

## Shriram Transport Fin Co

### Performance Highlights

Particulars (₹ cr)	Q3FY20	Q2FY19	% chg (qoq)	Q3FY19	% chg (yoy)
NII	2,055	2,037	0.9	2,027	1.4
Pre. Prov. Profit	1,630	1,588	2.7	1,620	0.6
PAT	879	765	14.9	635	38.3

Source: Company, Angel Research

**For Q3FY2020, STFC has reported a good set of numbers. For the quarter, PAT increased 38% yoy led by lower credit cost, AUM growth continued to be moderate at 5% yoy vs. 3.6% in Q2FY2020 and 14% in Q2FY2019. Disbursement increased 19% yoy driven by used (20% yoy) and new (17% yoy).**

**AUM growth moderated; NIM declined:** During the quarter, STFC reported AUM growth of 5% yoy, led by working capital (33% yoy on low base) and used vehicle loans (8% yoy), while AUM of new vehicles and business loans declined 13% yoy. NIM declined by 30bps/5bps yoy/qoq owing to higher liquidity maintained on balance sheet around ₹7,800cr. Management sounded confident to improve NIM hereon as re-pricing of the existing loans and new borrowing is happening at a lower rate.

**Asset quality moderately improved, credit costs lowered; guidance maintained at 2%:** On absolute term, Gross stage 3 sequentially remained flat and Gross stage 3 ratio declined 9bps to 8.71% of AUM. Asset improvement was largely owing to normalization of Q2FY2020 rains/floods impact, subsequently, Gross stage 2 also improved. During the quarter, credit cost tapered down to 1.63% vs. 2.44% in Q2FY2020, however, Management has guided that credit costs for next year would be at 2%. We expect Gross stage 3 to improve gradually owing to (a) good monsoon to improve borrower's financials, (b) with implementation of BS VI and likely implementation of scrappage policy collateral value of the used vehicle will stabilize/improve and consequently LGD would decline.

**Outlook & Valuation:** We expect STFC's AUM to grow at moderate CAGR of 11% over FY2019-22E, however, we expect operating parameter to improve at healthy rate owing to improvement in NIM, asset quality. We expect STFC to report RoA/RoE of 2.8%/17.3% in FY2021E. At CMP, the stock is trading at 1.6x FY2021E ABV and 8x FY2021E EPS, which we believe is reasonable for a differentiated business model with return ratios. We recommend a BUY on the stock with a Target Price of ₹1,410.

### Key Financials

Y/E March (₹ cr)	FY17	FY18	FY19	FY20E	FY21E
NII	5,561	6,800	7,808	8,305	9,307
YoY Growth (%)	10.1	22.3	14.8	6.4	12.1
PAT	1,257	2,460	2,562	2,922	3,449
YoY Growth (%)	6.7	95.7	4.2	14.0	18.0
EPS	55	108	113	129	152
Adj Book Value	367	459	563	655	778
P/E	22.0	11.3	10.8	9.5	8.0
P/Adj.BV	3.3	2.7	2.2	1.9	1.6
ROE (%)	11.7	19.8	17.4	17.1	17.3
ROA (%)	1.8	2.9	2.5	2.6	2.8

Valuation done on closing price of 11/02/2020

### BUY

CMP	1,220
Target Price	1,410

Investment Period	12 Months
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#### Stock Info

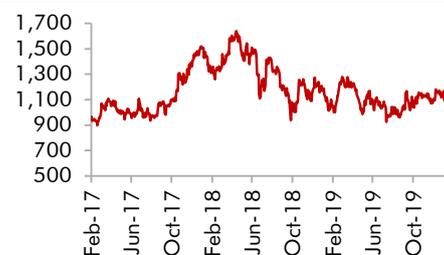
Sector	NBFC
Market Cap (₹ cr)	27,662
Beta	1.6
52 Week High / Low	1297/909
Avg. Daily Volume	81,808
Face Value (₹)	10
BSE Sensex	41,216
Nifty	12,108
Reuters Code	SRTR.BO
Bloomberg Code	SHTF IN

#### Shareholding Pattern (%)

Promoters	26.3
MF / Banks / Indian Fls	3.1
FII / NRIs / OCBs	64.3
Indian Public / Others	6.4

Abs.(%)	3m	1yr	3yr
Sensex	2.2	13.2	45.5
SHTF	8.7	15.6	26.2

### 3 Year Price Chart



Source: Company

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**Exhibit 1: Income Statement**

Particular (₹ cr)	2QFY19	3QFY19	4QFY19	Q1FY20	Q2FY20	Q3FY20	% QoQ	% YoY
Total Interest Income	3,917	3,968	3,845	4,001	4,113	4,133	0	4
Interest Expenses	1,862	1,941	1,939	2,040	2,076	2,078	0	7
<b>Net Interest Income (NII)</b>	<b>2,055</b>	<b>2,027</b>	<b>1,906</b>	<b>1,962</b>	<b>2,037</b>	<b>2,055</b>	<b>1</b>	<b>1</b>
Other Income	24	26	35	27	43	87	100	233
Total Income	3,942	3,994	3,880	4,029	4,156	4,220	2	6
Net Income	2,080	2,053	1,941	1,989	2,080	2,142	3	4
<b>Operating Expenses</b>	<b>458</b>	<b>433</b>	<b>429</b>	<b>446</b>	<b>493</b>	<b>512</b>	<b>4</b>	<b>18</b>
Employee Expenses	232	222	204	233	251	255	2	15
Other Operating Expenses	226	211	225	213	242	257	6	22
Operating Profit	1,622	1,620	1,512	1,543	1,588	1,630	3	1
<b>Provisions</b>	<b>684</b>	<b>636</b>	<b>540</b>	<b>561</b>	<b>661</b>	<b>444</b>	<b>(33)</b>	<b>(30)</b>
PBT	938	984	972	982	927	1,186	28	21
Provisions for Tax	329	348	226	347	162	308	90	(12)
Tax Rate %	35.1	35.4	23.3	35.4	17.5	25.9	49	(27)
<b>PAT</b>	<b>609</b>	<b>635</b>	<b>746</b>	<b>634.2</b>	<b>765.1</b>	<b>878.8</b>	<b>15</b>	<b>38</b>

Source: Company, Angel Research

**Exhibit 2: Quarterly performance**

AUM Mix (%)	2QFY19	3QFY19	4QFY19	Q1FY20	Q2FY20	Q3FY20	% QoQ	% YoY
New CV Loans	13	12	12	11.4	10.7	10.2	(58.1)bp	(214.6)bp
Used CV loans	87	88	88	88.6	89.3	89.8	58.1bp	214.6bp
<b>Profitability</b>								
<b>Cal NIM</b>	8.02	7.79	7.32	7.44	7.60	7.58	(2.2)bp	(21.3)bp
NIM	7.44	7.44	7.16	7.16	7.19	7.14	(5)bp	(30)bp
C/I	22.0	21.1	22.1	22.4	23.7	23.9	21.6bp	281.4bp
ROE	17.0	17.2	19.4	15.8	18.4	20.2	181.8bp	304.3bp
Calc -Yield - AUM	15.29	15.25	14.77	15.18	15.34	15.23	(10.9)bp	(1.5)bp
Calc -Yield - Advance	18.40	18.42	18.13	18.86	19.42	19.40	(2.2)bp	97.8bp
Calc - COF	8.59	8.74	8.74	9.14	9.17	9.13	(4)bp	38.9bp
Spread	9.8	9.7	9.4	9.7	10.3	10.3	1.8bp	58.9bp

**Exhibit 3: Break Up**

Particular (₹ cr)	2QFY19	3QFY19	4QFY19	Q1FY20	Q2FY20	Q3FY20	% QoQ	% YoY
New	12,719	12,077	11,594	11,450	10,967	10,465	(5)	(13)
Used	86,057	86,126	87,050	89,021	91,215	92,626	2	8
Business Loan	3,314	3,182	2,971	2,912	2,852	2,649	(7)	(17)
Working Capital	2,171	2,365	2,807	2,898	3,027	3,142	4	33
Others	119	68	60	62	60	49	(18)	(28)
Total AUM	1,04,380	1,03,818	1,04,482	1,06,343	1,08,120	1,08,931	1	5

Source: Company, Angel Research

**Exhibit 4: Asset Quality & Business Details**

Asset Quality	2QFY19	3QFY19	4QFY19	Q1FY20	Q2FY20	Q3FY20	% QoQ	% YoY
Credit Cost (Annualized) AUM	2.6	2.5	2.1	2.1	2.4	1.6	(33)	(34)
GS 3	9,092	9,033	8,623	8,926	9,397	9,392	(0)	4
GS 3 %	8.71	8.70	8.25	8.52	8.80	8.71	(9)bp	1bp
ECL prov stage 3	3,113	3,187	2,967	2,841	3,017	3,018	0	(5)
Net Stage 3	5,979	5,846	5,656	6,085	6,380	6,375	(0)	9
Coverage Ratio Satge 3	34	35	34	32	32.1	32.1	2.5bp	(315.2)bp
GS 1 & 2	96,173	93,875	94,358	95,889	97,406	98,385	1	5
ECL prov stage 1 & 2	2,604	2,651	2,604	2,762	2,766	2,679	(3)	1
Net Stage 1 & 2	93,568	91,224	91,755	93,127	94,639	95,706	1	5
ECL Prov (%) Stage 1&2	2.71	2.82	2.76	2.88	2.84	2.72	(12)bp	(10)bp
<b>Business Details (₹)</b>								
<b>AUM</b>	<b>1,04,380</b>	<b>1,03,818</b>	<b>1,04,482</b>	<b>1,06,343</b>	<b>1,08,120</b>	<b>1,08,931</b>	<b>1</b>	<b>4.93</b>
Disbursement	13,799	9,550	11,959	12,300	13,120	11,607	(12)	22
New	2,300	400	8,100	890	666	476	(29)	19
Old	11,510	9,020	11,020	11,260	12,282	10,807	(12)	20
On book Loans	87,815	84,533	85,085	84,661	84,772	85,678	1	1
Off book (Securitization)	16,565	19,285	17,223	19,750	21,691	21,805	1	13
DA	24	1,721	2,175	1,942	1,657	1,448	(13)	(16)

Source: Company, Angel Research

**Outlook & Valuation:** We expect STFC's AUM to grow at moderate CAGR of 11% over FY2019-22E, however, we expect operating parameter to improve at healthy rate owing to improvement in NIM, asset quality. We expect STFC to report RoA/RoE of 2.8%/17.3% in FY2021E. At CMP, the stock is trading at 1.6x FY2021E ABV and 8x FY2021E EPS, which we believe is reasonable for a differentiated business model with return ratios. We recommend a BUY on the stock with a Target Price of ₹1,410.

**Income Statement**

Y/E March ( ₹cr)	FY17	FY18	FY19	FY20E	FY21E
<b>NII</b>	<b>5,561</b>	<b>6,800</b>	<b>7,808</b>	<b>8,305</b>	<b>9,307</b>
- YoY Growth (%)	10.1	22.3	14.8	6.4	12.1
<b>Other Income</b>	<b>82</b>	<b>215</b>	<b>101</b>	<b>110</b>	<b>122</b>
- YoY Growth (%)	-55.5	162.8	-53.0	8.9	10.6
<b>Operating Income</b>	<b>5,643</b>	<b>7,015</b>	<b>7,909</b>	<b>8,415</b>	<b>9,429</b>
- YoY Growth (%)	7.8	24.3	12.7	6.4	12.1
<b>Operating Expenses</b>	<b>1,275</b>	<b>1,492</b>	<b>1,750</b>	<b>2,028</b>	<b>2,252</b>
- YoY Growth (%)	-5.4	17.0	17.3	15.9	11.0
<b>Pre - Provision Profit</b>	<b>4,368</b>	<b>5,524</b>	<b>6,159</b>	<b>6,387</b>	<b>7,177</b>
- YoY Growth (%)	12.3	26.4	11.5	3.7	12.4
<b>Prov. &amp; Cont.</b>	<b>2,444</b>	<b>1,722</b>	<b>2,382</b>	<b>2,430</b>	<b>2,568</b>
- YoY Growth (%)	16.0	-29.5	38.3	2.0	5.7
<b>Profit Before Tax</b>	<b>1,924</b>	<b>3,801</b>	<b>3,776</b>	<b>3,957</b>	<b>4,610</b>
- YoY Growth (%)	8.0	97.6	-0.7	4.8	16.5
<b>Prov. for Taxation</b>	<b>667</b>	<b>1,341</b>	<b>1,214</b>	<b>1,035</b>	<b>1,160</b>
- as a % of PBT	34.6	35.3	32.1	26.2	25.2
<b>PAT</b>	<b>1,257</b>	<b>2,460</b>	<b>2,562</b>	<b>2,922</b>	<b>3,449</b>
- YoY Growth (%)	6.7	95.7	4.2	14.0	18.0

**Balance Sheet**

Y/E March ( ₹ cr)	FY17	FY18	FY19	FY20E	FY21E
Share Capital	227	227	227	227	227
Reserve & Surplus	11,075	13,349	15,609	18,196	21,248
<b>Net worth</b>	<b>11,302</b>	<b>13,576</b>	<b>15,836</b>	<b>18,422</b>	<b>21,475</b>
Borrowing	53,110	82,131	87,968	95,885	1,06,432
- YoY Growth (%)	6.7	54.6	7.1	9.0	11.0
Other Liab. & Prov.	9,998	1,539	1,487	1,291	1,024
<b>Total Liabilities</b>	<b>74,410</b>	<b>97,245</b>	<b>1,05,291</b>	<b>1,15,598</b>	<b>1,28,932</b>
Investment	1,549	2,341	3,999	3,999	3,999
Cash	4,441	3,675	3,981	4,571	5,077
<b>Advance</b>	<b>65,463</b>	<b>90,738</b>	<b>96,751</b>	<b>1,06,426</b>	<b>1,19,197</b>
- YoY Growth (%)	5.8	38.6	6.6	10.0	12.0
Fixed Asset	84	120	147	154	162
Other Assets	2,874	383	413	448	497
<b>Total Asset</b>	<b>74,410</b>	<b>97,257</b>	<b>1,05,291</b>	<b>1,15,598</b>	<b>1,28,932</b>
Growth (%)	9.5	30.7	8.3	9.8	11.5

**Key Ratio**

Y/E March	FY17	FY18	FY19	FY20E	FY21E
<b>Profitability ratios (%)</b>					
NIMs	8.5	8.5	8.1	7.9	8.0
Cost to Income Ratio	22.6	21.3	22.1	24.1	23.9
RoA	1.8	2.9	2.5	2.6	2.8
RoE	11.7	19.8	17.4	17.1	17.3
<b>Asset Quality (%)</b>					
Gross NPAs	8.20	9.15	8.3	8.0	7.5
GNPA (₹ Cr)	5,408	7,376	7,100	8,514	8,940
Net NPAs (%)	2.7	2.83	2.6	2.4	2.4
NPA (₹ Cr)	1,659	2,131	2,055	2,554	2,861
Provision Coverage	67.1	69.1	69.2	70.0	68.0
Credit Cost (AUM)	3.1	1.8	2.3	2.0	1.9
<b>Per Share Data (₹)</b>					
EPS	55	108	113	129	152
ABVPS	367	459	563	655	778
DPS	10	11	13	15	17
BVPS	498	598	698	812	947
<b>Valuation Ratios</b>					
PER (x)	22.0	11.3	10.8	9.5	8.0
P/ABVPS (x)	3.3	2.7	2.2	1.9	1.6
P/BVPS	2.4	2.0	1.7	1.5	1.3
Dividend Yield	0.8	0.9	1.1	1.2	1.4
<b>DuPont Analysis</b>					
<b>NII</b>	<b>7.8</b>	<b>7.9</b>	<b>7.7</b>	<b>7.5</b>	<b>7.6</b>
(-) Prov. Exp.	3.4	2.0	2.4	2.2	2.1
Adj. NII	4.4	5.9	5.4	5.3	5.5
Other Inc.	0.1	0.3	0.1	0.1	0.1
Op. Inc.	4.5	6.2	5.5	5.4	5.6
Opex	1.8	1.7	1.7	1.8	1.8
PBT	2.7	4.4	3.7	3.6	3.8
Taxes	0.9	1.6	1.2	0.9	0.9
<b>RoA</b>	<b>1.8</b>	<b>2.9</b>	<b>2.5</b>	<b>2.6</b>	<b>2.8</b>
Leverage	6.6	6.9	6.9	6.4	6.1
<b>RoE</b>	<b>11.7</b>	<b>19.8</b>	<b>17.4</b>	<b>17.1</b>	<b>17.3</b>

Valuation done on closing price of 11/02/2020

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Disclosure of Interest Statement	Shriram Transport Fin
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

<b>Ratings (Based on Expected Returns: over 12 months investment period)</b>	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
		Reduce (-5% to -15%)	Sell (< -15%)
		Hold (Fresh purchase not recommended)	