Shriram Transport Finance

BSE SENSEX	S&P CNX
29,279	8,836

Bloomberg	SHTF IN
Equity Shares (m)	226.9
M.Cap. (INR b) / (USD b)	213.5/3.3
52-Week Range (INR)	1,286/762
1, 6, 12 Rel. Per (%)	1/-3/6
AvgVal (INR m)	727
Free float (%)	74.1

Financials & Valuation (INR b)

Y/E MAR	2015	2016E	2017E
Net Inc.	41.1	48.4	55.2
PPP	31.1	36.6	41.6
PAT	12.4	13.7	16.5
Cons.PAT	10.3	14.1	16.6
EPS (INR)	54.6	60.5	72.5
Cons. EPS	45.3	62.0	73.0
BV/Sh.INR	407.1	454.7	511.7
Cons BV	408.4	457.4	514.8
RoAonAUM	2.0	2.1	2.3
RoE (%)	14.1	14.0	15.0
Payout (%)	21.3	21.2	21.2
Valuations			
P/Cons EPS	20.8	15.2	12.9
P/Cons. BV	2.3	2.1	1.8
Div. Yield	1.1	1.2	1.4

CMP: INR941 TP: INR1,158 (+23%) Buy

PAT in line; growth picks up; prolonged rural weakness affecting asset quality

- SHTF's 2QFY16 PAT grew 12% YoY and 5% QoQ to INR3.4b (in line). AUM growth of 13.8% YoY, 27bp sequential margin expansion to 7.03% and 11bp sequential increase in GNPA to 4.18% were the highlights of the quarter.
- AUM grew 13.8% YoY (a 10-quarter high) and 4.5% QoQ to INR632b. Disbursement grew 16.5% YoY to INR95b. The company securitized assets worth INR15.6b during the quarter; however, off-balance sheet assets continue to decline (down 28.5% YoY and 6.8% QoQ) and their share in total AUM declined to 12.9% from 20.6% last year.
- Asset quality deteriorated 11bp QoQ to 4.18% (2QFY15: 3.74%); GNPAs increased 9.4% sequentially to INR23.3b in absolute terms—led by states like Maharashtra and Telangana, which were the most affected by weak monsoon. The company continues to maintain a healthy PCR ratio of 78.4% by making adequate provisions.
- Led by declining cost of fund, NIM on AUM increased 27bp QoQ to 7.03%; the company expects another 20-25bp margin improvement over the next two quarters.
- **Other Highlights:** a) Merger of subsidiary Shriram Equipment Finance (SEF) is under progress and is expected to be completed by 4QFY15. b) SHTF would transition to recognizing NPA on 150dpd from 4QFY16, in line with regulatory requirements. c) Declared an interim dividend of INR4/sh.

Valuation and view: SHTF's return ratios are at cyclical low, with decadal-high credit cost and low margin. However, incremental data points like decline in fuel prices, improved utilization levels and steady demand in MHCV segment indicate that SHTF is exiting the downcycle and the worst may be behind for the CV cycle. We expect gradual improvement in the business as the number of contracts awarded by the government is increasing. Growth and asset quality are likely to remain moderate in the near term. While SHTF is well placed to ride the upcycle, delayed pick-up in infrastructure activities and performance of SEF remain the key near-term risks. We largely maintain our estimates. The stock is currently trading at 2.1x/1.8x FY16E/17E BV. Maintain **Buy** with a TP of 1,158 (2.25x FY17 BV).

SHTF: Quaterly Performance (INR Million)

Y/E March	FY15				FY16				FY15	FY16E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	17,080	18,798	20,538	21,364	22,015	22,402	23,186	25,365	77,779	92,967
Interest expenses	9,871	10,921	11,351	11,886	11,972	12,059	12,481	13,794	44,029	50,306
Net Interest Income	**7,209**	**7,877**	**9,187**	**9,478**	**10,043**	**10,343**	**10,705**	**11,570**	**33,750**	**42,662**
YoY Growth (%)	39.9	36.7	43.6	47.0	39.3	31.3	16.5	22.1	42.5	26.4
Securitisation income	2,467	2,196	1,341	1,376	1,464	1,595	1,611	1,072	7,379	5,741
Net Income (Incl. Securitization)	**9,676**	**10,072**	**10,528**	**10,854**	**11,507**	**11,938**	**12,316**	**12,642**	**41,129**	**48,402**
YoY Growth (%)	7.4	11.6	13.0	17.9	18.9	18.5	17.0	16.5	12.7	17.7
Fees and Other Income	236	163	147	160	148	190	190	239	707	777
Net Operating Income	**9,912**	**10,236**	**10,675**	**11,014**	**11,655**	**12,128**	**12,506**	**12,881**	**41,836**	**49,180**
YoY Growth (%)	0.8	8.4	12.5	17.6	17.6	18.5	17.2	17.0	9.7	17.6
Operating Expenses	2,515	2,575	2,702	2,991	2,905	3,001	3,225	3,430	10,783	12,562
Operating Profit	**7,398**	**7,661**	**7,973**	**8,023**	**8,749**	**9,127**	**9,281**	**9,451**	**31,054**	**36,618**
YoY Growth (%)	0.7	5.5	12.8	16.3	18.3	19.1	16.4	17.8	8.7	17.9
Provisions	2,966	3,154	3,269	3,241	3,959	3,984	3,985	4,041	12,630	15,970
Profit before Tax	**4,432**	**4,506**	**4,704**	**4,782**	**4,790**	**5,142**	**5,296**	**5,410**	**18,424**	**20,648**
Tax Provisions	1,368	1,484	1,580	1,615	1,579	1,761	1,774	1,803	6,046	6,917
Net Profit	**3,064**	**3,022**	**3,124**	**3,167**	**3,211**	**3,381**	**3,522**	**3,607**	**12,378**	**13,731**
YoY Growth (%)	-10.2	-7.5	3.7	7.4	4.8	11.9	12.7	13.9	-2.1	10.9

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Quarterly performance and reason for deviation

Y/E March	2QFY16	2QFY16	Var (%)	Comments
Int Inc (inc securitisation)	23,997	24,168	-1	
Interest Expense	12,059	12,450	-3	
Net Income	**11,938**	**11,718**	**2**	**Net income in line with estimates; Margins increase 27bp QoQ**
% Change (Y-o-Y)	*31.3*	*29.8*		
Other Income	190	200	-5	
Total Net Income	**12,128**	**11,918**	**2**	**In-line with estimates**
Operating Expenses	3,001	3,050	-2	CI remains stable at 25%
Operating Profit	**9,127**	**8,868**	**3**	
Provisions	3,984	3,935	1	NPLs increase 11bp QoQ
Profit before Tax	**5,142**	**4,933**	**4**	
Tax Provisions	1,761	1,628	8	Tax rate at 33%
Net Profit	**3,381**	**3,305**	**2**	**Marginally higher provisions compensated by lower opex**
% Change (Y-o-Y)	*11.9*	*9.4*		

Source: MOSL/Company

AUM grew 13.8% YoY, Mix of old and new vehicle beginning to stabilize

- AUM grew 13.8% YoY and 4.5% QoQ at IN632b. Used vehicle loans grew 17.3% YoY and 4.4% QoQ, while the new vehicle loans posted a 5.4% YoY decline and 5.5% growth QoQ.
- The mix between old and new vehicles is now beginning to stabilize with old vehicles contributing 92.1% of the total AUM and new vehicles contributing 7.8%.
- Share of HCVs in total AUM jumped to 48.9% from 44.3% last quarter (2QFY15: 39.9%) and LCVs declined to 21.8% from 25.7% last quarter due to strong demand in HCVs (especially the replacement demand in oil and gas tanker segment) and some run down in LCV portfolio.
- Disbursement grew 16.5% YoY and 2.9% QoQ to INR95b. Securitization during the quarter was at INR15.6b v/s INR5.3b last year (INR8.3b in 1QFY16). Off balance sheet assets continue to decline (down 28.5% YoY and down 6.8% QoQ) and its share in total AUM declined to 12.9% from 20.6% last year (last quarter: 14.5%)

Margins improve 27bp sequentially; Expect further 20-25bp improvement

- NII (incl. securitization income) grew 18.5% YoY to INR11.9b. Margins improved 27bp QoQ and 43bps YoY to 7.03% led by lower incremental cost of funds.
- Management expects further margin improvement of 20-25bp over the next 2 quarters due to a) reduction in base rates by banks which will lower the cost of fund (SHTF has O/S bank borrowings of ~INR170b) b) incremental funding cost via bonds has come down given the rating upgrade c) any reduction in incremental stress will lead to lower interest rate reversal.

GNPA increases 11bp QoQ; Coverage ratio remain healthy at 78.4%

- Asset quality deteriorated during the quarter as the GNPA increased 11bp QoQ to 4.18%. In absolute terms, GNPAs increased 9.4% QoQ to INR23.3b in 2QFY16. The increase is led by states like Maharashtra, Telangana etc. - which were most effected by weak monsoon.

- GNPAs remain elevated due to two consecutive weak monsoons resulting in prolonged weakness in the rural economy. This has adversely affected borrowers' cashflows and thus the recovery efforts of the company.
- Provisioning expenses (including for standard assets) stood at INR3.98b, increased 26% YoY and 6% QoQ. Company continues to maintain a healthy PCR ratio of 78.4%. Credit cost has marginally reduced (9bp) QoQ, but continues to remain elevated at 252bps (1QFY16: 261bps) v/s 223bp in 2QFY15.

Subsidiary performance:

- Merger of subsidiary Shriram Equipment Finance (SEF) is under progress and is expected to be completed by 4QFY15. SEF's AUM now stands at 3.8% of the consolidated AUM.
- SEF's current loan book is ~INR25b with GNPAs at INR11b (%GNPA >40%) on 150dpd basis. All the efforts are concentrated on recovery and thus no fresh disbursements are made in this segment.
- SHTF is in regular touch with the customers and is able to maintain a monthly collection run-rate of ~INR1b.

Other Highlights:

- SHTF would transition to recognizing NPA on 150dpd from 4QFY16, in line with regulatory requirements, the company currently recognizes NPA on 180dpd.
- Declared an interim dividend of INR4/share and the record date for the same is 6th Nov 2015.

Valuation and view

- SHTF' return ratios are at cyclical low, with decadal high credit cost and lowest margins. However, incremental data points like reduction in fuel costs, improved utilization levels collection rates, steady demand in MHCV segment and improving IIP etc. all point towards worse of the CV cycle is behind. We expect gradual improvement as stability in business and regulatory side is emerging.
- Sharp decline in economic growth resultant impact on asset quality (cyclical high credit cost and bottom margins) and regulatory changes led to risk adjustment margins falling to five-year low and sharp decline in return ratios (RoE down to 14% from 30% in FY09).
- Margins have started inching up and with reduction in funding costs and lower incremental stress addition would aid margin expansion going ahead.
- Growth to remain moderate in near term and to be driven by non-CV segment. While yields in passenger vehicle portfolio are near to CV segment, operating cost is relatively high which will lead to some pressure on profitability in the near term. While SHTF's return ratios have moderated compared to its historical trends, we expect ROA's of 2.3% and ROE of 14-15% over FY16/17E.
- Increasing diversification coupled with the initiatives of penetrating deeper in rural location, financing other vehicles like tractors, Passenger vehicles etc (~30% of the AUM vs 15% in FY10) augurs well in the long term
- SHTF is well placed to ride the up-cycle with niche customer segment, strong presence in used CV financing and healthy capitalization. Delayed pick-up in infrastructure activities, weak monsoon and performance of SEF remains a near

term risk. We largely maintain our estimates for FY16/17. The stock is currently trading at 2.1x/1.8x FY16/17 BV. Maintain **Buy** with TP of 1,158 (2.25x FY17 BV).

Conference call highlights

- **Guidance:** 1) Targets FY16 AUM growth of 15%. 2) No capital raising plans for the next 12-18 months. 3) Merger of SEF on track to be completed by 4QFY15.
- **Macro environment:** Two consecutive deficient monsoons have prolonged recovery in rural economy. Demand in HCV segment has been good, led by replacement demand in the oil and gas tanker segment**.** PV demand also has been good. Start of infrastructure project by the government, would be a major driver for demand pick up and improvement in asset quality. Expects another 1-2 quarter for this to gain traction.
- **Margins:** Margins expansion to continue on back of improvement in cost of funds. Expects another 20-25bps improvement in margin on back of falling cost of funds.
- **Asset Quality:** Asset quality has deteriorated especially in states where monsoon has been weak i.e. Maharashtra, Telangana, UP and Bihar.
- Current GNPAs on 150dpd would be around 120-150bps higher i.e %GNPAs would be ~6.2%-6.5%.
- Fresh slippage of ~INR4b (gross) and ~INR2b (net). However, company has maintained a collection efficiency of 90-92% for the last 2-3 quarter.
- **Securitization:** INR60b securitization for the full year. ~INR35b expected to be securitized in 2H.
- **C/I Ratio:** C/I ratio expected to remain at similar levels (~25%) as the company would add more employees and 20-25 branches every quarter. During 2QFY16, SHTF added ~500 employees and opened 30 new branches.

Exhibit 2: We largely maintain our estimates

INR b	Old Est.		New Est.		Change (%)	
	FY16	FY17	FY16	FY17	FY16	FY17
NII (incl. Sec. Inc.)	48.4	55.2	48.4	55.2	0.0	0.0
Other Income	0.8	0.9	0.8	0.9		
Total Income	**49.2**	**56.1**	**49.2**	**56.1**	**0.0**	**0.0**
Operating Expenses	12.8	14.8	12.6	14.5	-2.1	-2.1
Operating Profits	**36.4**	**41.3**	**36.6**	**41.6**	**0.7**	**0.7**
Provisions	15.7	16.8	16.0	16.8	2.0	0.0
PBT	**20.7**	**24.4**	**20.6**	**24.8**	**-0.2**	**1.3**
Tax	6.9	8.1	6.9	8.3	0.7	2.8
PAT	**13.8**	**16.4**	**13.7**	**16.5**	**-0.7**	**0.5**
AUM	643	711	643	711	0.0	0.0
Margins (including securitization)	7.84	8.16	7.84	8.16		
Credit Cost	2.50	2.45	2.55	2.45		
RoA on AUM	**2.10**	**2.28**	**2.08**	**2.29**		
RoE	**14.13**	**14.93**	**14.04**	**15.01**		

Source: MOSL

Exhibit 3: Quarterly snapshot

	FY14				FY15				FY16		Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2QE	QoQ	YoY
Profit and Loss (INR m)												
Net Income	**5,154**	**5,762**	**6,398**	**6,449**	**7,209**	**7,877**	**9,187**	**9,478**	**10,043**	**10,343**	**3**	**31**
Operating Expenses	2,488	2,185	2,421	2,467	2,515	2,575	2,702	2,991	2,905	3,001	3	17
Employee	1,239	855	949	1,023	1,012	1,066	1,069	1,148	1,234	1,311	6	23
Others	1,250	1,329	1,473	1,444	1,502	1,509	1,632	1,843	1,672	1,690	1	12
Operating Profits	**7,348**	**7,258**	**7,067**	**6,900**	**7,398**	**7,661**	**7,973**	**8,023**	**8,749**	**9,127**	**4**	**19**
Provisions	2,503	2,533	2,800	2,458	2,966	3,154	3,269	3,241	3,959	3,984	1	26
NPAs/ Bad debts	2,392	2,494	2,788	2,493	2,874	3,070	3,153	3,234	3,904	3,902	0	27
Standard assets	111	39	12	-35	92	84	116	7	56	82	48	-2
PBT	**4,845**	**4,725**	**4,268**	**4,442**	**4,432**	**4,506**	**4,704**	**4,782**	**4,790**	**5,142**	**7**	**14**
Taxes	1,435	1,457	1,254	1,493	1,368	1,484	1,580	1,615	1,579	1,761	12	19
PAT	**3,410**	**3,268**	**3,014**	**2,950**	**3,064**	**3,022**	**3,124**	**3,167**	**3,211**	**3,381**	**5**	**12**
Asset Quality												
GNPA	11,317	12,543	13,872	14,505	15,466	16,745	17,797	18,941	21,304	23,296	9	39
NNPA	2,412	2,517	2,817	3,029	3,135	3,492	3,561	3,791	4,579	5,029	10	44
Gross NPAs (%)	3.1	3.3	3.6	3.9	3.7	3.7	3.6	3.8	4.1	4.2		
Net NPAs (%)	0.7	0.7	0.8	0.8	0.8	0.8	0.7	0.8	0.9	0.9		
PCR (Calculated, %)	78.7	79.9	79.7	79.1	79.7	79.1	80.0	80.0	78.5	78.4		
Ratios (%)												
Cost to Income	27.6	24.2	26.0	26.8	26.0	25.6	25.7	27.6	25.2	25.1		
Provision to operating profit	34.1	34.9	39.6	35.6	40.1	41.2	41.0	40.4	45.3	43.7		
Tax Rate	29.6	30.8	29.4	33.6	30.9	32.9	33.6	33.8	33.0	34.3		
Total CAR	20.3	19.9	22.2	23.4	22.9	22.0	21.1	20.6	20.1	19.2		
Business Details (INR b)												
AUM	**525**	**538**	**534**	**531**	**544**	**556**	**571**	**591**	**605**	**633**	**4**	**14**
On book Loans	359	375	379	365	405	441	490	492	518	551	6	25
Off book (Securitization)	166	163	155	166	139	114	81	99	88	82	-7	-29
Total Borrowings	**339**	**360**	**362**	**359**	**364**	**407**	**438**	**443**	**444**	**460**	**3**	**13**
AUM Mix (%)												
New CV Loans	17	16	13	12	10	9	8	8	8	8		
Used CV loans	83	84	87	88	90	89	92	92	92	92		
Disbursements Details (INR B)												
Total	**79.4**	**72.5**	**64.6**	**69.5**	**74.1**	**81.6**	**90.0**	**91.3**	**92.3**	**95.1**	**3**	**16**
New CV Loans	8.1	4.8	1.6	2.9	4.1	5.4	6.3	8.1	7.8	9.7	25	79
Used CV loans	71.4	67.6	63.0	66.6	70.0	76.2	83.7	83.2	84.6	85.4	1	12
Securitisation Details												
Done during quarter (INR B)	13.7	27.8	22.7	42.7	1.7	5.3	0.0	37.8	8.3	15.6		
Securitization inc as a % to net inc	42.8	36.1	31.3	29.9	25.5	21.8	12.7	12.7	12.7	13.4		
Total Borrowing Mix (%)												
Banks / FIs	81.2	82.3	81.4	80.5	79.9	81.0	81.6	80.4	79.8	80.0		
Retail	18.8	17.7	18.6	19.5	20.1	19.0	18.4	19.6	20.2	20.0		
Other Details												
Branches	569	620	630	654	666	700	719	741	770	800		
Employees	17,045	18,240	18,078	18,122	17,075	16,410	16,290	16,160	16,061	16,608		

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Exhibit 4: Financials: Valuation metrics

	Rating	CMP	Mcap	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
		(INR)	(USDb)	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
ICICIBC*	Buy	271	23.8	21.5	25.8	9.6	7.7	131	150	1.58	1.32	1.54	1.58	14.8	15.7
HDFCB	Buy	1,102	41.9	49.1	59.3	22.4	18.6	285	331	3.87	3.33	1.88	1.86	18.4	19.3
AXSB	Buy	469	16.9	35.6	41.8	13.2	11.2	217	252	2.16	1.86	1.69	1.70	17.5	17.8
KMB*	Neutral	664	18.4	18.2	25.3	36.5	26.2	182	207	3.64	3.21	1.01	1.32	13.9	14.5
YES	Buy	744	4.7	59.9	74.5	12.4	10.0	327	387	2.27	1.92	1.68	1.73	19.7	20.9
IIB	Buy	914	8.2	41.3	51.3	22.1	17.8	295	340	3.09	2.69	2.04	2.08	17.6	16.1
DCBB	Sell	87	0.4	5.4	5.8	16.2	15.0	60	66	1.44	1.31	0.84	0.73	9.3	9.2
FB	Neutral	55	1.4	4.4	5.6	12.4	9.9	49	53	1.13	1.04	0.86	0.95	9.5	11.0
JKBK	Neutral	86	0.6	14.1	17.3	6.1	5.0	136	150	0.63	0.58	0.85	0.92	10.7	12.1
SIB	Buy	21	0.4	2.5	3.1	8.1	6.7	29	31	0.72	0.66	0.55	0.58	9.4	10.3
Private Aggregate			**116.6**			**17.8**	**14.8**			**2.67**	**2.35**				
SBIN (cons)*	Buy	237	27.2	25.6	31.7	8.8	7.1	229	255	0.98	0.88	0.70	0.77	11.7	13.1
PNB	Buy	129	3.6	19.6	26.8	6.6	4.8	220	244	0.59	0.53	0.57	0.70	9.3	11.6
BOI	Neutral	134	1.3	19.4	27.1	6.9	4.9	410	432	0.33	0.31	0.20	0.25	4.8	6.4
BOB	Buy	162	1.1	20.3	25.1	8.0	6.5	182	201	0.89	0.81	0.61	0.68	11.7	13.1
CBK	Buy	281	2.2	43.8	59.7	6.4	4.7	573	619	0.49	0.45	0.39	0.48	8.1	10.0
UNBK	Buy	160	1.5	35.7	46.6	4.5	3.4	317	356	0.50	0.45	0.56	0.65	11.8	13.9
OBC	Buy	137	0.6	46.3	63.8	3.0	2.1	474	523	0.29	0.26	0.57	0.69	10.1	12.8
INBK	Buy	129	0.9	21.1	30.6	6.1	4.2	278	301	0.46	0.43	0.50	0.65	7.8	10.6
CRPBK	Neutral	44	0.1	16.5	21.9	2.7	2.0	141	158	0.31	0.28	0.54	0.64	12.3	14.7
ANDB	Buy	66	0.6	17.8	22.8	3.7	2.9	180	196	0.37	0.34	0.55	0.62	10.3	12.2
IDBI	Neutral	89	2.2	14.4	19.7	6.2	4.5	157	173	0.57	0.51	0.58	0.69	9.5	11.9
DBNK	Neutral	42	0.4	8.8	12.5	4.8	3.4	126	136	0.33	0.31	0.36	0.44	7.2	9.6
Public Aggregate			**41.8**			**7.5**	**5.8**			**0.68**	**0.62**				
HDFC*	Under Review	1,264	30.2	35	42	23.3	17.9	165	188	4.98	3.94	2.46	2.55	23.6	22.7
LICHF	Buy	488	3.7	34	42	14.4	11.5	182	216	2.68	2.26	1.48	1.55	20.1	21.3
DEWH	Buy	227	1.0	26	33	8.7	6.9	179	204	1.27	1.11	1.27	1.29	15.6	17.2
IHFL	Buy	725	4.7	56	72	13.0	10.1	275	304	2.64	2.38	3.91	4.07	25.9	24.8
GRHF	Buy	254	1.4	7	9	37.4	29.6	24	28	10.73	8.91	2.18	2.05	28.9	28.6
REPCO	Buy	704	0.7	24	34	28.8	20.6	152	182	4.63	3.87	2.20	2.32	17.3	20.4
IDFC	Buy	59	1.4	10	12	6.0	5.1	107	116	0.28	0.24	1.75	1.83	8.8	9.8
RECL	Buy	246	3.7	63	76	3.9	3.3	302	360	0.82	0.68	3.22	3.23	22.9	22.9
POWF	Buy	237	4.7	54	60	4.4	3.9	285	329	0.83	0.72	3.07	3.03	20.4	19.7
SHTF	Buy	941	3.2	62	73	15.1	13.0	458	515	2.06	1.83	2.10	2.28	14.1	14.9
MMFS	Buy	231	2.0	12	15	19.1	15.1	109	120	2.11	1.92	1.93	2.22	11.5	13.3
BAF	Buy	5,155	4.2	224	276	23.0	18.7	1,351	1,582	3.82	3.26	3.12	2.92	19.9	18.8
MUTH	Buy	181	5.5	20	24	11.7	9.7	141	156	1.64	1.48	2.75	2.83	14.7	16.0
NBFC Aggregate			**60.8**			**15.3**	**13.0**			**2.65**	**2.32**				

*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries

Story in charts

Exhibit 5: Disbursements grew +17% YoY (INRb)

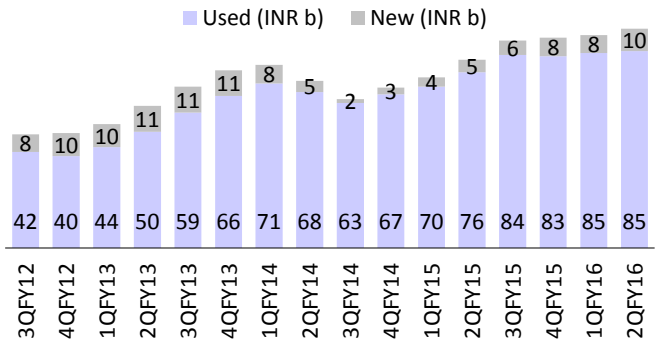


Exhibit 6: Proportion of off-book down 156bp QoQ (%)

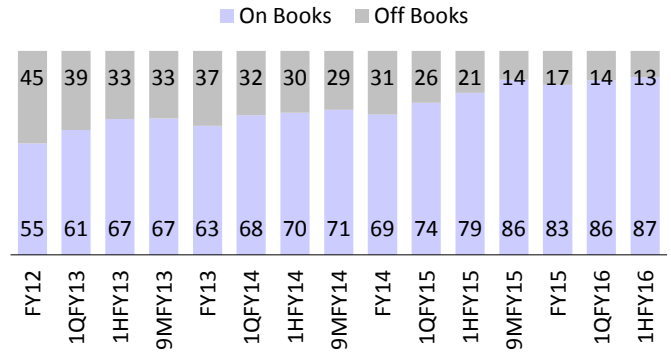


Exhibit 7: AUM mix beginning to stabilize (%)

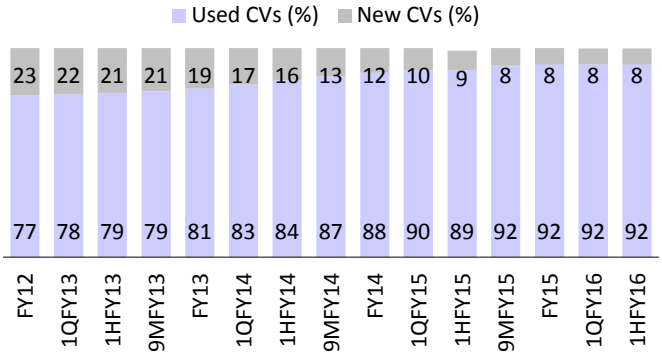


Exhibit 8: Securitization during 2Q stood at INR15.6b

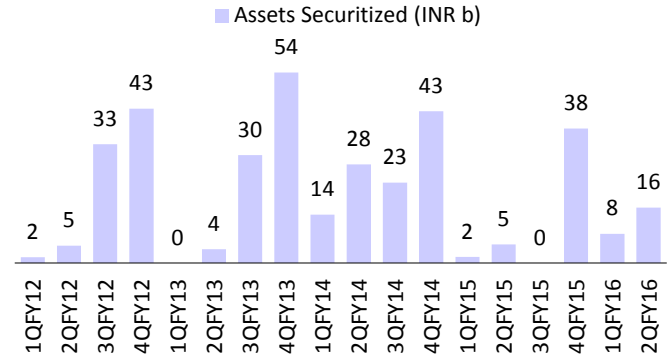


Exhibit 9: NIMs (% on AUM) improve 27bps sequentially

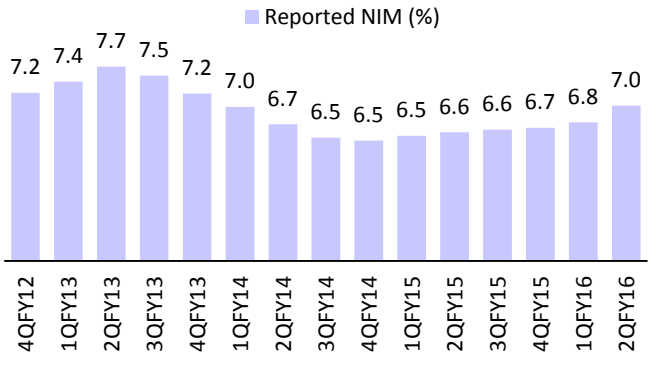
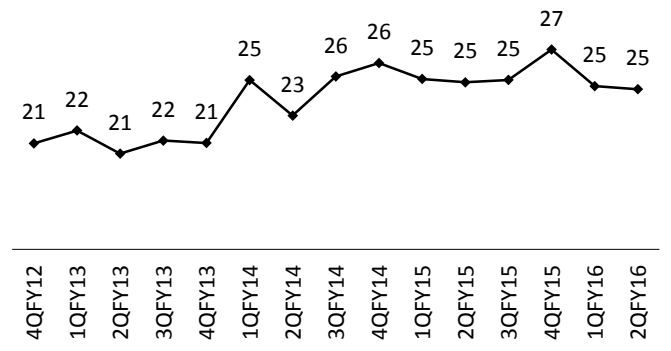


Exhibit 10: C/I remains at 25%



Corporate profile: Shriram Transport Finance

Company description

Shriram Transport Finance (SHTF) established in 1979, is one of the largest asset financing NBFCs in India with asset under management of INR591b. SHTF's primary focus on financing pre-owned commercial vehicles. It is among the leading financing institutions in the organized sector for the commercial vehicle industry for first time users ("FTUs"), and small road transport operators ("SRTOs"). It also provides financing for passenger commercial vehicles, multi-utility vehicles, etc.

Exhibit 11: Sensex rebased

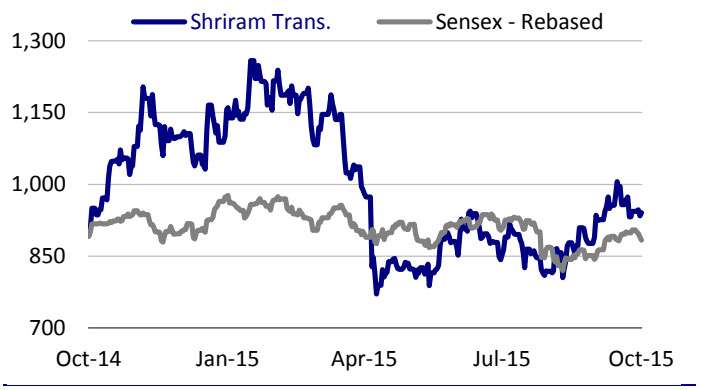


Exhibit 12: Shareholding pattern (%)

	Jun-15	Mar-15	Jun-14
Promoter	26.1	26.1	26.1
DII	2.9	4.2	2.0
FII	52.1	51.2	53.2
Others	18.9	18.6	18.7

Note: FII Includes depository receipts

Exhibit 13: Top holders

Holder Name	% Holding
Piramal Enterprises Ltd	10.0
Sanlam Life Insurance Ltd	3.0
Small Cap World Fund INC	2.2
Centaura Investments (Mauritius) Pte Ltd	2.0
Govemment Of Singapore	1.7

Exhibit 14: Top management

Name	Designation
Umesh Revankar	Managing Director
Vinay kelkar	Deputy MD
Parag Sharma	CFO
Sanjay Mundta	VP

Exhibit 15: Directors

Name	Name
Umesh Revankar	Maya Shankar Verma*
R Sridhar	Sumatiprasad M Bafna
Kishori Udeshi*	Gerrit Van Heerde
Amitabh Chaudhry*	Puneet Bhatia
S Lakshminarayanan*	S Sridhar*

*Independent

Exhibit 16: Auditors

Name	Type
S R Batliboi & Co LLP	Statutory
G D Apte & Co	Cost Auditor

Exhibit 17: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	62.0	60.3	2.8
FY17	73.0	75.5	-3.3

Financials and valuations

Income Statement (INR Million)

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
Financing Income	37,190	36,165	36,659	45,028	62,664	77,779	92,967	103,624
Finanancing charges	22,468	22,154	24,473	28,439	38,982	44,029	50,306	54,010
Net Financing income	**14,722**	**14,011**	**12,186**	**16,588**	**23,683**	**33,750**	**42,662**	**49,614**
Change (%)	9.7	-4.8	-13.0	36.1	42.8	42.5	26.4	16.3
Income from securitisation	6,801	14,943	20,075	18,057	12,796	7,379	5,741	5,611
Net Income (Incl Secur)	**21,522**	**28,954**	**32,261**	**34,645**	**36,479**	**41,129**	**48,402**	**55,225**
Change (%)	28.0	34.5	11.4	7.4	5.3	12.7	17.7	14.1
Other Income	968	1,725	1,284	1,885	1,655	707	777	855
Net Income	**22,491**	**30,680**	**33,545**	**36,530**	**38,134**	**41,836**	**49,180**	**56,080**
Change (%)	28.3	36.4	9.3	8.9	4.4	9.7	17.6	14.0
Employee Cost	2,251	3,582	3,701	3,848	4,089	4,296	5,241	6,027
Brokerage & Commission	501	752	662	948	1,227	609	761	951
Other Operating Exp.	2,424	2,892	2,751	3,065	4,245	5,878	6,560	7,504
Operating Profit	**17,315**	**23,454**	**26,431**	**28,670**	**28,573**	**31,054**	**36,618**	**41,597**
Change (%)	41.2	35.5	12.7	8.5	-0.3	8.7	17.9	13.6
Total Provisions	**4,069**	**5,235**	**7,622**	**8,508**	**10,293**	**12,630**	**15,970**	**16,844**
% to operating income	23.5	22.3	28.8	29.7	36.0	40.7	43.6	40.5
PBT	**13,246**	**18,219**	**18,809**	**20,162**	**18,280**	**18,424**	**20,648**	**24,754**
Tax	4,515	6,190	6,235	6,556	5,638	6,046	6,917	8,292
Tax Rate (%)	34.1	34.0	33.1	32.5	30.8	32.8	33.5	33.5
PAT	**8,731**	**12,028**	**12,574**	**13,606**	**12,642**	**12,378**	**13,731**	**16,461**
Change (%)	42.6	37.8	4.5	8.2	-7.1	-2.1	10.9	19.9
Proposed Dividend	1,360	1,468	1,471	1,590	1,588	2,269	2,513	3,012

Balance Sheet

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
Capital	2,255	2,262	2,263	2,269	2,269	2,269	2,269	2,269
Reserves & Surplus	36,092	46,747	57,660	69,679	80,463	90,111	100,902	113,838
Net Worth	**38,348**	**49,008**	**59,923**	**71,947**	**82,732**	**92,380**	**103,171**	**116,108**
Borrowings	**184,599**	**198,743**	**231,219**	**310,025**	**359,200**	**442,800**	**488,786**	**539,982**
Change (%)	-8.3	7.7	16.3	34.1	15.9	23.3	10.4	10.5
Other Liabilities	76	35	22	22	22	0	0	0
Total Liabilities	**223,023**	**247,787**	**291,164**	**381,995**	**441,955**	**535,180**	**591,957**	**656,089**
Investments	18,560	36,453	39,646	35,689	27,253	33,272	36,599	40,259
Change (%)	183.5	96.4	8.8	-10.0	-23.6	22.1	10.0	10.0
Loans	**179,792**	**194,740**	**220,641**	**311,227**	**364,878**	**492,271**	**550,592**	**616,021**
Change (%)	0.1	8.3	13.3	41.1	17.2	34.9	11.8	11.9
Net Fixed Assets	464	364	397	601	1,007	1,007	727	422
Net Current Assets	24,206	16,229	30,479	34,478	48,818	8,629	4,038	-613
Total Assets	**223,023**	**247,787**	**291,164**	**381,995**	**441,955**	**535,180**	**591,957**	**656,089**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
Spreads Analysis (%)								
Avg. Yield - on Financing portfolio	20.1	18.7	16.5	16.3	17.3	17.0	16.7	16.5
Avg Cost of funds	11.6	11.6	11.4	10.5	11.6	11.0	10.8	10.5
Int Spread on Financing portfolio	8.5	7.1	5.2	5.8	5.6	6.0	5.9	6.0
NIM (incl Securitisation)	8.2	8.9	8.4	7.7	7.1	7.3	7.8	8.2
NIM (Excl Securitisation)	8.2	7.5	5.9	6.2	7.0	7.9	8.2	8.5
Profitability Ratios (%)								
RoE	28.6	27.5	23.1	20.6	16.3	14.1	14.0	15.0
RoA on AUM	2.8	3.2	2.8	2.6	2.2	2.0	2.1	2.3
Int. Expended/Int.Earned	60.4	61.3	66.8	63.2	62.2	56.6	54.1	52.1
Other Inc./Net Income	34.5	54.3	63.7	54.6	37.9	19.3	13.3	11.5
Efficiency Ratios (%)								
Op. Exps./Net Income	23.0	23.6	21.2	21.5	25.1	25.8	25.5	25.8
Empl. Cost/Op. Exps.	43.5	49.6	52.0	49.0	42.8	39.8	41.7	41.6
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	97.4	98.0	95.4	100.4	101.6	111.2	112.6	114.1
Net NPAs to Adv.	0.7	0.4	0.5	0.8	0.8	0.8	1.0	1.0
Leverage	5.8	5.1	4.9	5.3	5.3	5.8	5.7	5.7
Average leverage	7.3	5.4	4.9	5.1	5.3	5.6	5.8	5.7

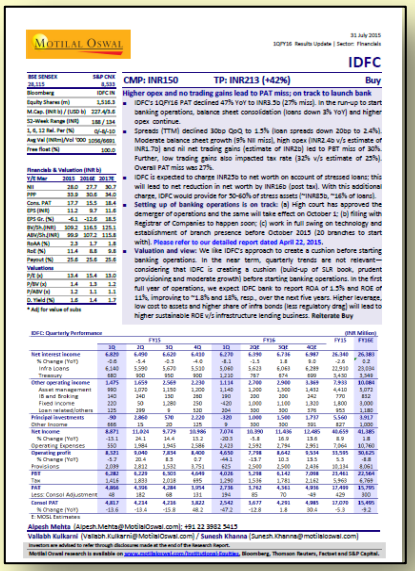
Valuations

Standalone BV (INR)	170	217	265	317	365	407	455	512
BV Growth (%)		27.4	22.2	19.8	15.0	11.7	11.7	12.5
Price-BV (x)			**3.6**	**3.0**	**2.6**	**2.3**	**2.1**	**1.8**
Consolidated BV (INR)	170	217	267	323	375	408	457	515
Price-BV (x)			**3.5**	**2.9**	**2.5**	**2.3**	**2.1**	**1.8**
Standalone EPS (INR)	38.7	53.2	55.6	60.0	55.7	54.6	60.5	72.5
Growth (%)	28.7	37.4	4.5	7.9	-7.1	-2.1	10.9	19.9
Price-Earnings (x)			**16.9**	**15.7**	**16.9**	**17.2**	**15.6**	**13.0**
Consolidated EPS (INR)	38.7	52.6	57.8	64.5	59.9	45.3	62.0	73.0
EPS Growth (%)		35.9	9.9	11.6	-7.2	-24.3	36.7	17.7
Price-Earnings (x)			**16.3**	**14.6**	**15.7**	**20.8**	**15.2**	**12.9**
Dividend	6.0	6.5	6.5	7.0	7.0	10.0	11.1	13.3
Dividend Yield (%)			**0.7**	**0.7**	**0.7**	**1.1**	**1.2**	**1.4**

E: MOSL Estimates

REPORT GALLERY

IDFC

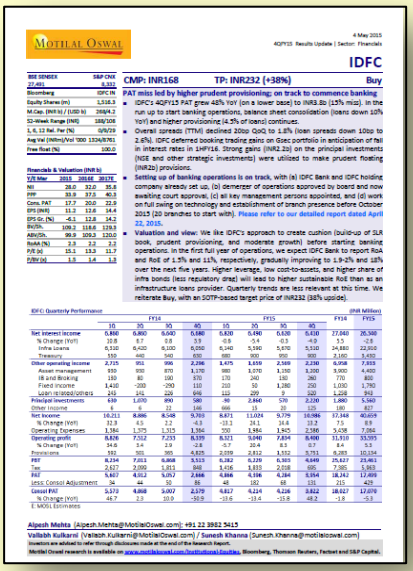

Motilal Oswal

IDFC

CMP: INR150 TP: INR213 (+42%) Buy

Higher opex and no trading gains lead to PAT miss; on track to launch bank

- IDFC's 1QFY16 PAT declined 47% YoY to INR3.5cr (27% miss), in the run-up to start banking operations, balance sheet consolidation (loans down 3% YoY) and higher opex continue.
- Spreads (TTM) declined 30bp QoQ to 1.3% (loan spreads down 20bp to 2.4%). Moderate balance sheet growth (8% NII miss), high opex (INR2.4b v/s estimate of INR1.7b) and nil net trading gains (estimate of INR2b) led to PBT miss of 30%. Further, low trading gains also impacted tax rate (32% v/s estimate of 25%). Overall PAT miss was 27%.
- IDFC is expected to charge INR25cr to net worth on account of stressed loans; this will lead to net reduction in net worth by INR16cr (post tax). With this additional charge, IDFC would provide for 50-60% of stress assets (~INR85b, ~16% of loans).
- Setting up of banking operations is on track: (a) High court has approved the demerger of operations and the same will take effect on October 1; (b) filing with Registrar of Companies to happen soon; (c) work in full swing on technology and establishment of branch presence before October 2015 (20 branches to start with). Please refer to our detailed report dated April 22, 2015.
- Valuation and view: We like IDFC's approach to create a cushion before starting banking operations. In the near term, quarterly trends are not relevant—considering that IDFC is creating a cushion (build-up of SLR book, prudent provisioning and moderate growth) before starting banking operations. In the first full year of operations, we expect IDFC bank to report ROA of 1.5% and ROE of 11%, improved to ~1.8% and 16%, resp., over the next five years. Higher leverage, low cost to assets and higher share of infra bonds (less regulatory drag) will lead to higher sustainable ROE v/s infrastructure lending business. Reiterate Buy

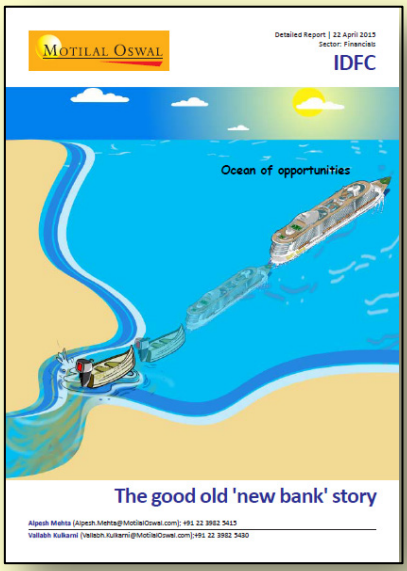

Motilal Oswal

IDFC

CMP: INR168 TP: INR232 (+38%) Buy

PAT miss led by higher prudent provisioning; on track to commence banking

- IDFC's 4QFY15 PAT grew 45% YoY (on a lower base) to INR3.8cr (15% miss). In the run up to start banking operations, balance sheet consolidation (loans down 10% YoY) and higher provisioning (4.5% of loans) continues.
- Overall spreads (TTM) declined 20bp QoQ to 1.8% (loan spreads down 10bp to 2.6%). IDFC deferred booking trading gains on Gsec portfolio in anticipation of fall in interest rates in 1HFY16. Strong gains (INR2.2b) on the principal investments (NSE and other strategic investments) were utilized to make prudent floating (INR2b) provisions.
- Setting up of banking operations is on track, with (a) IDFC Bank and IDFC holding company spreads set up, (b) demerger of operations approved by board and now awaiting court approval, (c) sli key management persons appointed, and (d) work on full swing on technology and establishment of branch presence before October 2015 (20 branches to start with). Please refer to our detailed report dated April 22, 2015.
- Valuation and view: We like IDFC's approach to create cushion (build-up of SLR book, prudent provisioning and moderate growth) before starting banking operations. In the first full year of operations, we expect IDFC Bank to report ROA and RoE of 1.5% and 11%, respectively, gradually improving to 1.9-2% and 18% over the next five years. Higher leverage, low cost-to-assets, and higher share of infra bonds (less regulatory drag) will lead to higher sustainable RoE than as an infrastructure loans provider. Quarterly trends are less relevant at this time. We reiterate Buy, with an SOTP-based target price of INR232 (38% upside).



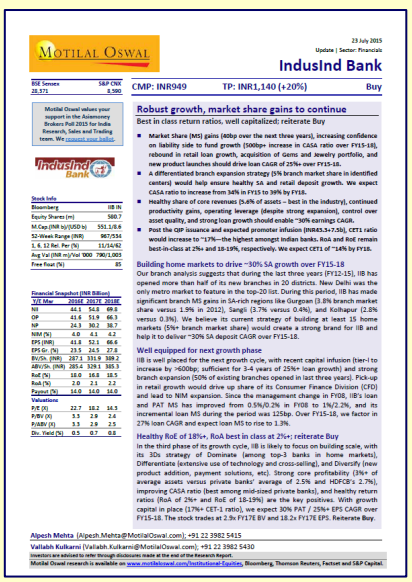
Motilal Oswal

IDFC

Detailed Report | 22 April 2015

The good old 'new bank' story

OTHER BANK COMPANIES


Motilal Oswal

IndusInd Bank

CMP: INR949 TP: INR1,140 (+20%) Buy

Robust growth, market share gains to continue

Best in class return ratios, well capitalized; reiterate Buy

- Market Share (MS) gains (40bp over the next three years), increasing confidence on liability side to fund growth (500bp+ increase in CASA ratio over FY15-18), rebound in retail loan growth, acquisition of Gems and jewelry portfolio, and new product launches should drive loan CAGR of 25%+ over FY15-18.
- A differentiated branch expansion strategy (5% branch market share in identified centers) would help ensure healthy SA and retail deposit growth. We expect CASA ratio to increase from 34% in FY15 to 39% by FY18.
- Healthy share of core revenues (5.6% of assets – best in the industry), continued productivity gains, operating leverage (despite strong expansion), control over asset quality, and strong loan growth should enable ~30% earnings CAGR.
- Post the CIP issuance and expected promoter inflation (INR83.3+7.5b), CET1 ratio would increase to ~17%—the highest amongst Indian banks. Risk and RoE remain best-in-class at 2%+ and 18-19%, respectively. We expect CET1 of ~14% by FY18.

Building home markets to drive ~30% SA growth over FY15-18

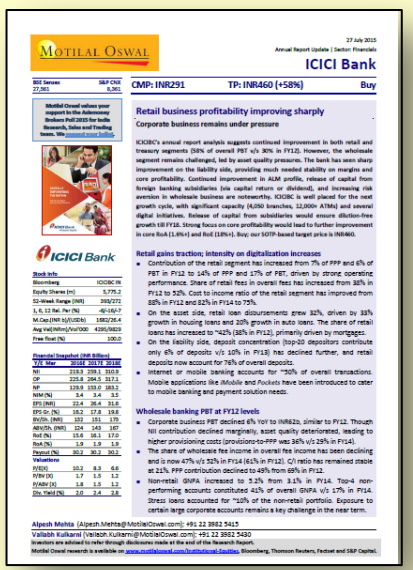
Our branch analysis suggests that during the last three years (FY12-15), IIB has opened more than half of its new branches in 20 districts. New Delhi was the only metro market to feature in the top-20 list. During this period, IIB has made significant branch MS gains in SA-rich regions like Gurgaon (3.8% branch market share versus 1.9% in 2012), Sangli (3.7% versus 0.4%), and Kolhapur (2.8% versus 0.3%). We believe its current strategy of building at least 15 home markets (5%+ branch market share) would create a strong brand for IIB and help it to deliver ~30% SA deposit CAGR over FY15-18.

Well equipped for next growth phase

IIB is well placed for the next growth cycle, with recent capital infusion (tier-I to increase by >600bp; sufficient for 3-4 years of 25%+ loan growth) and strong branch expansion (50% of existing branches opened in last three years). Pick-up in retail growth would drive up share of its Consumer Finance Division (CFD) and lead to NIM expansion. Since the management change in FY08, IIB's loan and PAT MS has improved from 0.5%/0.2% in FY08 to 1%/2.3%, and its incremental loan MS during the period was 125bp. Over FY15-18, we factor in 27% loan CAGR and expect loan MS to rise to 1.3%.

Healthy RoE of 18%+, RoA best in class at 2%+; reiterate Buy

In the third phase of its growth cycle, IIB is likely to focus on building scale, with its 3Ds strategy of Dominate (among top-3 banks in home markets), Differentiate (extensive use of technology and cross-selling), and Diversify (new product addition, payment solutions, etc). Strong core profitability (3%+ of average assets versus private banks' average of 2.5% and HDFCB's 2.7%), improving CASA ratio (best among mid-sized private banks), and healthy return ratios (RoA of 2%+ and RoE of 18-19%) are the key positives. With growth capital in place (17%+ CET-1 ratio), we expect 30% PAT / 25%+ EPS CAGR over FY15-18. The stock trades at 2.3x FY17E BV and 18.2x FY17E EPS. Reiterate Buy.


Motilal Oswal

ICICI Bank

CMP: INR291 TP: INR460 (+58%) Buy

Retail business profitability improving sharply

Corporate business remains under pressure

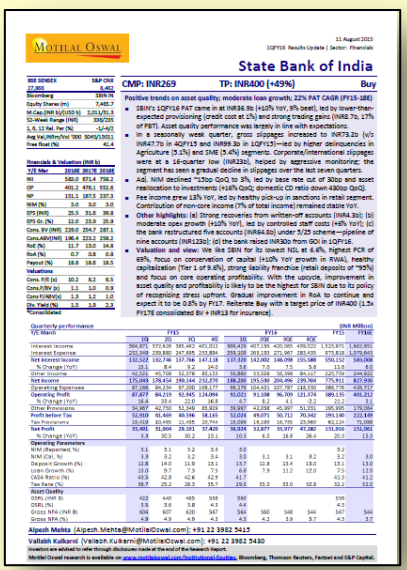
ICICIBC's annual report analysis suggests continued improvement in both retail and treasury segments (58% of overall PBT v/s 30% in FY12). However, the wholesale segment remains challenged, led by asset quality pressures. The bank has seen sharp improvement on the liability side, providing much needed stability on margins and core profitability. Continued improvement in ALM profile, release of capital from foreign banking subsidiaries (via capital return or dividend), and increasing risk aversion in wholesale business are noteworthy. ICICIBC is well placed for the next growth cycle, with significant capacity (4,050 branches, 12,000+ ATMs) and several digital initiatives. Release of capital from subsidiaries would ensure dilution-free growth till FY18. Strong focus on core profitability would lead to further improvement in core RoA (1.6%+) and RoE (18%+). Buy; our SOTP-based target price is INR460.

Retail gains traction; intensity on digitalization increases

- Contribution of the retail segment has increased from 7% of PPP and 6% of PBT in FY12 to 14% of PPP and 17% of PBT, driven by strong operating performance. Share of retail fees in overall fees has increased from 38% in FY12 to 52%. Cost to income ratio of the retail segment has improved from 88% in FY12 and 82% in FY14 to 75%.
- On the asset side, retail loan disbursements grew 32%, driven by 33% growth in housing loans and 20% growth in auto loans. The share of retail loans has increased to ~42% (38% in FY12), primarily driven by mortgages.
- On the liability side, deposit concentration (top-20 depositors contribute only 6% of deposits v/s 10% in FY13) has declined further, and retail deposits now account for 76% of overall deposits.
- Internet or mobile banking accounts for ~50% of overall transactions. Mobile applications like iMobile and Pockets have been introduced to cater to mobile banking and payment solution needs.

Wholesale banking PBT at FY12 levels

- Corporate business PBT declined 6% YoY to INR62b, similar to FY12. Though NII contribution declined marginally, asset quality deteriorated, leading to higher provisioning costs (provisions-to-PPP was 36% v/s 23% in FY14).
- The share of wholesale fee income in overall fee income has been declining and is now 47% v/s 52% in FY14 (61% in FY12). C/I ratio has remained stable at 21%. PPP contribution declined to 49% from 69% in FY12.
- Non-retail GNPA increased to 5.2% from 3.1% in FY14. Top-4 non-performing accounts constituted 41% of overall GNPA v/s 17% in FY14. Stress loans accounted for ~10% of the non-retail portfolio. Exposure to certain large corporate accounts remains a key challenge in the near term.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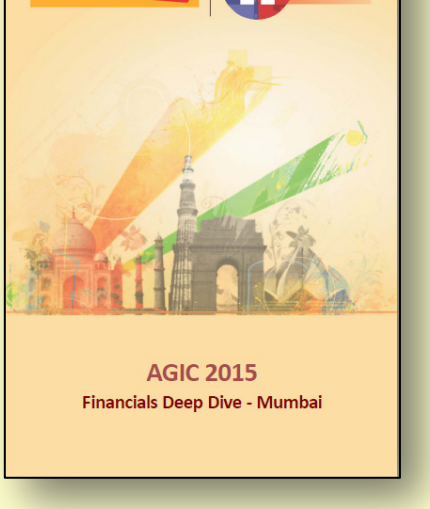
State Bank of India

CMP: INR269 TP: INR400 (+49%) Buy

Positive trends on asset quality; moderate loan growth; 22% PAT CAGR (FY15-18E)

- SBIN's 1QFY16 PAT came in at INR36.9b (+10% YoY, 9% beat), led by lower-than-expected provisioning (credit cost at 1%) and strong trading gains (INR3.7b, 17% of PBT). Asset quality performance was largely in line with expectations.
- In a seasonally weak quarter, gross slippages increased to INR73.2b (v/s INR47.7b in 4QFY15 and INR59.3b in 1QFY15—led by higher delinquencies in Agriculture (5.1%) and SME (5.4%) segments. Corporate/international slippages were at a 16-quarter low (INR23b), helped by aggressive monitoring; the segment has seen a gradual decline in slippages over the last seven quarters.
- Adj. NIM declined ~15bp QoQ to 3%, led by base rate cut of 30bp and asset reallocation to investments (+16% QoQ; domestic CD ratio down 430bp QoQ).
- Fee income grew 13% YoY, led by healthy pick-up in sanctions in retail segment. Contribution of non-core income (7% of total income) remained stable YoY.
- Other highlights: (a) Strong recoveries from written-off accounts (INR4.3b); (b) moderate opex growth (+10% YoY), led by controlled staff costs (+8% YoY); (c) the bank restructured five accounts (INR64.8b) under S4A scheme—pipeline of nine accounts (INR12bn); (d) the bank raised INR30b from SDI in 1QFY16.
- Valuation and view: We like SBIN for its lowest NSL at 4.6%, highest PCR of 69%, focus on conservation of capital (+10% YoY growth in RWA), healthy capitalization (Tier I of 9.6%), strong liability franchise (retail deposits of ~92%) and focus on core operating profitability. With the upcycle, improvement in asset quality and profitability is likely to be the highest for SBIN due to its policy of recognizing stress upfront. Gradual improvement in RoA to continue and expect it to be 0.8% by FY17. Reiterate Buy with a target price of INR400 (1.5x FY17E consolidated BV + INR13 for insurance).

SECTOR UPDATES



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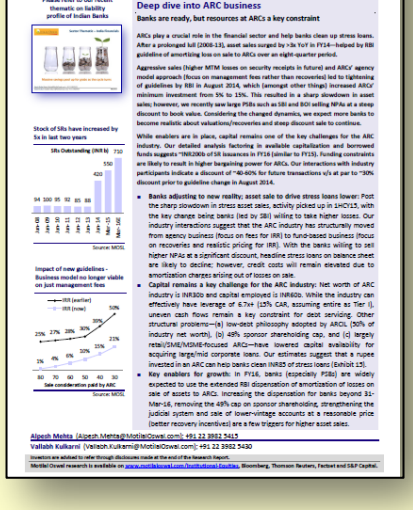
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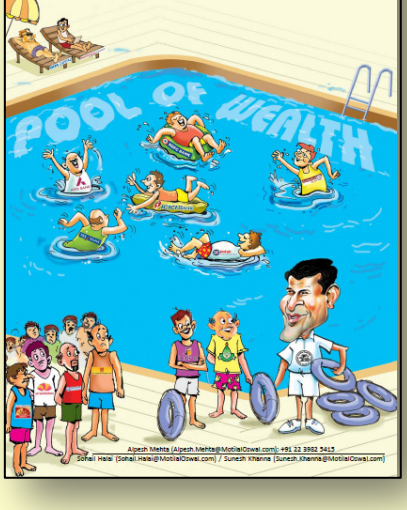
Financials

Deep dive into ARC business

Banks are ready, but resources at ARCs a key constraint



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Financials

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