

# Shriram Transport Finance

## Proxy to cyclical rebound

SHTF outperformed on the back of sharper-than-anticipated improvement in asset quality and lower-than-expected provisions. SHTF is now also benefiting from a benign funding environment, which bodes well for growth and margins. We revise our FY21/22E earnings upwards by 8.5%/5.8% to reflect these tailwinds. SHTF increasingly appears to be well-poised to capture any uptick in the used vehicle financing space, which has strong links to the economic cycle. We maintain ADD (revised target price of Rs 1,355).

- Asset quality stabilising ahead of expectations:** On a pro forma basis, GS-III dipped ~15bps sequentially to ~7.1% in tandem with a sustained improvement in collection efficiency (from 95% in September to 104% in December). SHTF also tweaked internal probabilities of default downwards, reflective of a relative improvement in its outlook. Further, the management estimate of the restructured portfolio remained benign at ~2%. In light of these trends, we now build exit-FY21E GNPA's of 9.5% (vs. 10.3% earlier).
- Provisions to moderate, faster than expected:** Even as provisions remained elevated in 3Q at ~Rs 6.7bn (+51.8/2.9% YoY/QoQ), they were 12.7% below our estimates. In light of (1) faster-than-anticipated improvement in asset quality and (2) already-sizeable provisioning buffers (Stage III coverage-40.8%, Stage I & II coverage- 4.8% and COVID-19 related provisions of 2.2%), we expect the pace of incremental provisions to moderate considerably. We now build LLPs of 2.7% in FY21E (vs. 2.8% earlier) and 2.1% over FY21-23E (vs. 2.2% earlier).
- Better access to funding to support growth and NIMs:** Outstanding term loans grew ~10% QoQ. SHTF also saw reasonable traction in public deposits, which grew 18.6/10.5%. We believe the sharp fall in funding costs (-16bps QoQ) is indicative of an improvement in SHTF's ability to access funds, supported by a benign funding environment. We raise our FY21E NIM estimates by 10bps to 7.2%. Further, these trends should allow SHTF to capture a larger share of the cyclical uptick in the demand for asset financing. We build in an AUM CAGR of 7.8% over FY21-23E.

### Financial summary

(Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	21,452	20,641	3.9	20,368	5.3	79,972	81,705	87,757	94,827
PPOP	16,637	16,307	2.0	15,759	5.6	62,336	63,701	67,174	73,087
PAT	7,871	8,797	(10.5)	7,056	11.6	25,018	24,534	32,636	38,354
EPS (Rs)	28.8	38.8	(25.8)	27.9	3.1	110.3	97.0	129.0	151.6
ROAE (%)						14.8	12.3	14.0	14.5
ROAA (%)						2.28	2.06	2.53	2.75
ABVPS (Rs)						530	600	750	918
P/ABV (x)						2.2	2.0	1.6	1.3
P/E (x)						10.7	12.1	9.1	7.8

### Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	1,184	1,187	0.2%	1,251	1,257	0.5%	1,360	1,373	0.9%
NIM (%)	7.0	7.2	10 bps	7.1	7.2	11 bps	7.2	7.2	0 bps
NII	80.4	81.7	1.6%	86.1	87.8	2.0%	94.2	94.8	0.7%
PPOP	62.4	63.7	2.0%	65.5	67.2	2.5%	72.6	73.1	0.7%
PAT	22.6	24.5	8.5%	30.8	32.6	5.8%	37.8	38.4	1.4%
ABVPS (Rs)	564	600	6.3%	732	750	2.5%	905	918	1.5%

Source: Bank, HSIE Research

## ADD

CMP (as on 29 Jan 2021)	Rs 1,292
Target Price	Rs 1,355
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 1,270	Rs 1,355
	FY21E	FY22E
EPS %	+8.5%	+5.8%

### KEY STOCK DATA

Bloomberg code	SHTF IN
No. of Shares (mn)	253
MCap (Rs bn) / (\$ mn)	327/4,481
6m avg traded value (Rs mn)	4,198
52 Week high / low	Rs 1,332/429

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	84.8	78.3	19.7
Relative (%)	68.3	56.7	7.4

### SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	26.5	26.5
FIs & Local MFs	4.4	5.4
FPIs	60.5	61.7
Public & Others	8.6	6.4
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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