

### COMPANY DATA

O/S SHARES (MN) :	227
MARKET CAP (RSBN) :	246
MARKET CAP (USDBN) :	4
52 - WK HI/LO (RS) :	1222 / 550
LIQUIDITY 3M (USDMMN) :	13.3
PAR VALUE (RS) :	10

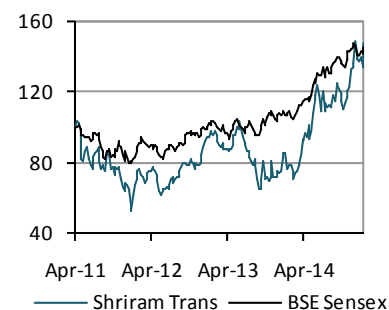
### SHARE HOLDING PATTERN, %

PROMOTERS :	26.1
FII / NRI :	51.2
FI / MF :	4.3
NON PROMOTER CORP. HOLDINGS :	11.9
PUBLIC & OTHERS :	6.5

### PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-1.5	17.2	75.7
REL TO BSE	-8.1	8.0	38.5

### PRICE VS. SENSEX



Source: Phillip Capital India Research

### KEY FINANCIALS

Rs mn	FY15E	FY16E	FY17E
Pre-prov ROE (%)	34.56	34.08	34.37
Pre-prov ROA (%)	5.84	5.79	5.87
Net Profit	12,058	14,243	17,229
% growth	(4.62)	18.12	20.96
EPS (Rs)	53.1	62.8	75.9
Adj BVPS (Rs)	398.3	456.3	526.9
ROE (%)	13.65	14.17	14.98
P/E (x)	20.7	17.5	14.5
Adj P/BV (x)	2.8	2.4	2.1

Source: PhillipCapital India Research Est.

**Pradeep Agrawal** (+ 9122 6667 9953)  
**Manish Agarwalla** (+ 9122 6667 9962)  
**Pareesh Jain** (+ 9122 6667 9948)

**Result Update**

	Q3FY15	Q3FY14	Q2FY15	YoY (%)	QoQ (%)
Interest income	20,534	16,832	18,793	22.0	9.3
Interest expenses	11,351	10,434	10,921	8.8	3.9
<b>Net Interest Income</b>	<b>9,183</b>	<b>6,398</b>	<b>7,871</b>	<b>43.5</b>	<b>16.7</b>
Securitization Income - Net	1,341	2,919	2,196	-54.1	-38.9
<b>NII including securitization</b>	<b>10,524</b>	<b>9,318</b>	<b>10,067</b>	<b>12.9</b>	<b>4.5</b>
NIM (% of AUM)	6.64	6.51	6.60		
Other Income	151	267	169	-43.5	-10.7
<b>Total Income</b>	<b>10,675</b>	<b>9,584</b>	<b>10,236</b>	<b>11.4</b>	<b>4.3</b>
Operating Expenses	2,702	2,517	2,575	7.3	4.9
Cost/Income (%)	25.31	26.26	25.16		
Pre Provision Profits	7,973	7,067	7,661	12.8	4.1
Provisions & contingencies	3,269	2,800	3,154	16.8	3.6
<b>Profit before tax</b>	<b>4,704</b>	<b>4,268</b>	<b>4,506</b>	<b>10.2</b>	<b>4.4</b>
Tax	1,580	1,254	1,484	26.0	6.4
<b>Profit after tax</b>	<b>3,125</b>	<b>3,014</b>	<b>3,022</b>	<b>3.7</b>	<b>3.4</b>
EPS	13.8	13.3	13.3	3.7	3.4
AUM	570,713	533,763	555,467	6.9	2.7
Disbursements	89,970	64,560	81,600	39.4	10.3
Gross NPAs	17,797	13,872	16,745	28.3	6.3
Gross NPAs (%)	3.59	3.56	3.74		
Net NPAs	3,561	2,817	3,492	26.4	2.0
Net NPAs (%)	0.74	0.75	0.80		
CAR (%)	21.07	22.21	21.96		

Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Net interest income	34,390	38,024	43,110	49,508
Other income	4,597	2,038	1,601	1,674
Net Income	38,987	40,062	44,711	51,182
Operating expenses	9,218	9,539	10,464	11,643
Preprovision profit	29,768	30,523	34,247	39,539
Provisions	11,488	12,525	12,989	13,824
Profit before tax	18,280	17,998	21,258	25,715
Tax	5,638	5,939	7,015	8,486
Tax rate	33.0	33.0	33.0	33.0
Adjusted Profit after tax	12,642	12,058	14,243	17,229

### Balance Sheet

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Equity	2,269	2,269	2,269	2,269
Reserves	80,463	91,636	104,804	120,743
Net worth	82,732	93,905	107,073	123,012
Borrowings	369,116	417,769	482,653	555,400
Current liabilities	40,409	41,594	39,732	38,481
<b>Total liabilities</b>	<b>492,257</b>	<b>553,267</b>	<b>629,459</b>	<b>716,893</b>
Net block	1,007	989	978	976
Investments	27,253	28,601	29,852	31,165
Loans	388,882	440,354	504,126	577,573
Current assets	75,116	83,323	94,502	107,179
<b>Total assets</b>	<b>492,257</b>	<b>553,267</b>	<b>629,459</b>	<b>716,893</b>

Source: Company, PhillipCapital India Research Estimates

### Valuation Ratios

	FY14	FY15e	FY16e	FY17e
No of shares (mn)	226.9	226.9	226.9	226.9
FDEPS (Rs)	55.7	53.1	62.8	75.9
PER (x)	19.7	20.7	17.5	14.5
Book value (Rs)	364.6	413.8	471.9	542.1
P/BV (Rs)	3.0	2.7	2.3	2.0
Adjusted book value (Rs)	351.3	398.3	456.3	526.9
P/ABV (Rs)	3.1	2.8	2.4	2.1
P/PPP (x)	2.8	3.1	3.1	3.1
Dividend yield (%)	0.6	0.6	0.7	0.7
<b>Key ratios</b>				
Net interest margins	8.0	7.8	7.9	8.0
NII to AUM	6.7	6.8	6.8	6.8
cost to income ratio	23.6	23.8	23.4	22.7
provision to average loan book	3.0	2.8	2.6	2.4
RoAA	2.7	2.3	2.4	2.6
RoAE	16.3	13.7	14.2	15.0
Gross NPA	14,505	16,733	17,644	18,482
Gross NPA (%)	3.9	3.8	3.5	3.2
Net NPA	3,029	3,522	3,528	3,465
Net NPA (%)	0.8	0.8	0.7	0.6
CRAR	23.4	23.8	22.3	20.2
Tier I (%)	18.7	19.0	17.3	15.2

**Management**

Vineet Bhatnagar (Managing Director)	(91 22) 2300 2999
Kinshuk Bharti Tiwari (Head – Institutional Equity)	(91 22) 6667 9946
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

**Research**
**Automobiles**

Dhawal Doshi	(9122) 6667 9769
Priya Ranjan	(9122) 6667 9965

**Banking, NBFCs**

Manish Agarwalla	(9122) 6667 9962
Pradeep Agrawal	(9122) 6667 9953
Paresh Jain	(9122) 6667 9948

**Consumer, Media, Telecom**

Naveen Kulkarni, CFA, FRM	(9122) 6667 9947
Jubil Jain	(9122) 6667 9766

**Cement**

Vaibhav Agarwal	(9122) 6667 9967
-----------------	------------------

**Economics**

Anjali Verma	(9122) 6667 9969
--------------	------------------

**Sales & Distribution**

Ashvin Patil	(9122) 6667 9991
Shubhangi Agrawal	(9122) 6667 9964
Kishor Binwal	(9122) 6667 9989
Sidharth Agrawal	(9122) 6667 9934
Bhavin Shah	(9122) 6667 9974

**Engineering, Capital Goods**

Ankur Sharma	(9122) 6667 9759
Hrishikesh Bhagat	(9122) 6667 9986

**Infrastructure & IT Services**

Vibhor Singhal	(9122) 6667 9949
Deepan Kapadia	(9122) 6667 9992

**Midcap**

Vikram Suryavanshi	(9122) 6667 9951
--------------------	------------------

**Metals**

Dhawal Doshi	(9122) 6667 9769
Ankit Gor	(9122) 6667 9987

**Oil&Gas, Agri Inputs**

Gauri Anand	(9122) 6667 9943
Deepak Pareek	(9122) 6667 9950

**Sales Trader**

Dilesh Doshi	(9122) 6667 9747
Suniil Pandit	(9122) 6667 9745

**Execution**

Mayur Shah	(9122) 6667 9945
------------	------------------

**Pharma**

Surya Patra	(9122) 6667 9768
-------------	------------------

**Retail, Real Estate**

Abhishek Ranganathan, CFA	(9122) 6667 9952
Neha Garg	(9122) 6667 9996

**Technicals**

Subodh Gupta, CMT	(9122) 6667 9762
-------------------	------------------

**Production Manager**

Ganesh Deorukhkar	(9122) 6667 9966
-------------------	------------------

**Sr. Manager – Equities Support**

Rosie Ferns	(9122) 6667 9971
-------------	------------------

**Corporate Communications**

Zarine Damania	(9122) 6667 9976
----------------	------------------

**Contact Information (Regional Member Companies)**
**SINGAPORE**
**Phillip Securities Pte Ltd**

250 North Bridge Road, #06-00 Raffles City Tower,  
Singapore 179101  
Tel : (65) 6533 6001 Fax: (65) 6535 3834  
[www.phillip.com.sg](http://www.phillip.com.sg)

**JAPAN**
**Phillip Securities Japan, Ltd**

4-2 Nihonbashi Kabutocho, Chuo-ku  
Tokyo 103-0026  
Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141  
[www.phillip.co.jp](http://www.phillip.co.jp)

**THAILAND**
**Phillip Securities (Thailand) Public Co. Ltd.**

15th Floor, Vorawat Building, 849 Silom Road,  
Silom, Bangrak, Bangkok 10500 Thailand  
Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921  
[www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES**
**Phillip Futures Inc.**

141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel (1) 312 356 9000 Fax: (1) 312 356 9005

**MALAYSIA**
**Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3, Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur  
Tel (60) 3 2162 8841 Fax (60) 3 2166 5099  
[www.poems.com.my](http://www.poems.com.my)

**INDONESIA**
**PT Phillip Securities Indonesia**

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,  
Jakarta 10220, Indonesia  
Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809  
[www.phillip.co.id](http://www.phillip.co.id)

**FRANCE**
**King & Shaxson Capital Ltd.**

3rd Floor, 35 Rue de la Bienfaisance  
75008 Paris France  
Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017  
[www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**
**PhillipCapital Australia**

Level 37, 530 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel: (61) 3 9629 8380 Fax: (61) 3 9614 8309  
[www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**INDIA**
**PhillipCapital (India) Private Limited**

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013  
Tel: (9122) 2300 2999 Fax: (9122) 6667 9955 [www.phillipcapital.in](http://www.phillipcapital.in)

**HONG KONG**
**Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway Hong Kong  
Tel (852) 2277 6600 Fax: (852) 2868 5307  
[www.phillip.com.hk](http://www.phillip.com.hk)

**CHINA**
**Phillip Financial Advisory (Shanghai) Co. Ltd.**

No 550 Yan An East Road, Ocean Tower Unit 2318  
Shanghai 200 001  
Tel (86) 21 5169 9200 Fax: (86) 21 6351 2940  
[www.phillip.com.cn](http://www.phillip.com.cn)

**UNITED KINGDOM**
**King & Shaxson Ltd.**

6th Floor, Candlewick House, 120 Cannon Street  
London, EC4N 6AS  
Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835  
[www.kingandshaxson.com](http://www.kingandshaxson.com)

**SRI LANKA**
**Asha Phillip Securities Limited**

Level 4, Millennium House, 46/58 Navam Mawatha,  
Colombo 2, Sri Lanka  
Tel: (94) 11 2429 100 Fax: (94) 11 2429 199  
[www.ashaphillip.net/home.htm](http://www.ashaphillip.net/home.htm)

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