

Shriram Transport Finance

Refer to important disclosures at the end of this report

Steady growth momentum with improving trends in asset quality

- Our preference for SHTF in these uncertain times is underpinned by its unique customer base with a moat, along with strong underlying demand for used vehicle during current slowdown. SHTF reported robust growth in disbursements to Rs149.7bn (+19.5% qoq, +37.8% yoy), with ~95% of disbursements contributed by the used vehicle segment.
- The company posted a PAT of Rs7.54bn, aided by healthy margins (calc. NIMs of ~751bps), consistency in operating leverage (C/I ratio at ~23.8%) and steady credit costs (~249bps). Provision coverage improved further to ~42%, with declining trends in Gross Stage 3 at 7.06% vs. 7.11% in the last quarter.
- Covid-specific provisions were maintained at Rs25.9bn (~2.2% of AUM), built in through elevated loss, given default assumptions across buckets. SHTF witnessed further improvement in collection efficiency to ~103% in Q4FY21 from ~97.4% in Q3FY21. Total restructured book stands at Rs5,893mn (0.5% of AUM) as of Q4FY21.
- We are building in some stress on asset quality for FY22E due to recent lockdowns. We are introducing FY24 to our estimates as well. SHTF remains our top pick in NBFC coverage universe. We maintain Buy and OW in EAP, with a revised TP of Rs1,680 (Rs1,595 earlier), corresponding to 1.6x FY23E P/Adj. Book.

What we like about SHTF results

- On the growth front, used vehicle demand for SHTF remained robust with disbursement growth of 37.4% yoy (+16.4% qoq) to Rs14.2bn, while new and SME lending also witnessed a spark of ~45.5% yoy (+131.5% qoq). Overall AUM for the year inched up to Rs1.17tn (+6.8% yoy, +2% qoq), with old vehicles forming ~89.2% of AUM vs. ~85.6% last year.
- We like SHTF's CAR of ~22.5% (after the Rs15bn rights issue), strong liquidity buffer of ~Rs 171.2bn (~14.6% of AUM) and multiple sources of funding.
- Cost of funds saw a consistent improvement to ~9.15% from 9.43% in the prior quarter, indicating sufficient availability of liquidity.
- Operating expense remained flat yoy, further supporting operating profit (PPoP) to grow by +9.6% yoy. Cost-to-income ratio stood at 21.96% in Q4FY21 vs. 25.44% in Q4FY20.

What we are concerned about

- The second Covid wave, followed by country-wide lockdowns, can hamper demand scenario and asset-quality outlook for the company.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(page 10\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	83,055	83,821	91,488	106,345	117,712
Net profit	25,018	24,873	33,766	44,426	50,228
EPS (Rs)	110.3	98.3	133.4	175.6	198.5
ABV (Rs)	601.6	715.7	842.4	1,027.4	1,214.0
RoA (%)	2.3	2.0	2.6	3.2	3.2
RoE (%)	14.7	12.5	14.6	17.0	16.8
PE (x)	12.8	14.4	10.6	8.1	7.1
P/ABV	2.4	2.0	1.7	1.4	1.2

Source: Company, Emkay Research

CMP	Target Price
Rs 1,416 as of (April 30, 2021)	Rs 1,680 (▲) 12 months
Rating	Upside
BUY (■)	18.6 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(9.9)/4.4
Target Price change (%)	5.3
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	133.4	175.6
Consensus	132.1	153.3
Mean Consensus TP (12M)	Rs 1,527	

Stock Details

Bloomberg Code	SHTF IN
Face Value (Rs)	10
Shares outstanding (mn)	253
52 Week H/L	1,535 / 514
M Cap (Rs bn/USD bn)	358 / 4.84
Daily Avg Volume (nos.)	3,304,072
Daily Avg Turnover (US\$ mn)	60.8

Shareholding Pattern Mar '21

Promoters	26.5%
FII's	61.0%
DII's	6.9%
Public and Others	5.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	10	103	109
Rel. to Nifty	(3)	-	59	34

Relative price chart



Source: Bloomberg

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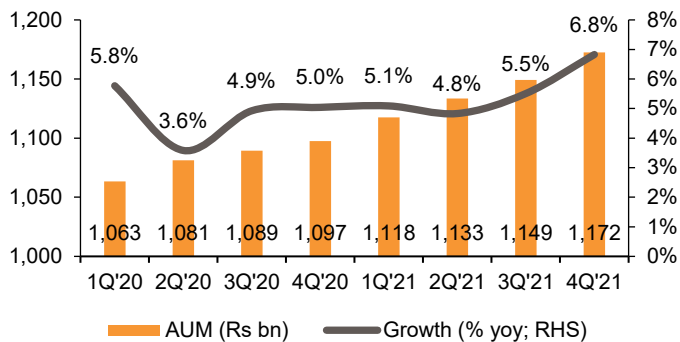
Shriram Transport (SHTF) has been our pick over M&M Finance (MMFS) since past one year on superior collection efficiency and healthy provision coverage of the former, along with specific caution over the commercial passenger vehicle portfolio of MMFS.

Why we continue to prefer SHTF over MMFS even going forward as well?

- Our preference for SHTF during recent uncertain times is backed by its unique customer base with a moat, along with some certainty for used vehicle demand during current slowdown. Most of the sales force of MMFS has been diverted into collection and recoveries (post Covid19), impacting overall growth momentum of the company in near term. UP/Rajasthan and Bihar being largest markets for MMFS, we expect overall resolution of stress asset pool will be slower, which in turn will impact near-term growth momentum of the company.
- SHTF managed to maintain its momentum in recoveries (part payments). The company witnessed further improvement in collection efficiency to ~103.3% in Q4FY21 vs. ~97.4% in Q3FY21. We expect collection momentum to improve further. MMFS has witnessed a sharp surge in stress, especially in its commercial passenger vehicle (cab aggregators) and CV portfolio. We expect a large portion of these portfolios to turn into restructured assets and would result in longer-than-expected pain for the company. On the collection efficiency front, MMFS has reached to 100% in Q4FY21 which still remains lower than SHTF.
- Historically, we have remained most comfortable on provision coverage for SHTF over MMFS. Additional Covid specific provision of Rs25.9bn for SHTF eliminates volatile trends in credit costs. Though in Q4FY21, MMFS reported a surge in provisions, including management overlay of ~Rs13bn, considering the impact of the second wave of Covid and portfolio quality of both companies, we continue to prefer SHTF.
- Both the companies are well placed on capital adequacy and liability franchise, and can gain advantages of lower cost of funds for now.
- **Though more recently, we are clearly able to visualize strong outperformance of SHTF over MMFS in both relative and absolute terms as SHTF has started commanding a premium over MMFS in valuations. We believe the premium for SHTF is likely to expand over MMFS from hereon. On the valuation front, SHTF is currently trading at 1.4x P/Adjusted FY23E book while MMFS is trading at ~1.2x P/Adjusted FY23E book.**

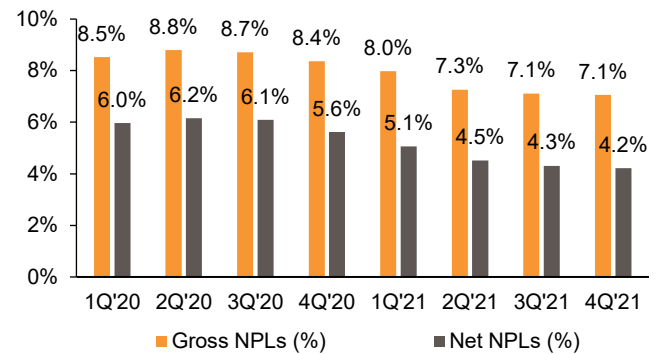
Story in Charts

Exhibit 1: AUM grows by ~6.8% on improving disbursements



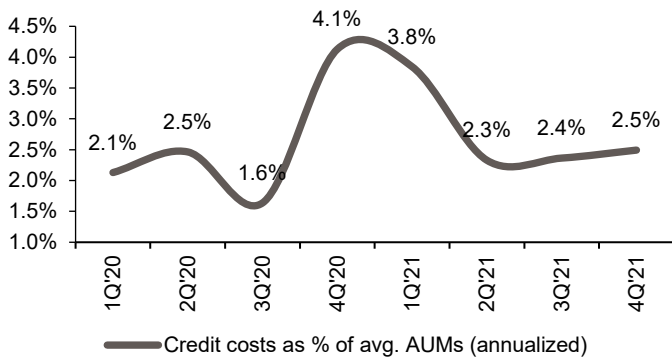
Source: Company, Emkay Research

Exhibit 2: Asset quality remained stable in Q4FY21



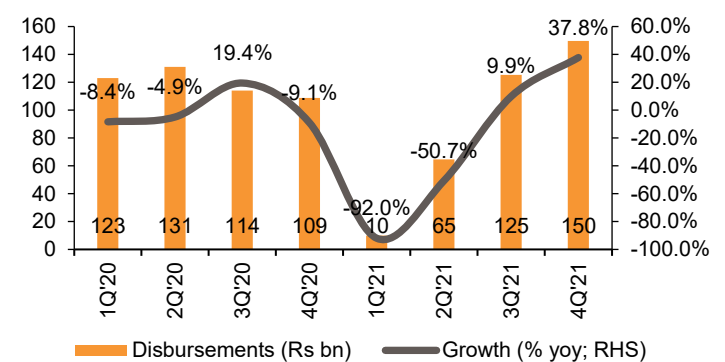
Source: Company, Emkay Research

Exhibit 3: Credit costs stabilize at ~2.5%, maintain pre-covid levels



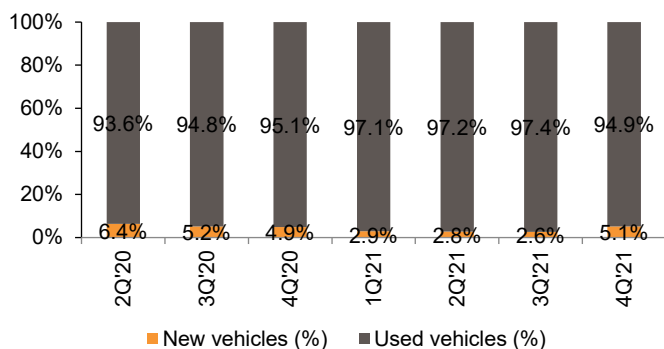
Source: Company, Emkay Research

Exhibit 4: Disbursements continue to witness accelerated growth



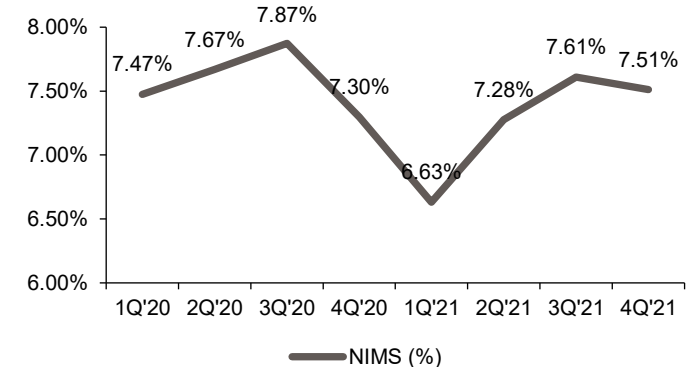
Source: Company, Emkay Research

Exhibit 5: The share of new vehicles increases in the portfolio



Source: Company, Emkay Research

Exhibit 6: Margins witness a decline to 7.51% in Q4FY21



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates for Q4FY21

Rs mn	Actual	Estimate (Emkay)	Consensus estimate (Bloomberg)	% variation		Comments
				Emkay	Consensus	
Net income	21,799	23,281	23,133	-6.4%	-5.8%	Lower than expectations due to NIM drag
PPOP	16,617	17,790	17,790	-6.6%	-6.6%	Due to lower net income offset by lower cost
PAT	7,549	7,624	7,624	-1.0%	-1.0%	In line due to lower provisions

Source: Company, Emkay Research

Exhibit 8: Quarterly financials

Particulars (Rs mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY20	FY21	YoY (%)
Net Interest Income	19,617	18,204	20,252	21,482	21,511	9.7%	0.1%	79,972	80,739	1.0%
NIM (% of AUM)	6.8%	6.4%	6.7%	6.9%	6.8%					
Operating Expenses	5,165	3,636	4,715	5,080	5,183	0.3%	2.0%	20,720	19,857	-4.2%
Operating Profit	15,164	14,952	15,759	16,637	16,617	9.6%	-0.1%	62,336	63,964	2.6%
Provisions	11,287	10,646	6,555	6,747	7,236	-35.9%	7.3%	27,949	31,184	11.6%
% of operating profit	74.4%	71.2%	41.6%	40.6%	43.5%	-41.5%	7.4%	44.8%	48.8%	
PBT	3,877	4,306	9,204	9,890	9,380	141.9%	-5.2%	34,387	32,780	-4.7%
Tax	1,205	1,105	2,359	2,613	1,831	51.9%	-29.9%	9,369	7,908	-15.6%
Tax rate (%)	31.1%	25.7%	25.6%	26.4%	19.5%			27.2%	24.1%	
PAT	2,672	3,201	6,846	7,277	7,549	182.5%	3.7%	25,018	24,873	-0.6%
Gross NPL	91,797	89,308	82,171	81,704	82,952	-9.6%	1.5%	91,797	82,952	-9.6%
GNPL (% of loans)	8.4%	8.0%	7.3%	7.1%	7.1%			8.4%	7.1%	
Net NPL	59,911	54,878	49,541	48,042	48,067	-19.8%	0.1%	59,911	48,067	-19.8%
NNPL (% of loans)	5.6%	5.1%	4.5%	4.3%	4.2%			5.6%	4.2%	
Provision Coverage (%)	34.7%	38.6%	39.7%	41.2%	42.1%			34.7%	42.1%	
AUM (Rs mn)	10,97,492	11,17,564	11,33,459	11,49,321	11,72,428	6.8%	2.0%	10,97,492	11,72,428	6.8%
Disbursements (Rs mn)	1,08,690	9,855	64,633	1,25,300	1,49,726	37.8%	19.5%	4,76,710	3,49,514	-26.7%

Source: Company

Exhibit 9: Changes in earnings estimates

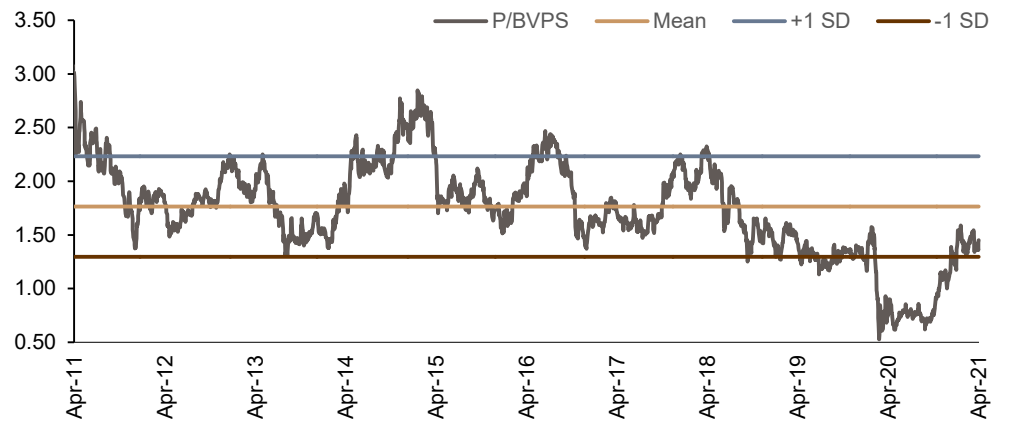
Y/e Mar (Rs m)	FY22E			FY23E			FY24E
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Net operating income	93,739	91,488	-2.4%	1,05,015	1,06,345	1.3%	1,17,712
PPOP	72,128	69,684	-3.4%	81,321	82,218	1.1%	91,461
PAT	37,480	33,766	-9.9%	42,586	44,426	4.3%	50,228
EPS (Rs)	148.0	133.4	-9.9%	168.2	175.6	4.4%	198.5
BV (Rs)	968	965	-0.3%	1102	1105	0.3%	1264

Source: Emkay Research

Exhibit 10: Key assumptions

(%)	FY21	FY22E	FY23E	FY24E
Loans growth	5.9%	14.4%	10.8%	15.0%
Borrowings growth	12.5%	-1.7%	10.2%	15.0%
Yield on average loans	14.2%	14.1%	14.3%	13.9%
Cost of average int. liabilities	8.9%	8.7%	8.2%	8.0%

Source: Emkay Research

Exhibit 11: The stock currently trades at 1.45x 1-year forward P/B

Source: Emkay Research

Con-Call highlights

- CV sales were up 42% yoy in Q4, driven by increase in agri vehicle sales by 56% yoy (due to pent-up demand) offset by a slight contraction in LCV sales due to demands-supply issues.
- New vehicle sales have come down in April and are expected to remain low in May. Used vehicle demand will be better but might get impacted as RTOs are not open in some regions.
- Management expects disbursement run rate in H1FY22 similar to Q3FY21 and then pick up in H2FY22. Overall run rate for FY22 is expected to be better than Q3FY21.
- It also expects AUM CAGR of 10-12% in next two years, driven by infra-related and mining-related construction equipment demand.
- 60% of customers have two or more loans, and the company is trying to cross-sell products, especially insurance products (tenure ~1 year). The company has partnered with all three fuel companies for fuel credit (tenure ~15 days) and partnering with tyre companies for tyre credit (tenure ~6 months). Currently fuel credit, tyre credit and insurance are very small part of book (almost 2-3% cumulatively).
- Expecting cost-to-income ratio to increase to 23-24% in FY22 vs. 22% in FY21 due to new hirings (targeting total employees to reach 28k in two years from 24.5 in FY21) and new branch openings (targeting 300 new branches in two years).
- Digital platforms are helping to get in touch with customers in the second Covid wave.
- NIM was lower in Q4FY21 due to Rs260bn of interest-on-interest reversal and higher liquidity.
- Expecting credit cost at 2.0% for FY22 vs. 2.5% in FY21.
- Total provisions in Q4FY21 were Rs7.24bn, including write-off of Rs5.3bn and ECL provisions of Rs1.9bn.
- The company has Gross Stage 1 assets of 81.04%, Stage 2 of 11.9% and Stage 3 of 7.06% as of FY21 vs. Stage 1 of 80.78%, Stage 2 of 12.11% and Stage 3 of 7.11% in Q3FY21. It has coverage ratio of 3.25% in Stage 1, 9.7% in Stage 2 and ~42% in Stage 3 as of FY21. PD of Stage 1 was 7.38% and Stage 2 was 22.24% as of FY21.
- SHTF has total provisions of Rs79.4bn as of FY21 vs. regulatory requirement of Rs28bn. (excess provisions of Rs51.4bn)
- The company has completed restructuring of total loans of Rs5.9bn by FY21 from pandemic related stress book of Rs22.7bn. No further restructuring is expected.
- Weighted cost of funding will come down by 10-15bps but there will be some drag due to excess liquidity.
- Collection efficiency as of 27th April was 91.26% vs. normal level of 96-97% (and 103.31% of collection efficiency in Q4FY21).
- The company is targeting to reduce liquidity to Rs130bn by Q1FY22-end but will maintain three times of monthly lending rate (board guidance). The high liquidity buffer will help it address demand after second Covid wave impact (Q2FY22 onward).
- Management mentioned that it has ample liquidity of Rs171.2bn as of FY21 and can manage all opex and liabilities till August even in the worst-case scenario no collections.

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	79,972	80,739	89,569	104,136	115,199
Other income	3,083	3,083	1,918	2,208	2,512
Net income	83,055	83,821	91,488	106,345	117,712
Operating expenses	20,720	19,857	21,804	24,126	26,251
Pre provision profit	62,336	63,964	69,684	82,218	91,461
Provisions	27,949	31,184	24,238	22,426	23,860
Profit before tax	34,387	32,780	45,445	59,792	67,601
Tax	9,369	7,908	11,679	15,367	17,374
Tax rate	27	24	26	26	26
Profit after tax	25,018	24,873	33,766	44,426	50,228

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	2,269	2,531	2,531	2,531	2,531
Reserves	179,154	214,642	241,655	277,196	317,378
Net worth	181,423	217,173	244,186	279,726	319,908
Borrowings	952,841	1,071,608	1,053,052	1,160,257	1,334,725
Total liabilities	1,142,658	1,298,278	1,307,613	1,451,322	1,667,027
Cash and bank	73,149	164,418	21,398	26,966	30,170
Investments	29,356	33,468	31,592	34,808	40,042
Loans	1,022,316	1,083,030	1,238,884	1,373,085	1,579,556
Others	5,199	10,707	10,928	11,171	11,438
Total assets	1,134,909	1,295,997	1,307,613	1,451,322	1,667,027

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	7.7	7.4	7.5	8.0	7.9
RoA	2.3	2.0	2.6	3.2	3.2
RoAE	14.7	12.5	14.6	17.0	16.8
GNPA (%)	8.4	7.1	7.1	6.2	5.5
NNPA (%)	5.6	4.2	3.3	1.9	1.1

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	110.3	98.3	133.4	175.6	198.5
BVPS	799.6	858.2	964.9	1,105.4	1,264.2
ABVPS	601.6	715.7	842.4	1,027.4	1,214.0
DPS	5.0	18.0	26.7	35.1	39.7

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	12.8	14.4	10.6	8.1	7.1
P/BV	2.4	2.0	1.7	1.4	1.2
P/ABV	2.4	2.0	1.7	1.4	1.2
Dividend Yield (%)	0.4	1.3	1.9	2.5	2.8

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	2.2	1.0	10.9	16.3	10.6
PPOP	(1.5)	2.6	8.9	18.0	11.2
PAT	(8.5)	(0.6)	35.8	31.6	13.1
Loans	5.7	5.9	14.4	10.8	15.0

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NII	19,943	18,361	20,473	21,717	21,799
NIM(%)	7.3	6.6	7.3	7.6	7.5
PPOP	15,164	14,952	15,759	16,637	16,617
PAT	2,672	3,201	6,846	7,277	7,549
EPS (Rs)	9.85	14.11	27.79	29.54	29.84

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-20	Aug-20	Sep-20	Dec-20	Mar-21
Promoters	26.3	26.5	26.5	26.5	26.5
FIIIs	63.7	64.1	60.5	61.7	61.0
DIIIs	2.3	2.3	4.4	5.4	6.9
Public and Others	7.8	7.1	8.6	6.4	5.6

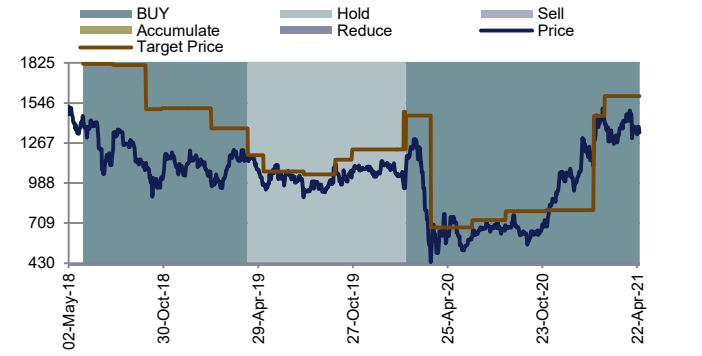
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Mar-21	1,423	1,595	12m	Buy	Jignesh Shial
19-Feb-21	1,399	1,595	12m	Buy	Jignesh Shial
29-Jan-21	1,286	1,455	12m	Buy	Jignesh Shial
30-Oct-20	686	800	12m	Buy	Jignesh Shial
16-Sep-20	651	792	12m	Buy	Jignesh Shial
14-Aug-20	679	792	12m	Buy	Jignesh Shial
16-Jun-20	632	730	12m	Buy	Jignesh Shial
11-Jun-20	615	730	12m	Buy	Jignesh Shial
14-May-20	625	679	12m	Buy	Jignesh Shial
05-May-20	713	679	12m	Buy	Jignesh Shial
19-Apr-20	773	679	12m	Buy	Jignesh Shial
11-Apr-20	651	679	12m	Buy	Jignesh Shial
05-Apr-20	502	679	12m	Buy	Jignesh Shial
30-Mar-20	587	679	12m	Buy	Jignesh Shial
24-Mar-20	467	679	12m	Buy	Jignesh Shial
05-Feb-20	1,092	1,459	12m	Buy	Jignesh Shial
04-Feb-20	1,011	1,221	12m	Hold	Jignesh Shial
01-Feb-20	952	1,484	12m	Hold	Jignesh Shial
19-Nov-19	1,085	1,221	12m	Hold	Jignesh Shial
25-Oct-19	1,079	1,221	12m	Hold	Jignesh Shial
24-Oct-19	1,027	1,150	12m	Hold	Jignesh Shial
23-Sep-19	1,120	1,150	12m	Hold	Jignesh Shial
28-Aug-19	951	1,049	12m	Hold	Jignesh Shial
25-Jul-19	946	1,049	12m	Hold	Jignesh Shial
25-May-19	1,055	1,068	12m	Hold	Jignesh Shial
09-May-19	984	1,068	12m	Hold	Jignesh Shial
09-Apr-19	1,165	1,181	12m	Hold	Jignesh Shial
15-Feb-19	955	1,368	12m	Buy	Jignesh Shial
29-Jan-19	978	1,368	12m	Buy	Jignesh Shial
26-Oct-18	1,017	1,510	12m	Buy	Jignesh Shial
26-Sep-18	1,128	1,502	12m	Buy	Jignesh Shial
24-Sep-18	1,077	1,810	12m	Buy	Jignesh Shial
26-Jul-18	1,339	1,810	12m	Buy	Jignesh Shial
29-May-18	1,442	1,818	12m	Buy	Jignesh Shial

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-NBFCs



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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-NBFCs	8.19	8.19	0%	0	100.00
Bajaj Finance	1.67	1.66	0%	0	20.30
Cholamandalam Investment	0.27	0.30	9%	2	3.62
Edelweiss Financial Services	0.00	0.00	NA	0	0.00
HDFC	5.53	5.53	0%	1	67.54
L&T Finance Holdings	0.09	0.09	10%	1	1.15
LIC Housing Finance	0.15	0.16	7%	1	1.95
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.12	0.05	-58%	-7	0.61
Nippon Life	0.06	0.06	0%	0	0.73
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.31	0.34	7%	2	4.09
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base						Latest
	01-Apr-19	29-Apr-20	28-Oct-20	27-Jan-21	26-Mar-21	28-Apr-21	
EAP - BFSI-NBFCs	100.0	87.4	99.1	129.6	136.5	138.6	
BSE200 Neutral Weighted Portfolio (ETF)	100.0	81.9	93.0	121.8	128.4	130.1	

*Performance measurement base date 1st April 2019

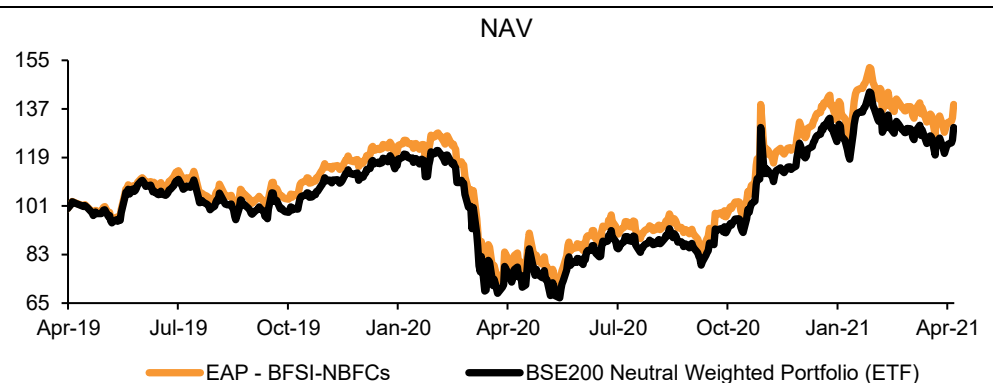
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	1.5%	7.0%	39.9%	58.6%
BSE200 Neutral Weighted Portfolio (ETF)	1.3%	6.9%	39.9%	58.9%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 30 Apr 2021 17:16:14 (SGT)

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