

Shriram Transport Finance

Estimate change



TP change



Rating change



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Bloomberg	SHTF IN
Equity Shares (m)	227
M.Cap.(INRb)/(USDb)	395.2 / 5
52-Week Range (INR)	1696 / 1003
1, 6, 12 Rel. Per (%)	10/18/-2
12M Avg Val (INR M)	1619

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Net Inc.	95.4	105.2	113.4
PPP	74.1	81.1	87.0
PAT	27.1	36.6	39.0
EPS (INR)	100	135	144
EPS Gr. (%)	1.8	35.3	6.5
BV/Sh (INR)	960	1,072	1,192

Ratios

NIM (%)	7.9	8.0	7.8
C/I ratio (%)	22.3	22.9	23.3
RoA (%)	2.0	2.5	2.4
RoE (%)	11.5	13.4	12.8
Payout (%)	24.0	20.4	20.8

Valuations

P/E (x)	14.6	10.8	10.1
P/BV (x)	1.5	1.4	1.2
Div. Yield (%)	1.4	1.6	1.7

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	29.3	26.5	25.1
DII	15.2	14.0	11.7
FII	50.0	53.9	57.5
Others	5.5	5.7	5.7

FII Includes depository receipts

CMP: INR1,462
TP: INR1,690 (+16%)
Buy

Disbursement momentum sustains; asset quality stable

- PAT declined by 11% QoQ to INR9.65b (in line) in 1QFY23, driven by a sequentially higher credit costs of ~2.5% and a NIM decline of ~20bp QoQ.
- Price hikes in both New and Used CVs (led by the shift to BS-VI emission standards and higher steel prices) has continued to feed into higher ticket sizes and are aiding disbursements, which grew 31% YoY to ~INR117b.
- SHTF's customers and products operate in a benign competitive landscape. It has the pricing power to pass on the higher incremental cost of borrowings to its customers. We estimate a compression of ~20bp in NIM over the next two years.
- We model an AUM CAGR of 11% over FY22-24, led by 11% CAGR in disbursements over the same period. We increase our FY23/FY24 EPS estimate by 6%/7% to factor in higher loan growth and lower OPEX. We estimate ~20% PAT CAGR over FY22-24, resulting in a RoA/RoE of 2.5%/13% over FY23/FY24.
- Concern around potential exits by investors (such as PIEL, Apax, TPG, and Sanlam) still remains an overhang on the stock. We like both the standalone businesses and believe that the merged entity will emerge stronger than the respective standalone entities. We maintain our Buy rating with a TP of INR1,690 per share (based on 1.4x FY24E BVPS).

Higher ticket sizes will continue to aid healthy disbursements

- AUM grew by ~3% QoQ and ~10% YoY to INR1.3t.
- Geopolitical events aside, it is difficult to predict when a sustained new CV upcycle will begin, but we feel it is around the corner. While higher ticket sizes have aided disbursements, we expect volume improvements from 2HFY23 onwards.

Asset quality stable; write-offs at a normalized run-rate

- GS3/NS3 declined by ~10bp/20bp QoQ to 7%/3.5%. PCR on Stage 3 improved by 160bp QoQ to ~52%.
- Restructured outstanding pool stood at INR7.6b (~60bp of AUM). The company utilized COVID-related provisions of ~INR2.2b in 1QFY23 and aggregate COVID-related provisions stood at INR18.4b (~1.4% of AUM).
- Write-offs stood ~INR4.8b (back to the normalized run-rate of INR4-5b).

Margin compression of ~20bp QoQ; excess liquidity to gradually decline

- The management said it will start to gradually reduce the excess liquidity on its Balance Sheet.
- We expect margin to stay stable in FY23, aided by its pricing power, lower increase in the cost of borrowings, and a reduction in the negative carry from excess liquidity.

Key highlights from the management commentary

- The management expects weighted average borrowing costs to rise by ~20bp in FY23.
- It does not foresee higher delinquencies due to higher inflation. Truck operators do not have to bear the cost of higher fuel prices as the same is passed on to the end-consumers through an increase in freight rates.

NCLT approval on the merger expected in another two months

- Liability-side challenges faced by the company (even before the COVID-19 pandemic broke out) have now receded.
- We maintain our Neutral rating on the announced merger as we neither see any significant synergies, nor can highlight any significant negatives.
- Technical reasons (of a potential supply overhang after the merger) aside, the merged entity will emerge stronger than the respective standalone businesses. We maintain our **Buy** rating.

Quarterly Performance

(INR b)

Y/E March	FY22				FY23E				FY22	FY23E	1QFY23E	Act v/s Est. (%)
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23				
Interest Income	44.8	45.8	46.6	49.3	50.2	51.2	52.2	52.9	186.5	206.5	48.8	2.9
Interest expenses	25.0	24.4	24.0	24.0	24.6	26.1	27.9	29.2	97.3	107.7	24.8	-0.7
Net Interest Income	19.8	21.4	22.6	25.2	25.6	25.1	24.3	23.7	89.1	98.8	24.0	6.6
Change YoY (%)	7.9	5.2	5.5	19.3	29.3	17.3	7.6	-6.3	10.4	10.8	21.3	
Other Operating Income	1.7	1.2	1.7	1.5	1.3	1.3	1.6	2.1	6.1	6.2	1.6	-20.1
Other Income	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.2	0.2	0.0	0.0
Net Income	21.5	22.7	24.4	26.8	26.9	26.5	26.0	25.8	95.4	105.2	25.6	5.0
Change YoY (%)	14.7	8.6	10.3	21.4	25.0	16.9	6.7	-3.9	13.8	10.3	19.0	
Operating Expenses	4.8	5.5	5.3	5.7	5.8	5.9	6.1	6.3	21.3	24.1	5.4	7.1
Operating Profit	16.7	17.2	19.1	21.1	21.1	20.6	19.9	19.5	74.1	81.1	20.2	4.4
Change YoY (%)	12.0	8.9	14.7	27.1	26.1	20.2	4.3	-7.8	15.8	9.5	20.8	
Provisions	14.4	6.8	9.8	7.6	8.1	8.2	8.0	7.6	38.6	31.9	7.4	9.1
Profit before Tax	2.3	10.4	9.2	13.5	13.1	12.4	11.9	11.9	35.5	49.2	12.8	1.8
Tax Provisions	0.6	2.7	2.4	2.6	3.4	3.2	3.0	3.0	8.4	12.6	3.3	2.3
Net Profit	1.7	7.7	6.8	10.9	9.7	9.3	8.8	8.9	27.1	36.6	9.5	1.6
Change YoY (%)	-46.9	12.7	-6.5	43.9	468.0	20.0	29.7	-18.0	8.9	35.3	459.2	
Key Operating Parameters (%)												
Yield on loans (Cal)	16.5	16.6	16.6	17.1	17.0				16.0	16.2		
Cost of funds (Cal)	9.4	9.1	8.7	8.5	8.4				8.8	9.0		
Spreads (Cal)	7.0	7.5	7.9	8.7	8.6				7.2	7.2		
NIMs (Reported)	6.4	6.4	6.7	7.0	6.9				6.7	6.6		
Credit Cost	0.0	0.0	0.0	0.0	0.0				3.2	2.4		
Cost to Income Ratio	22.2	24.3	21.7	21.3	21.5				22.3	22.9		
Tax Rate	27.6	25.9	26.3	19.6	26.1				23.7	25.6		
Balance Sheet Parameters												
AUM (INR B)	1,193	1,216	1,246	1,270	1,296				1,270	1,409		
Change YoY (%)	6.8	5.8	8.4	8.4	8.6				8.4	10.9		
Loans (INR B)	1,091	1,115	1,136	1,167	1,200				1,167	1,310		
Change YoY (%)	5.5	5.3	7.3	7.7	10.0				7.7	12.3		
Disbursements (INR B)	127	149	155	170	167				601	684.8		
Change YoY (%)	1,192.1	17.9	22.9	13.4	30.9				71.4	14.0		
Borrowings (INR B)	1,053	1,086	1,126	1,145	1,192				1,145	1,260		
Change YoY (%)	10.6	12.8	17.0	7.8	13.2				7.8	10.0		
Loans/Borrowings (%)	103.6	102.6	100.8	101.9	100.7				101.9	104.0		
Debt/Equity (x)	4.5	4.4	4.4	4.4	4.4				4.4	4.3		
Asset Quality Parameters (%)												
GS 3 (INR B)	96.6	94.4	103.6	88.9	90.6				88.9	97.5		
Gross Stage 3 (% on Assets)	8.2	7.8	8.4	7.1	7.0				7.1	6.9		
NS 3 (INR B)	53.9	48.5	51.5	44.5	43.8				44.5	46.8		
Net Stage 3 (% on Assets)	4.7	4.2	4.4	3.7	3.5				3.7	3.4		
PCR (%)	44.2	48.6	50.3	50.0	51.6				50.0	52.0		
ECL (%)	7.6	7.6	7.9	7.2	7.2				6.6	6.7		
Return Ratios (%)												
ROAA (Rep)	0.5	2.2	1.9	2.9	2.5				2.0	2.5		
ROAE (Rep)	3.0	12.8	10.9	17.0	14.6				11.5	13.4		

E: MOSL Estimates



Highlights from the management commentary

Yields, CoF and Margins

- Incremental CoB has gone up by ~15bp and company has increased the incremental yields by ~35bp in Jun'22.
- Expects the overall weighted average borrowing costs to go up by ~20bp in FY23.
- Expects margins to remain stable since increasing cost of borrowings can be partly offset by higher incremental cost of lending and lower negative carry from excess liquidity.

Liquidity

- Board has suggested that the company can look at some debt buy-back arrangement so that liquidity slowly gets phased out
- From 2QFY23 onwards, it will be looking to reducing the excess liquidity on the balance sheet.

Demand outlook

- New vehicle prices have gone up by 30-35% over the last three years because of higher steel prices.
- Demand momentum in used vehicles is likely to sustain; if the new vehicle prices continue to increase then customers would prefer to buy used vehicles.
- Demand for dumpers and construction equipment (CE) is very high.

Can inflation or higher fuel prices lead to higher delinquencies?

- The company does not foresee higher delinquencies because of higher inflation. Vehicle Finance is fixed rate lending and there is predictability of EMI amount during the tenure of the loan
- Increase in fuel prices are passed on the end consumer through increase in freight rates. Truck operators do not have to bear the cost of increase in fuel prices.

Asset Quality

- LGD stood at 43.73% (v/s 44.68% in 4QFY22)

	EAD (%)	PCR (%)	PD (%)
Stage 1	82.5%	3.2%	7.34%
Stage 2	10.5%	9.2%	21.75%
Stage 3	7.0%	51.6%	

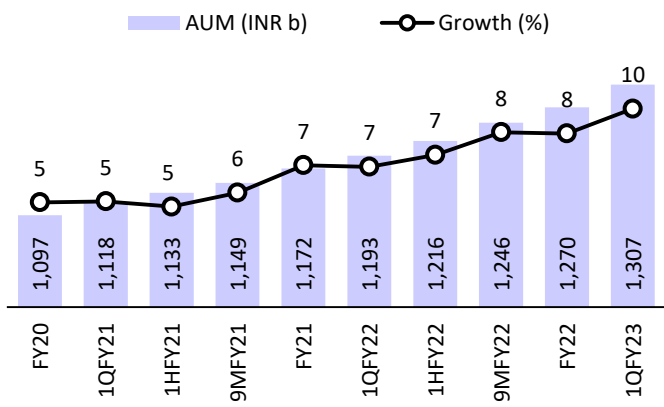
- Remaining management overlay provisions of INR18.4b will be utilized over the next 3-4 quarters and guided for credit costs in the range of 2.0-2.1% in FY23

Others

- Total employees count at 25,720 as on Jun'22

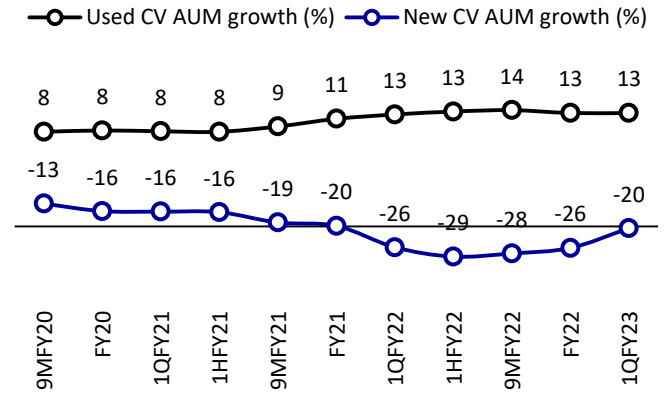
Key exhibits

Exhibit 1: AUM grew 10% YoY



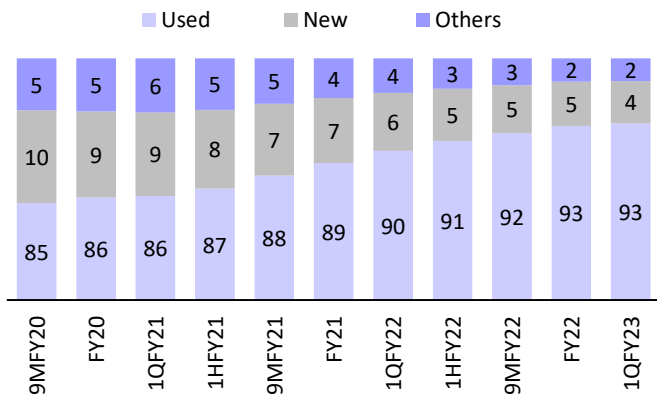
Source: MOFSL, Company

Exhibit 2: Used CV AUM rose 13% YoY; New CV AUM fell 20% YoY



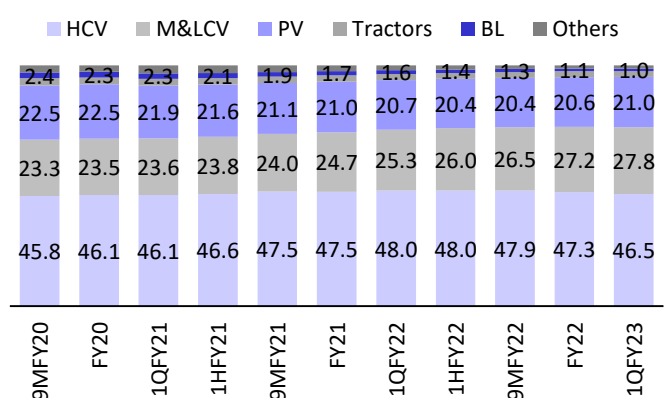
Source: MOFSL, Company

Exhibit 3: AUM mix largely stable sequentially (%)



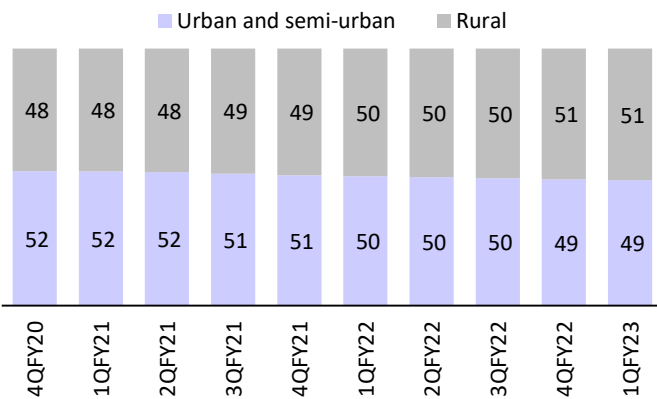
Source: MOFSL, Company

Exhibit 4: Vehicle category-wise AUM mix (%)



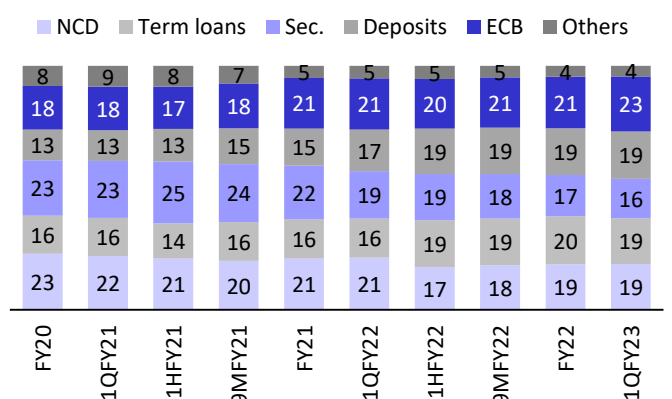
Source: MOFSL, Company

Exhibit 5: Rural AUM improves by ~3pp in the last eight quarters



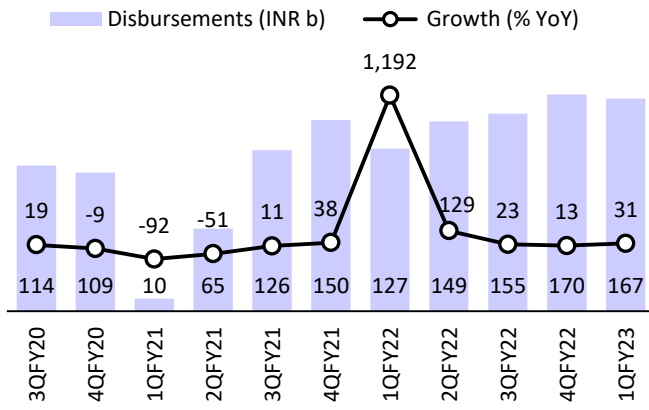
Source: MOFSL, Company

Exhibit 6: Borrowing mix (%)



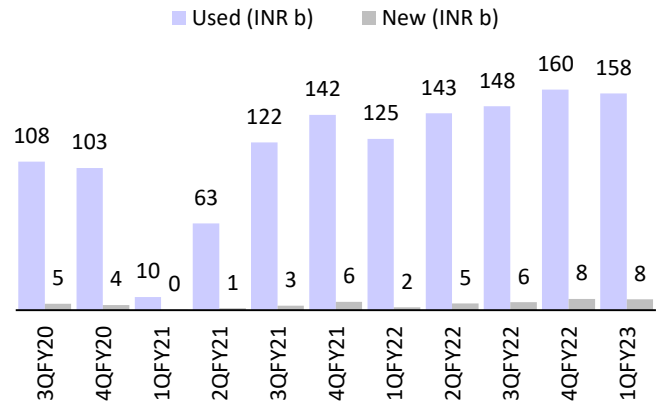
Source: MOFSL, Company

Exhibit 7: Disbursements grew 31% YoY...



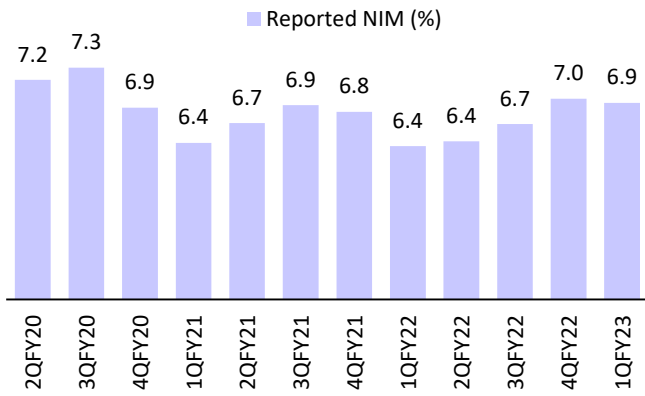
Source: MOFSL, Company

Exhibit 8: ...driven by healthy Used CV disbursements



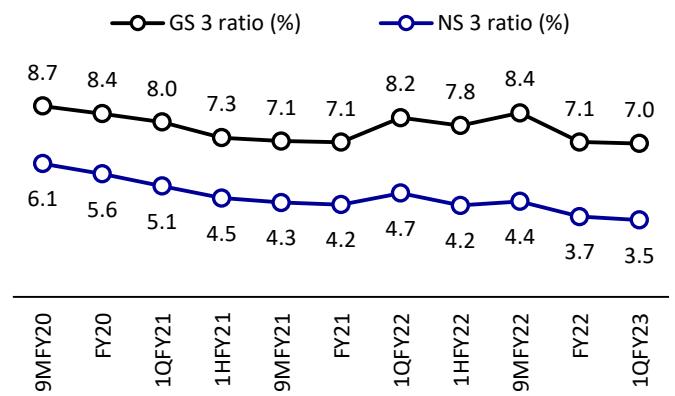
Source: MOFSL, Company

Exhibit 9: Margin compression of ~10bp QoQ



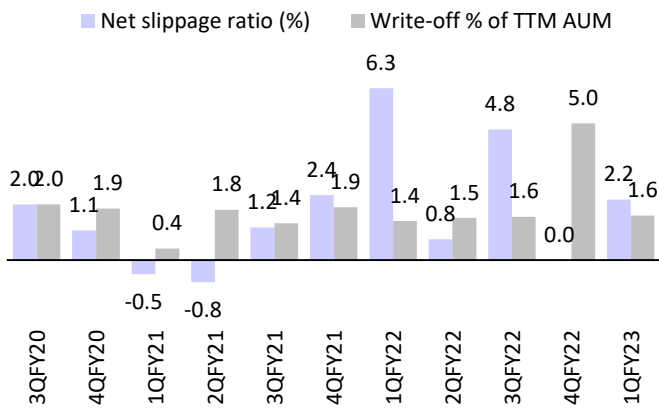
Source: MOFSL, Company

Exhibit 10: GS3 declined by ~10bp QoQ



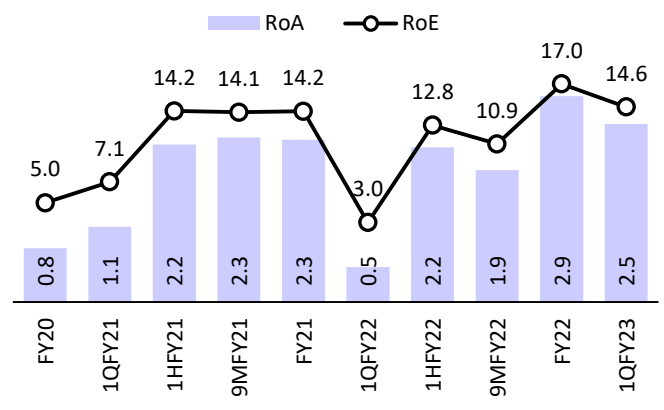
Source: MOFSL, Company

Exhibit 11: Write-offs moderated in 1QFY23



Source: MOFSL, Company

Exhibit 12: RoA and RoE trends



Source: MOFSL, Company, Reported

Valuation and view

- Liability-side challenges faced by the company (even before the COVID-19 pandemic broke out) have now receded.
- We model an AUM CAGR of 11% over FY22-24E led by 11% CAGR in disbursements over the same period. We increase our FY23/FY24 EPS estimates by 6%-7% to factor in higher loan growth and lower opex. We estimate a ~20% PAT CAGR over FY22-24E, leading to a RoA/RoE of 2.5%/13% over FY23-FY24E.
- We maintain our Neutral view on the announced merger as we neither see any significant synergies nor can highlight any significant negatives.
- Concern around potential exits by investors (such as PIEL, Apax, TPG, and Sanlam) still remains an overhang on the stock. We like both the standalone businesses and believe that the merged entity will emerge stronger than the respective standalone businesses. Maintain BUY with TP of INR1,690 (based on 1.4x FY24E BVPS).

Exhibit 13: Increase our FY23/FY24E EPS estimates by ~7%/6% to factor in higher loan growth and lower opex

INR b	Old Est		New Est.		Change (%)	
	FY23	FY24	FY23	FY24	FY23	FY24
NII (incl. Sec. Inc.)	95.1	101.3	98.8	106.6	3.9	5.2
Other Income	6.8	7.3	6.4	6.8		
Total Income	101.9	108.6	105.2	113.4	3.2	4.4
Operating Expenses	24.4	26.4	24.1	26.4	-1.5	0.1
Operating Profits	77.5	82.2	81.1	87.0	4.7	5.8
Provisions	31.7	32.9	31.9	34.5	0.6	4.7
PBT	45.8	49.3	49.2	52.5	7.6	6.4
Tax	11.4	12.3	12.6	13.4	10.2	9.0
PAT	34.3	37.0	36.6	39.0	6.8	5.6
AUM	1,398	1,525	1,409	1,564	0.8	2.5
Loans	1,286	1,403	1,310	1,439	1.9	2.5
Borrowings	1,255	1,363	1,260	1,377	0.4	1.0
NIM (%)	7.8	7.5	8.0	7.8		
Credit Cost (%)	2.4	2.3	2.4	2.3		
RoA	2.0	2.3	2.0	2.5		

Source: MOFSL, Company

Exhibit 14: One-year forward P/B

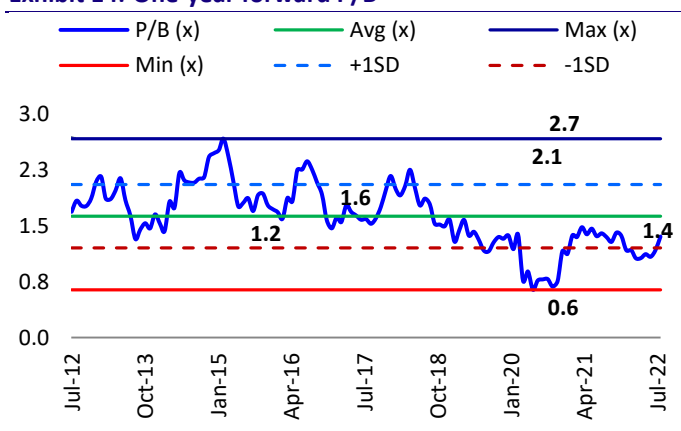
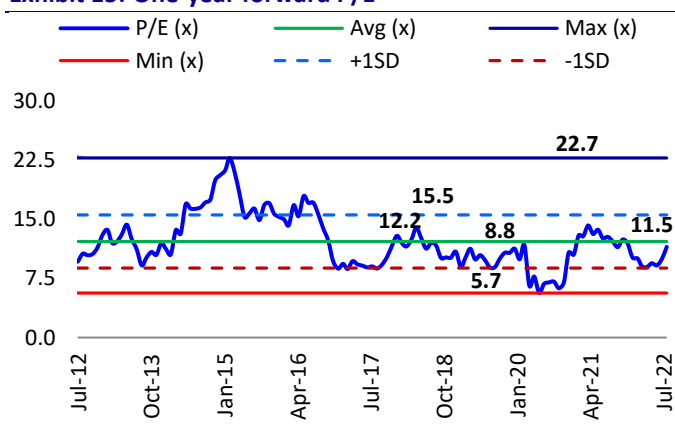


Exhibit 15: One-year forward P/E



Financials and valuations

Income Statement								(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	98.0	131.9	153.8	162.7	171.3	186.5	206.5	230.5
Interest Expenses	52.1	63.7	75.1	82.7	90.5	97.3	107.7	123.9
Net Interest Income	45.9	68.2	78.7	80.0	80.7	89.1	98.8	106.6
Change (%)	3.1	48.6	15.4	1.6	1.0	10.4	10.8	7.9
Other Operating Income	9.3	1.1	1.4	2.9	2.9	6.1	6.2	6.6
Other Income	0.8	2.0	0.2	0.2	0.2	0.2	0.2	0.2
Net Income	56.0	71.3	80.3	83.1	83.8	95.4	105.2	113.4
Change (%)	8.7	27.4	12.6	3.4	0.9	13.8	10.3	7.8
Operating Expenses	12.3	16.1	18.7	20.7	19.9	21.3	24.1	26.4
Operating Profit	43.7	55.2	61.6	62.3	64.0	74.1	81.1	87.0
Change (%)	13.8	26.5	11.5	1.2	2.6	15.8	9.5	7.2
Provisions	24.4	17.2	23.8	27.9	31.2	38.6	31.9	34.5
PBT	19.2	38.0	37.8	34.4	32.8	35.5	49.2	52.5
Tax	6.7	13.4	12.1	9.4	7.9	8.4	12.6	13.4
Tax Rate (%)	34.6	35.3	32.1	27.2	24.1	23.7	25.6	25.6
PAT	12.6	24.6	25.6	25.0	24.9	27.1	36.6	39.0
Change (%)	6.7	95.7	4.2	-2.4	-0.6	8.9	35.3	6.5
Proposed Dividend	3.0	3.0	3.3	1.1	4.6	5.4	6.2	6.8

Balance Sheet								(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	2.3	2.3	2.3	2.3	2.5	2.7	2.7	2.7
Reserves & Surplus (Ex OCI)	110.2	131.9	154.2	176.0	212.3	257.0	287.4	319.7
Net Worth	113	134	156	178	215	260	290	322
Other Comprehensive Income	0.0	0.0	0.0	-0.1	-1.0	-2.3	-2.3	-2.3
Net Worth	113	134	156	178	214	257	288	320
Change (%)	10.8	19.2	16.7	13.9	20.0	20.4	11.8	11.2
Borrowings	688	821	879	944	1,062	1,145	1,260	1,377
Change (%)	38.2	19.4	7.0	7.3	12.5	7.8	10.0	9.3
Other Liabilities	16.6	17.0	17.3	19.4	21.1	18.7	19.1	19.4
Total Liabilities	817	972	1,053	1,141	1,297	1,421	1,567	1,716
Investments	22.6	23.4	40.0	28.0	32.0	68.1	64.7	61.5
Change (%)	66.5	3.7	70.8	-30.0	14.3	112.9	-5.0	-5.0
Loans	740	907	968	1,022	1,083	1,167	1,310	1,439
Change (%)	16.1	22.6	6.6	5.7	5.9	7.7	12.3	9.8
Other Assets	54.4	41.6	45.4	91.0	181.8	186.3	191.8	216.1
Total Assets	817	972	1,053	1,141	1,297	1,421	1,567	1,716

E: MOFSL Estimates

Financials and valuations

Ratios	(%)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Spreads Analysis (%)								
Yield on loans	13.9	15.7	16.0	15.8	15.8	16.0	16.2	16.3
Cost of funds	8.8	8.4	8.8	9.1	9.0	8.8	9.0	9.4
Spread on loans	5.1	7.2	7.2	6.7	6.8	7.2	7.2	6.9
NIMs	6.7	8.3	8.4	8.0	7.7	7.9	8.0	7.8
Profitability Ratios (%)								
Cost/Income	22.0	22.6	23.3	24.9	23.7	22.3	22.9	23.3
Emp/Operating Exp	44.6	44.3	47.1	48.8	45.6	46.8	46.4	47.3
RoE	11.7	20.0	17.6	15.0	12.7	11.5	13.4	12.8
RoA	1.7	2.7	2.5	2.3	2.0	2.0	2.5	2.4
ROA (On AUM)	1.7	2.8	2.6	2.3	2.2	2.2	2.7	2.6
Asset Quality (%)								
GNPA (INR b)	88.6	89.3	86.2	91.8	82.9	88.9	97.5	105.7
NNPA (INR b)	56.4	58.4	56.5	59.9	48.1	44.5	46.8	47.6
GNPA %	11.1	9.3	8.4	8.5	7.1	7.1	6.9	6.8
NNPA %	7.4	6.3	5.7	5.7	4.3	3.7	3.4	3.2
PCR %	36.3	34.6	34.5	34.7	42.0	50.0	52.0	55.0
Capitalisation (%)								
CAR	16.6	17.4	20.3	22.0	22.5	23.0	24.9	25.0
Tier I	14.3	14.5	15.6	18.1	19.9	20.7	22.9	23.4
Tier II	2.4	2.9	4.7	3.9	2.6	2.3	2.0	1.6
Average Leverage on Assets (x)	7.0	7.3	7.0	6.6	6.2	5.7	5.4	5.4
Valuations								
Book Value (INR)	496	591	690	786	849	960	1,072	1,192
BV Growth (%)	10.8	19.2	16.7	13.9	8.0	13.1	11.7	11.1
Price-BV (x)			2.1	1.9	1.7	1.5	1.4	1.2
Adjusted BV (INR)	322	411	516	601	716	845	951	1,069
Price-ABV (x)			2.8	2.4	2.0	1.7	1.5	1.4
OPS (INR)	193	243	272	275	253	274	300	321
Growth (%)	13.8	26.5	11.5	1.2	-8.0	8.4	9.5	7.2
Price-Earnings (x)			5.4	5.3	5.8	5.3	4.9	4.5
EPS (INR)	55	108	113	110	98	100	135	144
Growth (%)	6.7	95.7	4.2	-2.4	-10.9	1.8	35.3	6.5
Price-Earnings (x)			12.9	13.3	14.9	14.6	10.8	10.1
Dividend	10.0	11.0	12.0	5.0	18.0	20.0	23.0	25.0
Dividend Yield (%)			0.8	0.3	1.2	1.4	1.6	1.7
E: MOFSL Estimates								

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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