



TM

Shriram Transport Finance

31 July 2021

Green shoots in disbursements; strong liquidity buffers

RESULT UPDATE

Sector: NBFCs Rating: BUY

CMP: Rs 1,392 Target Price: Rs 1,920

Stock Info

Sensex/Nifty	52,587/ 15,763
Bloomberg	SHTF IN
Equity shares	267mn
52-wk High/Low	Rs 1,535/556
Face value	Rs 10
M-Cap	Rs 374bn/ USD 5.0bn
3-m Avg volume	USD 35mn

Financial Snapshot (Rs bn)

Y/E March	FY21	FY22E	FY23E
NII	80.7	88.8	101.0
PPP	64.0	69.4	79.8
PAT	24.9	29.6	39.0
EPS (Rs)	98	111	146
EPS Gr. (%)	-11	13	32
BV/Sh (Rs)	852	980	1,108

Ratios

NIM (%)	7.7	7.9	8.0
C/I ratio (%)	23.7	24.6	23.5
RoA (%)	2.0	2.2	2.6
RoE (%)	12.6	12.4	14.0
Payout (%)	19.3	12.0	12.0

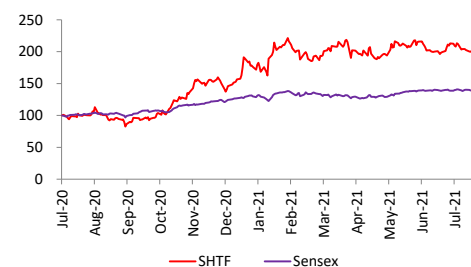
Valuations

P/E (x)	14.2	12.6	9.5
P/BV (x)	1.6	1.4	1.3
Div. Yield (%)	1.3	0.8	1.0

Shareholding pattern (%)

	Jun'21	Mar'21	Dec'20
Promoter	25.1	26.5	26.5
-Pledged	-	-	-
FII	57.5	61.0	61.7
DII	11.7	6.9	5.4
Others	5.7	5.6	6.4

Stock Performance (1-year)



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Shriram Transport Finance Company (SHTF) reported a profit of Rs 1.7bn in 1QFY22 due to higher provisions. With a good harvest and normalizing COVID situation, provision write-backs are likely in 2HFY22E. The company's stage-3 provision is at 44.2%, which seems prudent. Its liquidity buffer is at 13% of total assets, which can cater for next 5-6 months repayments. Disbursements and collections are bouncing back to pre-COVID levels. We remain sanguine about a disbursement run-rate of Rs 120bn in FY22E and normalization of credit costs in FY23E. We reiterate our BUY rating on SHTF with a target price of Rs 1,920 (unchanged).

Pent up demand, higher vehicle prices to drive disbursements

While the impact of the second wave was less severe on the economy than the first wave, the freight industry was hampered as major industrial hubs witnessed a slowdown. SHTF's customers were not severely affected as they largely transport essential goods. Disbursements bounced back to pre-COVID levels of Rs 120bn per quarter, in line with our estimates. We maintain our AUM growth estimates (12% FY21-23E CAGR) as we believe, and the management alluded, that there is pent up demand for used vehicles. Diversified borrowings, especially Rs 30bn run-rate of the domestic bond market issuances in FY22E, lend credence to our view of stable spreads of ~7.0% in FY22E-23E.

Strong liquidity and capital buffers to cater to higher provisions

Higher provisions of Rs 14.4bn weighed on the company's profits (at Rs 1.7bn) in 1QFY22. The increased provisioning includes a management overlay of Rs 2.6bn and Rs 3.6bn write-offs. The total management overlay now stands at Rs 28.5bn (~2.4% of AUM). The stage-3 coverage ratio is higher at 44.2% largely due to the increase in loss-given default (LGD) assumptions in passenger vehicles (+20%). The company remains well-capitalized at a tier-1 ratio of 21.1%. The management has guided for elevated provisions for the next two quarters and a credit cost of <2.5% for FY22E. With a strong liquidity buffer (Rs 172bn, 13% of total assets) and improving collection efficiencies (~94% in Jun-21), we expect write-backs in the ensuing quarters. There is a strong case for NIM expansion with the dialing down of liquidity as the COVID situation normalizes towards 2HFY22E.

Valuation & Recommendation

A good crop season has led to strong cash flows for SHTF's customers. Credit costs are likely to taper off to normalised levels from FY22E. Hence, we model a strong recovery in profits and return ratios. The company remains well capitalised to absorb write-offs and propel growth. We incorporate the recent capital raise of Rs 20bn into our estimates, which increases the tier-1 capital ratio to 21.1%. The stock trades at 1.0x FY23E BVPS, reflecting the impending demand for used vehicles in FY22E-FY23E and the normalisation of credit costs. We value the business at 1.7x FY23E BV (at par with its 10-year average P/BV) to arrive at our target price of Rs 1,920 (upside of 38%) as we believe SHTF will be a key beneficiary of the CV industry up-cycle, while the system will be flush with liquidity through FY22E. We reduce our FY22E estimates by 9% to account for higher provisions while largely maintaining our FY23E estimates. Reiterate **BUY**.

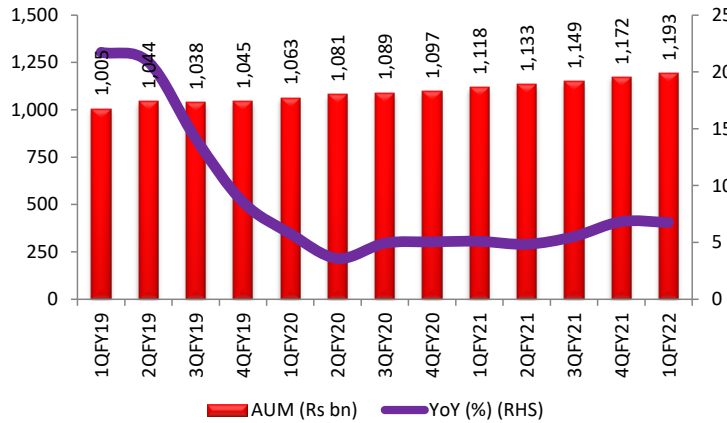
Exhibit 1: Quarterly performance

	FY20				FY21				FY22	Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	QoQ	YoY
Profit and Loss (Rs mn)											
Interest Income	39,868	41,099	41,154	40,922	41,026	42,467	43,815	44,033	44,793	2	9
Interest Expenses	20,431	21,134	20,512	21,589	22,672	22,629	22,363	22,879	24,981	9	10
Net Income	19,436	19,965	20,641	19,333	18,354	19,838	21,452	21,154	19,812	-6	8
Other operating income	671	1,077	1,035	762	383	1,010	569	907	1,688	86	340
Other income	78	23	33	46	38	35	48	39	34	-13	-11
Total Income	20,185	21,064	21,710	20,142	18,775	20,883	22,069	22,100	21,534	-3	15
Operating Expenses	4,758	5,189	5,403	5,416	3,823	5,125	5,432	5,484	4,791	-13	25
Employee	2,331	2,505	2,550	2,723	1,892	2,391	2,297	2,483	2,420	-3	28
Others	2,427	2,684	2,853	2,694	1,931	2,734	3,135	3,001	2,371	-21	23
Operating Profits	15,428	15,875	16,307	14,726	14,952	15,759	16,637	16,617	16,743	1	12
Provisions	5,612	6,607	4,444	11,287	10,646	6,555	6,747	7,236	14,396	99	35
PBT	9,816	9,269	11,863	3,439	4,306	9,204	9,890	9,380	2,347	-75	-45
Taxes	3,473	1,618	3,072	1,205	1,105	2,359	2,613	1,831	648	-65	-41
PAT	6,343	7,651	8,792	2,234	3,201	6,846	7,277	7,549	1,699	-77	-47
Asset Quality											
Gross Stage 3 (Rs bn)	89.3	94.0	93.9	91.8	89.3	82.2	81.7	83.0	96.6	16	8
Net Stage 3 (Rs bn)	60.9	63.8	63.7	59.9	54.9	49.5	48.0	48.1	53.9	12	-2
Gross Stage 3 (%)	8.5	8.8	8.7	8.4	8.0	7.3	7.1	7.1	8.2	112bps	19bps
Net Stage 3 (%)	6.1	6.3	6.2	5.8	5.2	4.7	4.5	4.4	4.9	56bps	-31bps
Stage 3 provision (%)	31.8	32.1	32.1	34.7	38.6	39.7	41.2	42.1	44.2	210bps	561bps
Ratios (%)											
Cost to Income	23.6	24.6	24.9	26.9	20.4	24.5	24.6	24.8	22.2	-256bps	189bps
Provision to operating profit	36.4	41.6	27.3	76.6	71.2	41.6	40.6	43.5	86.0	4,243bps	1,478bps
Tax Rate	35.4	17.5	25.9	35.0	25.7	25.6	26.4	19.5	27.6	807bps	192bps
Total CAR	20.1	20.4	20.7	22.0	21.9	23.4	23.6	22.5	23.3	77bps	134bps
Business Details (Rs bn)											
AUM	1,063	1,081	1,089	1,097	1,118	1,133	1,149	1,172	1,193	2	7
On book Loans	847	848	857	874	877	873	903	927	970	5	11
Off book (Securitization)	217	233	233	224	241	260	246	245	223	-9	-7
Total Borrowings	906	906	915	944	953	959	963	1,062	1,053	-1	11
AUM Mix (%)											
New CV Loans	11	10	10	9	9	8	7	7	6	-71bps	-265bps
Used CV loans	84	84	85	86	86	87	88	89	90	126bps	467bps
Others	6	5	5	5	6	5	5	4	4	-55bps	-202bps
Disbursements Details (Rs bn)											
Total	123	133	114	109	10	65	126	150	127	8	-4
New CV Loans	9	8	5	4	0	1	3	6	2	-6	-63
Used CV loans	113	123	108	103	10	63	122	142	125	9	7
Other Details											
Branches	1,585	1,669	1,714	1,758	1,758	1,784	1,799	1,817	1,821	4	63
Employees	27,174	28,522	28,364	28,045	27,218	25,893	24,670	24,452	24,192	-260	-3,026

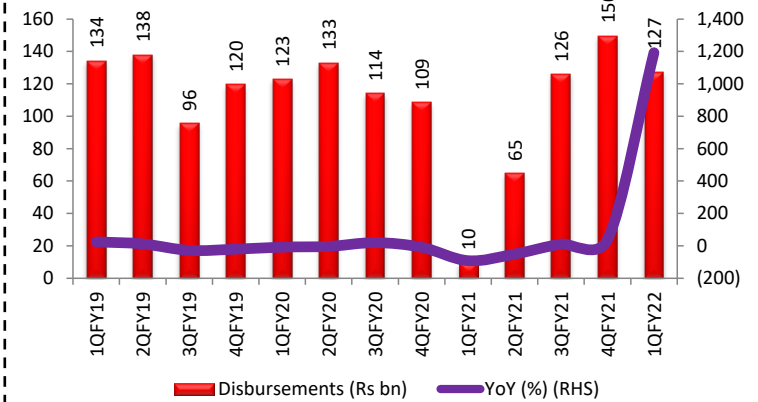
Source: Company data, Systematix Research

Earnings Call Highlights

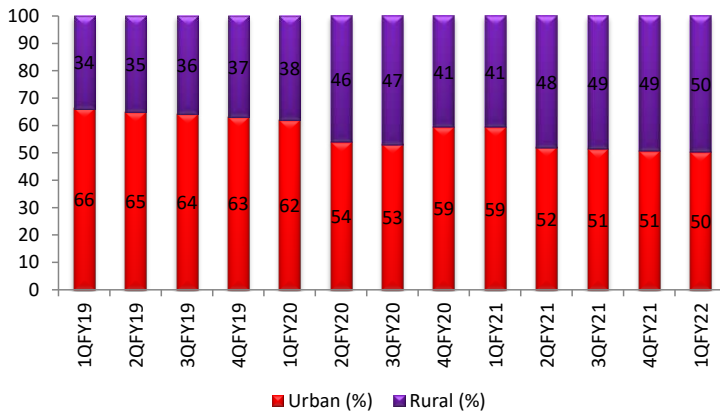
- The company plans to increase its presence in rural areas by accessing 5,000+ tehsils. It plans to promote working capital loans to add newer customers. It is looking to add more franchises through its Revenue Sharing Partner (RSP) model; is already working with 70,000+ private financiers for ~10 years now. It disburses ~Rs 1bn per month under this model. Over the last 6 months, the disbursements run-rate has declined to Rs 500mn per month. The franchise model will enable it to reach 2W/3W customers as well.
- Through digital initiatives SHTF is looking to find business enablers for the trucking ecosystem. SHTF is planning a) Enterprise Resource planning (ERP) for drivers; b) small trucker digital application; c) to plug an e-commerce application in the platform; d) payment application called Shriram Pay and e) micro-ATM services.
- The economic impact of the second wave was less severe than the first wave, with fewer limitations on manufacturing and essential items. Passenger transportation continued to face challenges. Goods transportation, however, continued to do well. Freight rates have moved up in FMCG, pharmaceuticals, e-commerce and food distribution.
- Many customers are conserving cash and are making part payments. With dealerships open and most RTOs functioning normally, the situation improved significantly in the 2H of Jun'21. Most of the disbursements in 1QFY22 were pipeline cases from 4QFY21 and happened in Apr'21 and the 1H of May'21. Normally, it takes 30-60 days for the endorsement/approval of a proposal.
- Demand remains robust; the retail prices of LCVs and private cars have risen by 20-25%. The demand for HCVs was sluggish but started improving in Jul'21. Disbursements in Aug-Sep'21 are likely to be higher given a significant pent-up demand.
- Tourism, school-buses and staff transportation were largely part of additional COVID provisions. Write-offs in 1QFY22 stood at Rs 3.6bn. Expect provisions to remain elevated in the next two quarters with an exit run-rate of 2% in 4QFY22; guided for credit costs of <2.5% in FY22.
- In 1QFY22, under RBI OTR 2.0, SHTF has invoked restructuring on Rs 14.4bn (~120bp of AUM); it implemented restructuring across 10,257 loan accounts with an outstanding of Rs 3.43bn (~30bps of AUM). Total restructured pool (including OTR 1.0 and 2.0) stood at Rs 8.56bn (~72bp of AUM). The restructuring pipeline is not significant and it might do additional Rs 3bn in the next quarter. No ECLGS disbursements in the quarter. The collection trend in July'21 was better than in Jun'21; expects rollbacks from Stage 2/3 in 2QFY22.
- Incremental cost of funds improved by 16bps in the quarter; expects 10-15bps improvement in 2QFY22. Funds mobilized stood at Rs 127.7bn - this included Rs 17bn of securitization and Rs 32bn of domestic bonds. It expects a quarterly run-rate of Rs 30bn for domestic bond issuance for the next 3 quarters; average tenure of around 3 years. Most of the securitization that it does is for priority sector assets. Passenger portfolio is a non-priority sector and that is where it faces major challenges. The securitized portfolio will not have a significant impact as the passenger portfolio is not securitized. SHTF accomplished Rs 3.7bn worth of assignments in 1QFY22. The pool had a 5 years contractual tenor and balance tenure of 48 months.
- Liquidity remained elevated at Rs 171.5bn (~6 months of repayments). It will continue to carry higher liquidity until Sep'21 and reduce it thereafter depending on how the COVID situation pans out in India.

Exhibit 2: AUM growth showing green shoots

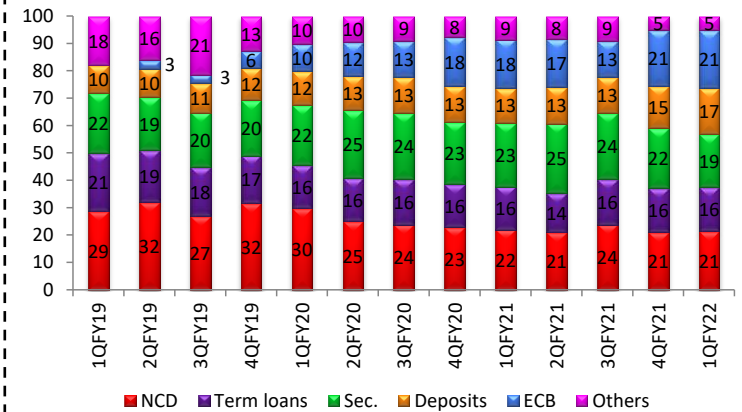
Source: Company, Systematix Institutional Research

Exhibit 3: Disbursements bounced back despite lower working days in 1QFY22

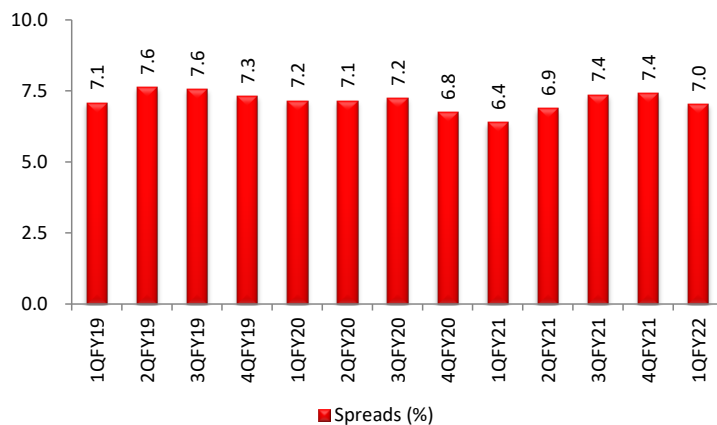
Source: Company, Systematix Institutional Research

Exhibit 4: Increasing rural mix in AUM

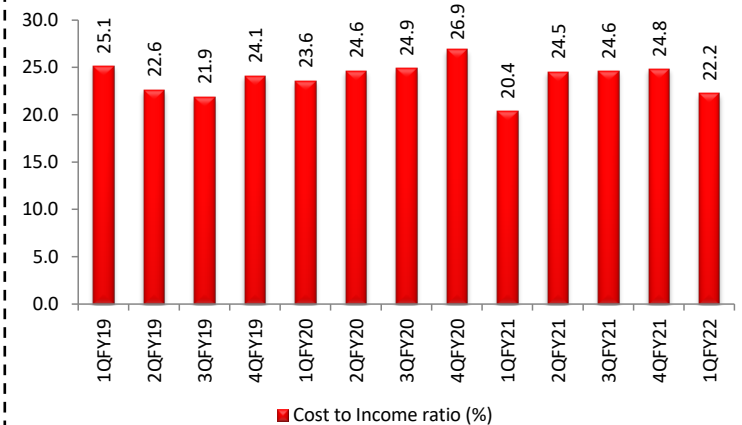
Source: Company, Systematix Institutional Research

Exhibit 5: Diversified borrowing mix

Source: Company, Systematix Institutional Research

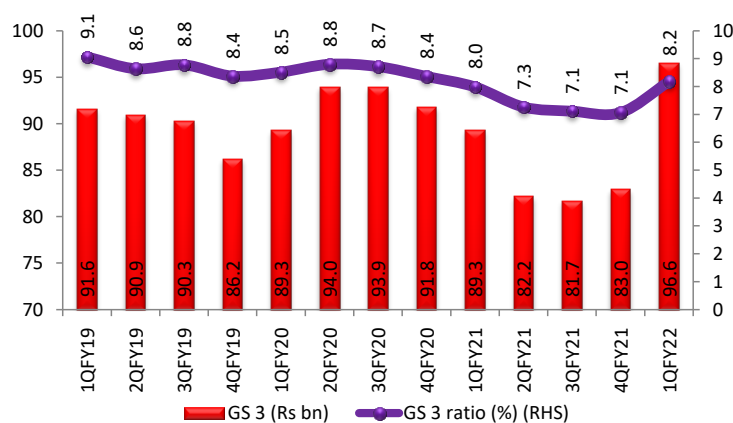
Exhibit 6: Good pricing power due to stable spreads

Source: Company, Systematix Institutional Research

Exhibit 7: SHTF remains the lowest-cost CV finance NBFC

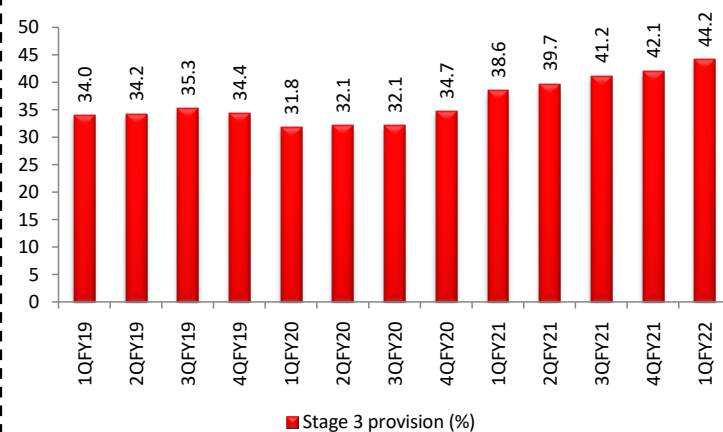
Source: Company, Systematix Institutional Research

Exhibit 8: Gross stage-3 spikes as the company proactively provided for the delay in loans...



Source: Company, Systematix Institutional Research

Exhibit 9: ...however stage 3 is well provided for



Source: Company, Systematix Institutional Research

Exhibit 10: Reduce our FY22E by 9% and largely maintain our FY23E estimates

(Rs bn)	Old Est		New Est		% Change	
	FY22	FY23	FY22	FY23	FY22	FY23
NII (incl. Sec. Inc.)	90.2	102.9	88.8	101.0	-1.5	-1.8
Other Income	3.2	3.3	3.2	3.3		
Total Income	93.3	106.2	92.0	104.3	-1.4	-1.8
Operating Expenses	22.6	24.5	22.6	24.5	-0.1	-0.1
Operating Profits	70.7	81.6	69.4	79.8	-1.9	-2.3
Provisions	27.2	27.8	29.9	27.6	9.8	-0.5
PBT	43.5	53.9	39.5	52.1	-9.2	-3.2
Tax	11.0	13.6	10.0	13.1	-9.2	-3.2
PAT	32.5	40.3	29.6	39.0	-9.2	-3.2
AUM	1,287	1,445	1,280	1,433	-0.5	-0.8
Loans	1,184	1,359	1,178	1,347	-0.5	-0.8
Borrowings	1,139	1,258	1,133	1,247	-0.5	-0.8
NIM (%)	8.0	8.1	7.9	8.0	-10bps	-9bps
Credit Cost (%)	2.4	2.2	2.6	2.2	24bps	0bps
RoA	2.4	2.7	2.2	2.6	-21bps	-7bps

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	153,357	162,675	171,281	184,310	205,746
Interest Expenses	75,113	82,703	90,543	95,469	104,725
Net Interest Income	78,244	79,972	80,739	88,841	101,021
Change (%)	14.6	2.2	1.0	10.0	13.7
Other Operating Income	1,935	2,949	2,923	2,996	3,071
Other Income	275	203	160	183	211
Net Income	80,454	83,124	83,821	92,020	104,303
Change (%)	12.8	3.3	0.8	9.8	13.3
Operating Expenses	18,849	20,788	19,857	22,613	24,511
Operating Profit	61,605	62,336	63,964	69,408	79,792
Change (%)	11.5	1.2	2.6	8.5	15.0
Provisions	23,823	27,949	31,184	29,896	27,649
PBT	37,783	34,387	32,780	39,512	52,143
Tax	12,143	9,368	7,908	9,957	13,140
Tax Rate (%)	32.1	27.2	24.1	25.2	25.2
PAT	25,640	25,018	24,873	29,555	39,003
Change (%)	4.2	-2.4	-0.6	18.8	32.0
Proposed Dividend (Incl. tax)	3,009	3,282	4,807	3,547	4,680

Source: Company, Systematix Institutional Research

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YE: Mar (%)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	15.1	14.8	14.1	13.6	13.8
Interest Expended	7.4	7.5	7.4	7.0	7.0
Net Interest Income	7.7	7.3	6.6	6.6	6.8
Other operating income	0.2	0.3	0.2	0.2	0.2
Income from securitisation	0.0	0.0	0.0	0.0	0.0
Net Operating Income	7.9	7.5	6.8	6.8	7.0
Other Income	0.0	0.0	0.0	0.0	0.0
Net Income	7.9	7.6	6.9	6.8	7.0
Operating Expenses	1.9	1.9	1.6	1.7	1.6
Operating Income	6.1	5.7	5.2	5.1	5.4
Provisions	2.4	2.5	2.6	2.2	1.9
PBT	3.7	3.1	2.7	2.9	3.5
Tax	1.2	0.9	0.6	0.7	0.9
PAT	2.5	2.3	2.0	2.2	2.6
Leverage	7.0	6.5	6.2	5.7	5.3
RoE	17.6	14.9	12.6	12.4	14.0

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Capital	2,269	2,269	2,531	2,670	2,670
Reserves & Surplus (Ex OCI)	154,228	177,832	213,153	259,021	293,344
Net Worth	156,497	180,101	215,684	261,692	296,015
Other Comprehensive Income	-49	-49	0	0	0
Net Worth	156,448	180,052	215,684	261,692	296,015
Change (%)	16.7	15.1	19.8	21.3	13.1
Borrowings	879,144	943,718	1,061,964	1,132,733	1,247,392
Change (%)	7.0	7.3	12.5	6.7	10.1
Other Liabilities	17,283	17,468	19,141	19,524	19,914
Total Liabilities	1,052,876	1,141,237	1,296,789	1,413,948	1,563,321
Investments	39,991	27,985	31,979	38,374	46,049
Change (%)	70.8	-30.0	14.3	20.0	20.0
Loans	967,515	1,022,316	1,083,030	1,178,042	1,347,183
Change (%)	6.6	5.7	5.9	8.8	14.4
Other Assets	45,419	90,985	181,780	197,532	170,088
Total Assets	1,052,925	1,141,286	1,296,789	1,413,948	1,563,321

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
Spreads Analysis (%)					
Yield on Portfolio	15.9	15.8	15.8	15.8	15.8
Cost of Borrowings	8.8	9.1	9.0	8.7	8.8
Interest Spread	7.1	6.7	6.8	7.1	7.0
Net Interest Margin	8.3	8.0	7.7	7.9	8.0
Profitability Ratios (%)					
Cost/Income	23.4	25.0	23.7	24.6	23.5
RoE	17.6	14.9	12.6	12.4	14.0
RoA	2.5	2.3	2.0	2.2	2.6
Asset Quality (%)					
GNPA	86,163	91,771	82,928	82,178	92,786
NNPA	56,465	59,911	48,067	45,198	51,032
GNPA %	8.4	8.4	7.1	7.0	6.9
NNPA %	5.7	5.6	4.3	4.0	3.9
PCR %	34.5	34.7	42.0	45.0	45.0
Capitalisation (%)					
CAR	20.3	22.0	22.5	22.3	21.5
Tier I	15.6	18.1	19.9	20.3	19.9
Tier II	4.7	3.9	2.6	2.1	1.6
Average Leverage on Assets (x)	7.0	6.5	6.2	5.7	5.3

Valuation	FY19	FY20	FY21	FY22E	FY23E
Book Value (Rs)	690	794	852	980	1,108
Price-BV (x)	2.0	1.8	1.6	1.4	1.3
EPS (Rs)	113	110	98	111	146
EPS Growth (%)	4.2	-2.4	-10.9	12.6	32.0
Price-Earnings (x)	12.3	12.6	14.2	12.6	9.5
Dividend (Rs)	11.0	12.0	18.0	11.1	14.6
Dividend Yield (%)	0.8	0.9	1.3	0.8	1.0

Source: Company, Systematix Institutional Research

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