

Shriram Transport Finance (SHTF IN)

Rating: ACCUMULATE | CMP: Rs1,390 | TP: Rs1,453

Cautiously optimistic

Quick Pointers:

- Stage 2 at 14.5%, Stage 3 at 8.18%

SHTF Q1FY22 earnings were marred by doubling of sequential provisions (credit costs spiked 238bpsQoQ to 4.9%) as select segments (tourism, school buses, passenger vehicles led transport) faced second wave challenges. Stage 2 spiked 260bps to 14.5%, Stage 3 by 112bps to 8.18% as lesser no. of customers opted for restructuring (1% of book). Disbursements (Rs127bn) stood healthy at YoY levels as a result of strong existing proposals pipe-line.

Going forward, re-rating from current levels would be an outcome of ultimate credit loss which will be function of performance of perceivable stress pool which is currently at 23% (Stage 1+ 2). Conservatism stays as we maintain our tepid growth forecasts at 8/13% and tweak credit costs estimates marginally higher to 2.5%/2.0 over FY22/23. Consequently, our EPS stands marginally down by 2% for FY22/FY23. We reckon SHTF has higher potential to bounce back faster in light of used CV financing focus (90% of AUM) and Co.'s increased digital initiatives to build ecosystem for truck drivers and operators. Hence, we reiterate Accumulate rating and value SHTF at 1.4x PABV Mar'23E arriving at price target of Rs1,453 (earlier Rs1,445).

- Near term growth outlook somber; used CV focus – key trigger:** AUMs at Rs1193bn continues to maintain ~2%QoQ growth run-rate for 2 quarters in a row now. Used vehicle finance at 90% share GROWING 3%+QoQ aided overall AUM traction. Disbursements (Rs127bn' o/w Used: Rs124bn) stood healthy at year ago levels as a result of strong existing proposals pipe-line. Moreover, resale prices of LCVs and passenger cars stood higher by 20-25% which in turn aided higher disbursements. As asset quality vulnerability stays, we maintain conservatism and estimate 8%/13% AUM growth over FY22/23.

- Asset quality vulnerability stays; maintain Accumulate:** SHTF Q1FY22 earnings were marred by doubling of sequential provisions (credit costs spiked 238bpsQoQ to 4.9%) as select segments (tourism, school buses, passenger vehicles led transport) faced second wave challenges. The stressed passenger vehicles segment which forms part of restructured stock stands adequately provided. Stage 2 spiked 260bps to 14.5%, Stage 3 by 112bps to 8.18% as lesser no. of customers opted for restructuring (1% of book). Stage 2 movement continues to remain on higher side especially on YoY basis as 90% of the customers fell under moratorium a year ago. This should be a temporary phenomenon as cited by the Management. Besides, write-offs too came off this quarter at Rs3.6bn vs Rs5.3bn in Q4FY21 but similar to Rs 3.7bn in Q3FY21. Going forward, we maintain caution as perceivable stress pool stands at 23% (Stage 1+ 2). We tweak credit costs estimates marginally higher to 2.5%/2.0% but maintain GNPA forecasts at 8.3%/8.0% over FY22/23E. We reckon SHTF has sizeable asset quality issues to tackle in light of second/third wave but we draw comfort in the used financing earn and pay model, hence reiterate Accumulate.

July 31, 2021

Q1FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,453		1,445	
NII (Rs.)	85,628	94,205	87,250	95,827
% Chng.	(1.9)	(1.7)		
PPoP (Rs.)	65,367	72,579	66,652	73,721
% Chng.	(1.9)	(1.5)		
EPS (Rs.)	110.8	137.4	114.7	140.8
% Chng.	(3.3)	(2.4)		

Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Int.Inc. (Rs m)	82,852	83,662	85,628	94,205
Growth (%)	3.3	1.0	2.3	10.0
Op. Profit (Rs m)	62,336	63,964	65,367	72,579
PAT (Rs m)	25,018	24,873	28,052	34,766
EPS (Rs.)	110.3	103.6	110.8	137.4
Gr. (%)	(2.4)	(6.0)	6.9	23.9
DPS (Rs.)	5.0	18.0	15.5	15.5
Yield (%)	0.4	1.3	1.1	1.1
Margin (%)	7.6	6.9	6.5	6.6
RoAE (%)	14.8	12.6	12.2	13.3
RoAA (%)	2.3	2.0	2.3	2.8
PE (x)	12.6	13.4	12.5	10.1
P/BV (x)	1.8	1.6	1.4	1.3
P/ABV (x)	2.6	2.1	1.5	1.4

Key Data

SRTR.BO | SHTF IN

52-W High / Low	Rs.1,535 / Rs.556
Sensex / Nifty	52,587 / 15,763
Market Cap	Rs.371bn/ \$ 4,989m
Shares Outstanding	267m
3M Avg. Daily Value	Rs.5106.56m

Shareholding Pattern (%)

Promoter's	25.10
Foreign	57.47
Domestic Institution	11.71
Public & Others	5.72
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.5	7.6	103.3
Relative	3.3	(5.3)	45.9

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Exhibit 1: SHTF Q1FY22: Doubling of provisions mar PAT

Y/e March (Rs mn)	Q1FY22	Q1FY22	YoY gr.	Q4FY21	QoQ gr.
Interest income	44,793	41,026	9.2	44,033	1.7
Interest expenses	24,981	22,672	10.2	22,879	9.2
Net Interest Income	19,812	18,354	7.9	21,154	(6.3)
Total Net Interest Income	19,812	18,354	7.9	21,154	(6.3)
Operating & Other Income	1,722	421	308.9	946	82.0
Net revenue	21,534	18,775	14.7	22,100	(2.6)
Operating expenses	4,791	3,823	25.3	5,484	(12.6)
Staff Cost	2,420	1,892	27.9	2,483	(2.5)
Operating profit	16,743	14,952	12.0	16,617	0.8
Provisions	14,396	10,646	35.2	7,236	98.9
Profit before tax	2,347	4,306	(45.5)	9,380	(75.0)
Tax	648	1,105	(41.4)	1,831	(64.6)
Profit after tax	1,699	3,201	(46.9)	7,549	(77.5)
Busines mix					
Total AUM	1,193,014	1,117,564	6.8	1,172,428	1.8
on book	1,181,007	1,105,818	6.8	1,161,916	1.6
off book	12,007	11,746	2.2	10,512	14.2
on book %	99%	99%	4.5	99%	(11.0)
Used CV book	1,079,123	958,640	12.6	1,045,733	3.2
New CV book	71,444	96,561	(26.0)	78,553	(9.1)
Used CV book share	90%	86%	467.4	89%	126.0
New CV book share	6%	9%	(265.2)	7%	(71.2)
Disbursement	127,330	9,850	1,192.7	149,730	(15.0)
Asset quality					
Gross NPA (mn)	96,584	89,308	8.1	82,952	16.4
Net NPA (mn)	53,935	54,878	(1.7)	48,067	12.2
Gross NPA (%)	8.18%	8.0%	20.0	7.1%	112.0
Net NPA (%)	4.7%	5.1%	(32.0)	4.2%	52.0
Coverage ratio(%)	44.2%	38.6%	560.6	42.1%	210.2
Credit Cost (%)	4.9%	3.8%	102.4	2.5%	237.5
Ratios					
Gross Spread (on book)	5.8%	5.3%	53	6.1%	(35)
NIM/AUM	6.7%	6.6%	7	7.3%	(59)
NIM/AUM - Reported	0.0%	6.4%	(642)	6.8%	(680)
CRAR	23.3%	21.9%	134	22.5%	77
Asset quality under IND-AS					
Gross Stage 3	96,584	89,308	8.1	82,952	16.4
Gross Stage 3 (%)	8.2%	8.0%	20.0	7.1%	112
Net Stage 3	53,935	54,878	(1.7)	48,067	12.2
Net Stage 3 (%)	4.7%	5.1%	(32.0)	4.2%	52
ECL Prov. on Gross Stage 3	42,649	34,429	23.9	34,885	22.3
Coverage Ratio Stage 3	44.2%	38.6%	561.0	42.1%	211
Gross Stage 1 & 2	1,084,423	1,029,275	5.4	1,092,000	(0.7)
Net Stage 1 & 2	1,037,294	990,862	4.7	1,047,489	(1.0)
ECL Prov. on Gross Stage 1 & 2	47,129	38,412	22.7	44,511	5.9
ECL Prov. (%) Stage 1 & 2	4.3%	3.7%	61.4	4.1%	27

Source: Company, PL

PAT Rs1.7bn [PLe: Rs6.27bn; consensus: Rs6.5bn] declining 78%QoQ/47% YoY on account of doubling of provisions

Provisions at Rs 14.4bn stood quite higher [PLe: Rs7.3bn] spiking 99%QoQ/35%YoY as Co. made additional Covid provs to the tune of Rs 2.6bn.

NII at Rs19.8bn stood in-line [Rs19.7bn] but declined 6%QoQ on account of increased funding costs. YoY up 8% aided by 7% YoY growth in loans

Opex at Rs4.7bn stood slightly lower [Rs 5.2bn] reducing 13%QoQ as employee costs reduce

PPoP at Rs16.7bn stood higher than estimates [PLe: Rs15.4bn] but remained flattish QoQ

Loan book at Rs 1193bn stood in-line [PLe: Rs1149bn] grew 6.8%YoY/1.8% QoQ. Used vehicle financing now contributes almost 90% to overall AUMs

Stage 3 at 8.18% stood largely in-line [PLe: 8%] VS 7.06% in Q4FY21, 7.98% in Q1FY21. PCR climbs from 39% in Q1FY21 to 44% in Q1FY22

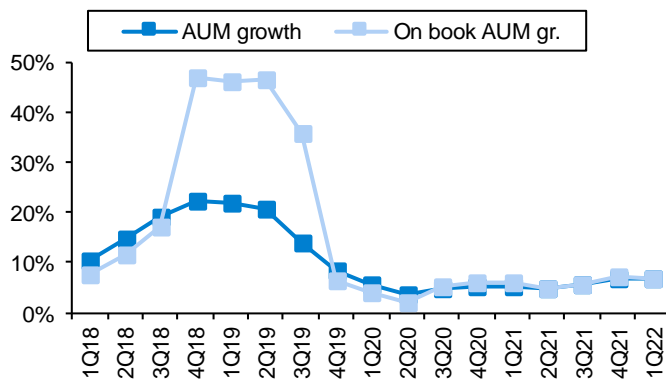
Key Concall highlights:

- **Impact of 2nd wave:** Mostly customers belong to essential commodities segment which is less impacted. In CV space: Sales is low due to closed dealership & RTO in most of the states. 2nd hand vehicle buying-selling transaction could not be registered in May. Not expect 3rd severe wave.
- **Growth Outlook:** Expect double digit growth for the year, with opening up of activities, expect pent up demand from Aug-Sep'21. Small loans demand is up by 20-25% Sluggish demand witnessed in HCV only. In Used vehicle side, Resale price is increased, LCV resale prices have gone up by 20-25%. Private car demand is also up by 20-25%.
- **Cost to Income Ratio:** C/I ratio reduced to 19.11% due to lower royalty payments and CSR expenditure however going forward expects it in the range of 22%-23%
- **Collection efficiency:** In April, May, June is 92, 87 & 94% of demand respectively. Jul'21 stood better than Jun'21. Post Sep'21 plans to reduce liquidity buffer, when collection efficiency will be normal.
- **Asset quality:** Stage 1 to 2 movement is temporal in nature; Stage proportion higher YoY as 90% customers had opted for morat last year
- **Restructuring:** of Rs 3000mn done in Q1FY22, will remain cautious on restructuring & expects the the same no. in Q2FY22. Customer also prefers to make payment in lags then to go restructuring accounts. Write off: 3600mn in Q1FY22.
- **Covid Provision:** Additional Covid provision is made of Rs 2611 mn in Q1FY22, only for passenger vehicles.
- **CoF:** Expect 10-15 bps improvement in next quarter due to low incremental Cost of funds esp securitization transaction.
- **Customers behavior:** Customers has paid some amt or payment has been made in lags. Expect stage 2and stage 3 assets should come back considering better collection trend in Jun-Jul'21.
- **Rejection ratio:** Major assessment is being done at field level, where rejection ratio is 30%, at manager level it is 10-15% & Strict credit filters exist on aggregator model, school buses, tourism post covid. Said that No fresh proposal is accepted in these segment.
- **Interest Cost:** No Interest charged on borrowing done at the end of Q4FY21. Interest expense on that is charged from Q1FY22, going forward, run rate will remain same.
- **Credit Cost:** expect covid wave 3 and 4, will be better managed, and considering pent up demand in H2FY22, Credit cost by Q3 and Q4 will reduce significantly. Expect to be less than last year i.e <2.8%
- **Future trends:** Focus on digital growth, to initiate electric vehicle financing, To launch small tracker digital application for fleet management to empower truck drivers, bring loads interface platform, Bringing ecommerce for all business

purchases related to truck segment 24*7 thereby able to recognize time bound requirement of finance. To increase human resources by 1500-2000 over period of time.

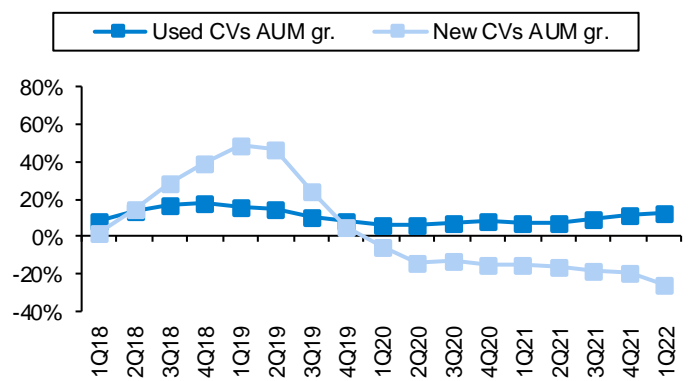
- Merger talks underway:** While the merger is still under evaluation stage, Management mentioned that the organization structure should be simple with decentralized operating model. Synergies, for instance, w.r.t cross sell (CV financing customers being cross sold 2-wheeler credit, etc) and more to come by. Final decision is couple of quarters away.

Exhibit 2: AUM remained stable YoY



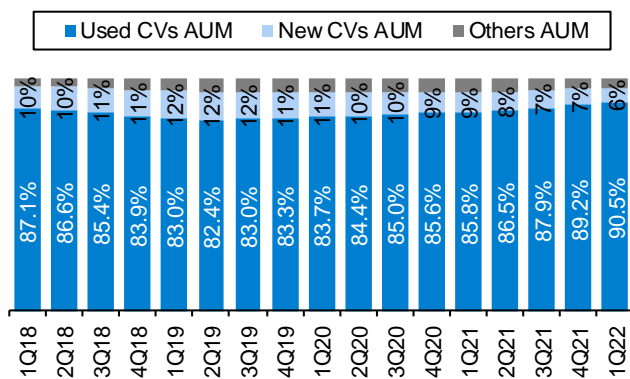
Source: Company, PL

Exhibit 3: ...led by used CVs



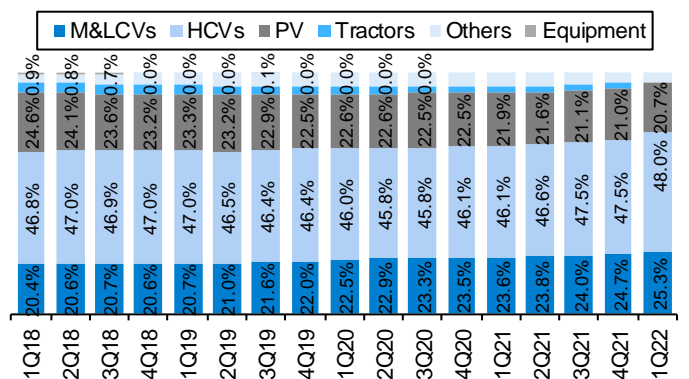
Source: Company, PL

Exhibit 4: Used CV share inching up



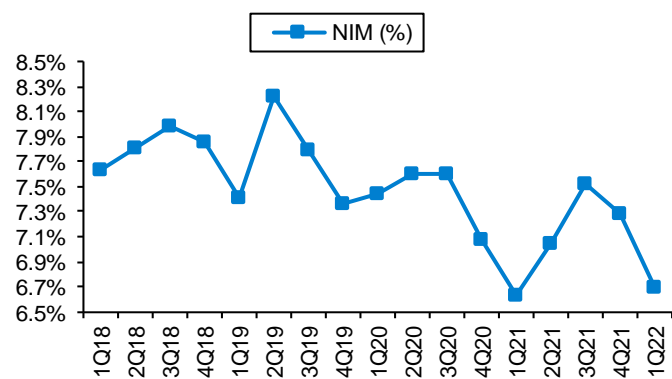
Source: Company, PL

Exhibit 5: Stable AUM mix; QoQ tractor shares fell



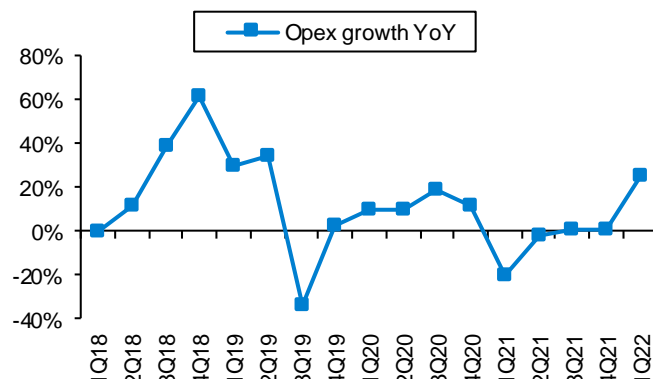
Source: Company, PL

Exhibit 6: NIMs declined QoQ basis



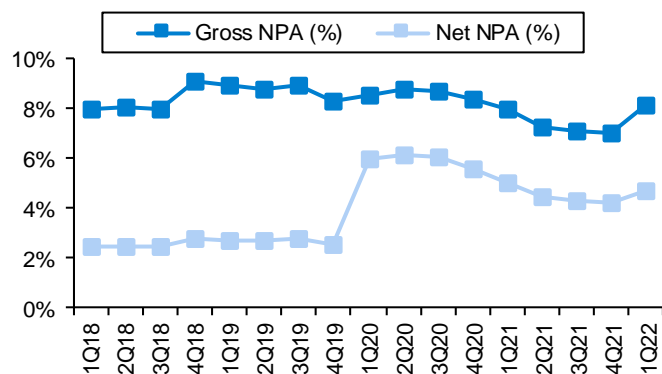
Source: Company, PL

Exhibit 7: Opex inches upwards



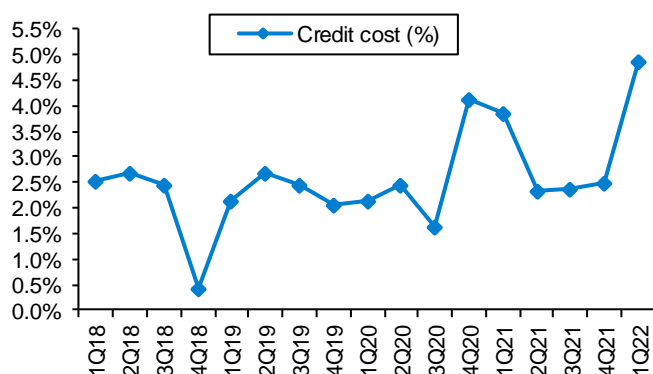
Source: Company, PL

Exhibit 8: Asset quality deteriorated



Source: Company, PL

Exhibit 9: Credit Cost spiked due to 2nd covid wave



Source: Company, PL

Exhibit 10: We incorporate marginally higher credit costs for FY22; maintain Accumulate

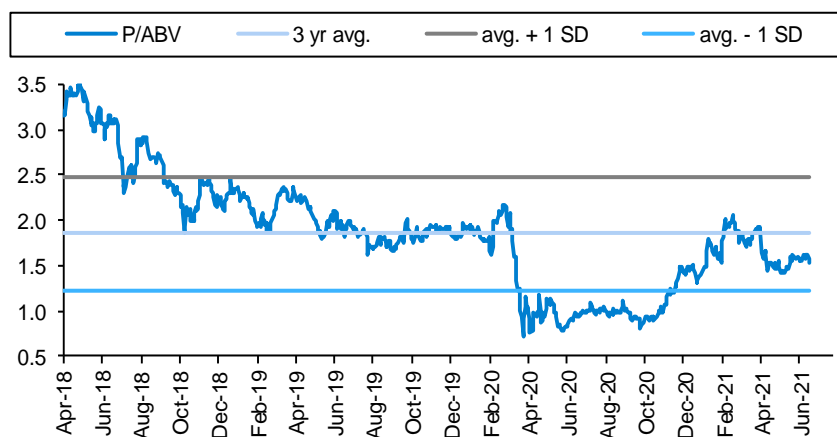
(Rs mn)	Old			Revised			% Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Interest Income	83,662	85,628	94,205	83,662	85,628	94,205	0%	-2%	-2%
Operating Profit	63,964	65,030	72,099	63,964	65,367	72,099	0%	-2%	-2%
Net Profit	24,873	27,800	34,407	24,873	28,052	34,407	0%	-3%	-2%
EPS (Rs)	103.6	109.9	136.0	103.6	110.8	136.0	0%	-3%	-2%
Price Target (Rs)		1,445			1,453			0.6%	
Reco		Accumulate			Accumulate				

Source: PL

Exhibit 11: TP at Rs1,453 marginally tweaked, Reiterate ACCUMULATE

Fair price - EVA	1,375
Fair price - P/ABV	1,531
Average of the two	1,453
Target P/ABV	1.4
Target P/E	11.7
Current price, Rs	1,390
Upside (%)	5%
Dividend yield (%)	0%
Total return (%)	5%

Source: Company, PL

Exhibit 12: SHTF valuation rerating still away; CV financiers remain under stress


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Source: Company, Bloomberg, PL

Income Statement (Rs. m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Int. Inc. / Opt. Inc.	165,774	174,487	185,184	203,197
Interest Expenses	82,703	90,543	99,031	108,446
Net interest income	82,852	83,662	85,628	94,205
Growth(%)	3.3	1.0	2.3	10.0
Non-interest income	203	160	201	201
Growth(%)	(26.3)	(21.3)	26.0	-
Net operating income	83,055	83,821	85,829	94,406
Expenditures				
Employees	10,108	9,063	9,452	10,775
Other Expenses	9,201	9,421	9,610	11,051
Depreciation	1,411	1,374	1,400	-
Operating Expenses	19,309	18,484	19,062	21,827
PPP	62,336	63,964	65,367	72,579
Growth(%)	1.2	2.6	2.2	11.0
Provisions	27,949	31,184	27,879	26,119
Profit Before Tax	34,387	32,780	37,488	46,460
Tax	9,368	7,908	9,436	11,694
Effective Tax rate(%)	27.2	24.1	25.2	25.2
PAT	25,018	24,873	28,052	34,766
Growth(%)	(2.4)	(0.6)	12.8	23.9

Balance Sheet (Rs. m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Source of funds				
Equity	2,269	2,531	2,531	2,531
Reserves and Surplus	177,783	213,153	241,205	275,972
Networth	180,052	215,684	243,736	278,502
Growth (%)	13.7	19.8	13.0	14.3
Loan funds	943,718	1,061,964	1,187,826	1,345,796
Growth (%)	7.3	12.5	11.9	13.3
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	17,517	19,141	21,919	43,818
Other Liabilities	-	-	-	-
Total Liabilities	1,141,286	1,296,789	1,453,481	1,668,116
Application of funds				
Net fixed assets	4,889	4,373	5,023	5,773
Advances	1,022,316	1,083,030	1,169,673	1,321,730
Growth (%)	5.7	5.9	8.0	13.0
Investments	27,985	31,979	44,286	51,961
Current Assets	81,285	167,189	221,665	260,225
Net current assets	63,768	148,048	199,747	216,406
Other Assets	4,812	10,217	12,833	28,427
Total Assets	1,141,287	1,296,789	1,453,480	1,668,116
Growth (%)	8.4	13.6	12.1	14.8
Business Mix				
AUM	1,097,492	1,172,428	1,248,373	1,397,304
Growth (%)	5.0	6.8	6.5	11.9
On Balance Sheet	1,085,017	1,161,916	1,237,441	1,385,933
% of AUM	98.86	99.10	99.12	99.19
Off Balance Sheet	12,475	10,512	10,933	11,370
% of AUM	1.14	0.90	0.88	0.81

Profitability & Capital (%)

Y/e Mar	FY20	FY21	FY22E	FY23E
NIM	7.6	6.9	6.5	6.6
ROAA	2.3	2.0	2.3	2.8
ROAE	14.8	12.6	12.2	13.3

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Int. Inc. / Operating Inc.	42,467	43,815	44,033	44,793
Income from securitization	-	-	-	-
Interest Expenses	22,629	22,363	22,879	24,981
Net Interest Income	19,838	21,452	21,154	19,812
Growth (%)	(2.7)	3.9	9.4	7.9
Non-Interest Income	1,045	617	946	1,722
Net Operating Income	20,883	22,069	22,100	21,534
Growth (%)	(0.9)	1.7	9.7	14.7
Operating expenditure	5,125	5,432	5,484	4,791
PPP	15,759	16,637	16,617	16,743
Growth (%)	-	-	-	-
Provision	6,555	6,747	7,236	14,396
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	9,204	9,890	9,380	2,347
Tax	2,359	2,613	1,831	648
Prov. for deferred tax liability	1,490	1,491	1,425	-
Effective Tax Rate	25.6	26.4	19.5	27.6
PAT	6,846	7,277	7,549	1,699
Growth	(11)	(17)	238	(47)
AUM	1,133,459	1,149,321	1,172,428	1,193,014
YoY growth (%)	4.8	5.5	6.8	6.8
Borrowing	959,006	962,597	1,061,964	-
YoY growth (%)	5.9	5.2	12.5	(100.0)

Key Ratios

Y/e Mar	FY20	FY21	FY22E	FY23E
CMP (Rs)	1,390	1,390	1,390	1,390
EPS (Rs)	110.3	103.6	110.8	137.4
Book value (Rs)	793.6	852.3	963.1	1,100.5
Adj. BV(Rs)	529.5	662.3	900.9	1,028.0
P/E(x)	12.6	13.4	12.5	10.1
P/BV(x)	1.8	1.6	1.4	1.3
P/ABV(x)	2.6	2.1	1.5	1.4
DPS (Rs)	5.0	18.0	15.5	15.5
Dividend Payout Ratio(%)	4.5	18.3	14.0	11.3
Dividend Yield(%)	0.4	1.3	1.1	1.1

Asset Quality

Y/e Mar	FY20	FY21	FY22E	FY23E
Gross NPAs(Rs m)	91,797	82,952	87,742	94,085
Net NPA(Rs m)	59,911	48,067	15,740	18,349
Gross NPAs to Gross Adv.(%)	8.4	7.1	8.3	8.0
Net NPAs to net Adv.(%)	5.6	4.2	1.4	1.5
NPA coverage(%)	34.7	42.1	82.1	80.5

Du-Pont as a % of AUM

Y/e Mar	FY20	FY21	FY22E	FY23E
NII	7.6	6.9	6.2	6.0
NII INCL. Securitization	7.6	6.9	6.3	6.1
Total income	7.6	6.9	6.3	6.1
Operating Expenses	1.9	1.6	1.5	1.4
PPOP	5.7	5.3	4.8	4.7
Total Provisions	2.5	2.6	2.0	1.7
RoAA	2.3	2.0	2.3	2.8
Avg. Assets/Avg. net worth	6.5	6.2	6.0	6.0
RoAE	14.8	12.6	12.2	13.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	6-Jul-21	Accumulate	1,445	1,371
2	30-Apr-21	Accumulate	1,473	1,345
3	17-Apr-21	Accumulate	1,488	1,378
4	6-Apr-21	Accumulate	1,488	1,421
5	25-Mar-21	Accumulate	1,492	1,402
6	29-Jan-21	Accumulate	1,386	1,111
7	11-Jan-21	Accumulate	1,387	1,300
8	30-Oct-20	Accumulate	809	693
9	12-Oct-20	Accumulate	809	641
10	14-Aug-20	Accumulate	805	702

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	6,840	5,942
2	Cholamandalam Investment and Finance Company	BUY	613	519
3	HDFC	BUY	3,087	2,495
4	L&T Finance Holdings	Reduce	87	91
5	LIC Housing Finance	Reduce	390	410
6	Mahindra & Mahindra Financial Services	Sell	148	148
7	Manappuram Finance	Accumulate	187	177
8	Muthoot Finance	BUY	1,700	1,559
9	SBI Cards and Payment Services	Accumulate	1,073	957
10	Shriram Transport Finance	Accumulate	1,445	1,371

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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