

# Shriram Transport Finance Co. Ltd.

BUY

CMP Rs1,292

Target Rs1,430

Upside 10.7%

## Strong visibility on growth and credit cost normalization – Retain BUY with 12m PT of Rs1430

SHTF delivered a robust quarter with encouraging signals on sustainable growth and credit cost. Disbursements matched last year's performance in Q3, and the management is now confident about delivering 10%+ growth in FY22. On asset quality, the data on collection efficiency (normal for last three months), stage-wise movements (not much change in Stage-2 % over Q2) and restructuring (invoked 2% of book, actual to be lower) is assuaging, and thus the company believes that credit cost will remain within stated guidance in current year and move material lower next year. The company carries Covid-related additional provisions (over ECL) of Rs25bn (2.2% of AUM).

Liquidity/ALM pressures have ebbed with SHTF being able to raise significant sums through dollar bonds and term loans in FY21 YTD, and the current liquidity buffer covers next six months of liability repayments and ALM is positive in all shorter buckets. We expect earnings to get a fillip from AUM growth acceleration, NIM normalization and reduction in credit cost over FY21-23. Estimate RoA to improve 2.7-2.8% and RoE to 14-15%. Despite the sharp run-up in recent months, the valuation is undemanding at 1.2x FY23 P/ABV. Retain BUY and raise price target to Rs1,430.

## Management Commentary

### Key takeaways

- ✓ Collection was consistently good through Q3 - Credit Cost was annualized 2.2%.
- ✓ Credit Cost to be within 2.7-2.8% guidance for FY21 – will move towards 2% in the longer term.
- ✓ Loan growth likely to be around 6% in FY21 – FY22 should be a double-digit growth year – if growth is much stronger, than co. would look to raise equity capital.
- ✓ Observing no idling of the vehicle for few vehicle owners as well as for larger operators – no of days vehicle run at 22-24 days a month, suggesting healthy vehicle utilization.
- ✓ Freight rates have gone up, taking care of fuel price increase.
- ✓ Demand for used vehicles improving – used LCV prices 20% higher than last year while used MHCV pricing has been stable.
- ✓ Raised Rs120bn fresh borrowings through various instruments – Rs100bn was raised in Q2.

## Exhibit 1: Financial Summary

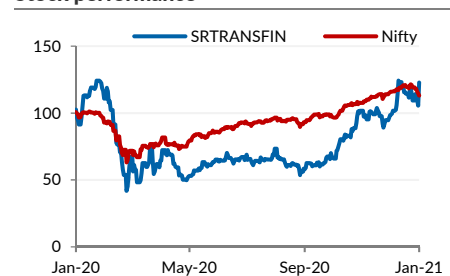
Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Operating income	83,124	83,526	95,160	106,823
PPOP	62,336	63,569	73,208	82,675
Net profit	25,018	24,664	34,563	39,361
yoy growth (%)	(2.4)	(1.4)	40.1	13.9
EPS (Rs)	110.3	97.4	136.5	155.5
Adj. BVPS (Rs)	529.5	655.3	785.9	895.9
P/E (x)	10.1	11.4	8.1	7.1
P/adj.BV (x)	2.1	1.7	1.4	1.2
ROE (%)	14.8	12.4	14.7	14.6
ROA (%)	2.3	2.1	2.7	2.8
CAR (%)	22.0	24.5	25.5	26.0

Source: Company, YES Sec – Research

## Stock data (as on January 29, 2021)

Nifty	13,635
52 Week h/l (Rs)	1332 / 429
Market cap (Rs/USD mn)	326791 / 4479
Outstanding Shares (mn)	253
6m Avg t/o (Rs mn):	4,001
Div yield (%):	0.5
Bloomberg code:	SHTF IN
NSE code:	SRTRANSFIN

## Stock performance



	1M	3M	1Y
Absolute return	23.4%	87.6%	30.8%

## Shareholding pattern

Promoter	26.5%
FII+DII	64.9%
Others	8.6%

### RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in

+91 98925 92827



MANUJ OBEROI, Associate

AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

- ✓ Resale values of LCVs are higher than pre-covid levels – HCVs not much value discovery has happened in H2 FY21, but resale value should be stable.
- ✓ Completed a dollar bond issuance of US\$500mn in January – fully hedge principal and interest and thus carry no forex risk.
- ✓ Liquidity at Rs130bn, covering next 6 months liability repayments – will continue with higher BS liquidity for next three quarters.
- ✓ Cumulative ALM surplus up to 1 year at Rs85bn with positive mismatch in all shorter buckets.
- ✓ Still there are 9600 borrowers who have not paid since March, where exposure is Rs1.1bn which is classified as Stage-3.
- ✓ ECLGS sanction/disbursement at Rs7bn - Restructuring requests received at Rs30bn, of which proposals invoked at Rs22bn – actual restructuring would be even lower than invoked - have done RBI required provisions on restructured assets.
- ✓ Stage-1 assets at 81% (82% as of Q2) and Stage-2 assets at 12% (v/s 11% as of Q2) - ECL provisions held at 3% on Stage-1 (PD/LGD at 7%/43%) and 10% on Stage-2 (PD/LGD at 23%/43%).
- ✓ Cumulative Covid provisions at Rs27bn (2.3% of AUM).
- ✓ Reduction in employee count driving a decline in employee cost – have started recruitment a couple of months before.

## Exhibit 2: Result Table

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Total Operating Income	44,384	43,478	2.1	42,189	5.2
Interest expended	(22,363)	(22,629)	(1.2)	(20,512)	9.0
Net Interest Income	22,021	20,848	5.6	21,676	1.6
Other income	48	35	35.3	33	42.6
Total Income	22,069	20,883	5.7	21,710	1.7
Operating expenses	(5,432)	(5,125)	6.0	(5,403)	0.5
PPOP	16,637	15,759	5.6	16,307	2.0
Provisions	(6,747)	(6,555)	2.9	(4,444)	51.8
PBT	9,890	9,204	7.5	11,863	(16.6)
Tax	(2,613)	(2,359)	10.8	(3,072)	(14.9)
PAT	7,277	6,846	6.3	8,792	(17.2)

Source: Company, YES Sec – Research

## Exhibit 3: Business Data

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
AUM	1,149,321	1,133,459	1.4	1,089,314	5.5
New	84,940	92,325	(8.0)	104,651	(18.8)
Used	1,010,347	980,888	3.0	926,255	9.1
Business Loans	22,259	23,622	(5.8)	26,495	(16.0)
Working Cap. Loans	31,268	36,114	(13.4)	31,421	(0.5)
Others	507	510	(0.6)	491	3.3
Loan Portfolio	903,376	873,031	3.5	856,785	5.4
Securitized Portfolio	232,411	244,232	(4.8)	218,045	6.6
Off-Book	13,534	16,196	(16.4)	14,484	(6.6)

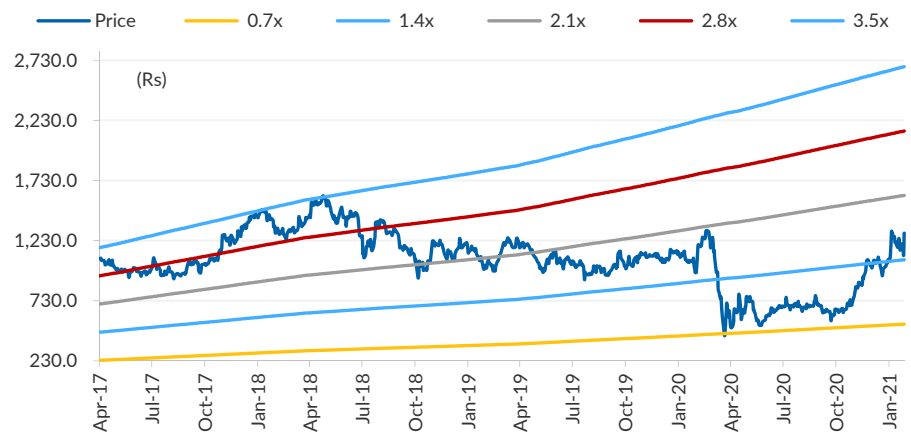
Source: Company, YES Sec – Research

## Exhibit 4: Key Ratios

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
NIM (%)	6.9	6.7	0.2	7.1	(0.3)
Cost to Income (%)	24.6	24.5	0.1	24.9	(0.3)
BV (Rs)	827.8	802.7	3.1	783.8	5.6
RoE (%)	14.1	14.2	(0.1)	20.2	(6.1)
RoA (%)	2.3	2.2	0.1	3.1	(0.7)
CAR (%)	23.6	23.4	0.2	20.7	2.9
Gross Stage 3 (%)	7.1	7.3	(0.1)	9.1	(2.0)
Net Stage 3 (%)	4.3	4.5	(0.2)	6.2	(1.9)
Stage 3 Coverage (%)	41.2	39.7	1.5	32.1	9.1

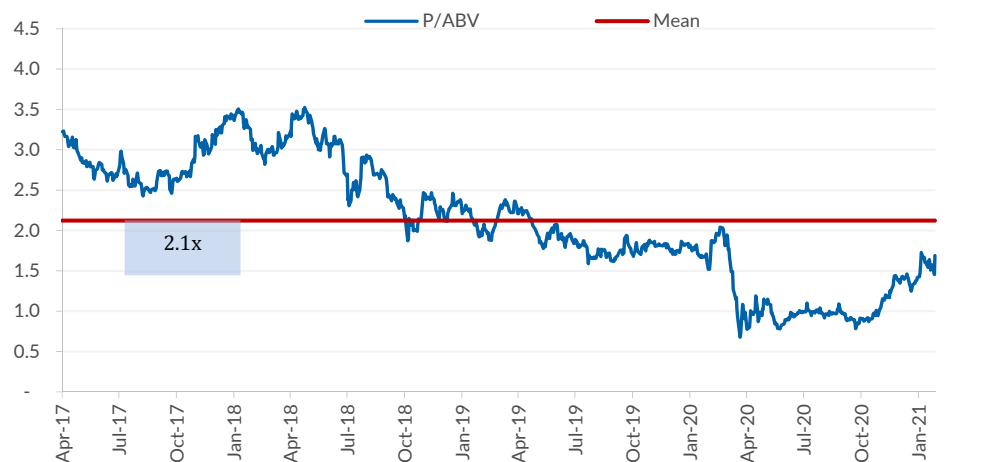
Source: Company, YES Sec - Research

## Exhibit 5: 1-year rolling P/ABV band



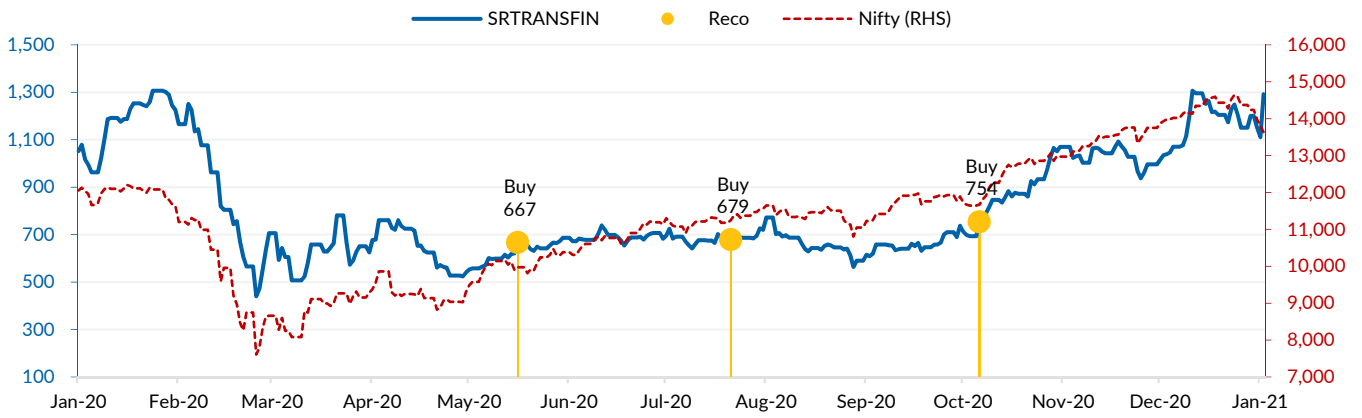
Source: Company, YES Sec - Research

## Exhibit 6: 1-yr rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec - Research

## Recommendation Tracker



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### YES Securities (India) Limited

**Registered Address:** Unit No. 602 A, 6th Floor, Tower 1 & 2,  
One International Center, Senapati Bapat Marg, Elphinstone Road,  
Mumbai – 400013, Maharashtra, India  
Email: [research@ysil.in](mailto:research@ysil.in) | Website: <https://yesinvest.in>

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Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI  
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**Details of Compliance Officer:** Vaibhav Purohit (For Broking / Research /  
Investment Adviser): Email: [compliance@ysil.in](mailto:compliance@ysil.in) /  
Contact No.: 022-33479208 | Dhanraj Uchil (For Merchant Banking):  
Email: [dhanraj.uchil@ysil.in](mailto:dhanraj.uchil@ysil.in) / Contact No.: 022-33479684

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