

# Shriram Transport Finance

 BSE SENSEX  
52,323

 S&P CNX  
15,691

**CMP: INR1,411**
**TP: INR1,750 (+24%)**
**Buy**

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## Stock Info

Bloomberg	SHTF IN
Equity Shares (m)	227
M.Cap.(INRb)/(USD\$b)	376.9 / 5.1
52-Week Range (INR)	1535 / 556
1, 6, 12 Rel. Per (%)	-4/22/67
12M Avg Val (INR M)	4133
Free float (%)	73.5

## Financials Snapshot (INR b)

Y/E March	2021	2022E	2023E
Net Inc.	83.8	93.5	111.7
PPP	64.0	70.7	85.7
PAT	24.9	33.1	40.5
EPS (INR)	98	123	150
EPS Gr. (%)	-10.9	24.7	22.1
BV/Sh (INR)	849	985	1,105

## Ratios

NIM (%)	7.7	7.9	8.7
C/I ratio (%)	23.7	24.3	23.3
RoA (%)	2.0	2.6	3.0
RoE (%)	12.7	13.8	14.4
Payout (%)	22.0	24.0	24.0

## Valuations

P/E (x)	14.4	11.5	9.4
P/BV (x)	1.7	1.4	1.3
Div. Yield (%)	1.3	1.7	2.1

## Collection efforts and moratorium benefit yielding strong results

### Sharp decline in slippage | healthy upgrades | decline in write-offs

Shriram Transport Finance (SHTF)'s Annual Report has surprised us positively with the internal details on asset quality. ECL provisioning remains healthy on the balance sheet, with 6.8% of total loans, including higher COVID-related management overlay of ~2.3%. The management remains confident about further improvement in disbursements, an accelerating digitalization process, and tackling the second wave fairly better. It is further strengthening its leadership position. The company is fuelled by capital (especially after the recent equity raise of ~INR25b through QIP and preferential allotment to the promoter). It has a healthy Tier I ratio of 20%+ and net debt to equity of 3.8x. We tweak our estimates marginally to incorporate the recent capital raise and second wave impact. Reiterate Buy, with TP of INR1,750 (1.6x FY23E BVPS).

### Slippage ratio declines and write-offs drop sharply

SHTF's performance on asset quality, especially during a pandemic year, surprised us positively. In our view, this is driven by the moratorium benefit to a certain extent. **The slippage ratio declined to 5% v/s 7–8.5% over the last three years. Slippage in absolute terms declined 30% YoY. Absolute slippage was at the lowest levels in the last four years.** Even write-offs as a percentage of opening NPAs continued to trend downwards – they stood at 18% v/s 23%/26%/38% over the past three years. **Write-offs in absolute terms declined 10% YoY. Two-thirds of write-offs were from to GS3 pool.** Upgrades/Recoveries remained range-bound at INR46–53b and stood at INR48b for FY21 – one-third the opening NPAs and additions for the year. The contractual amount of NPAs written off during the year, in which enforcement activity was yet to begin, stood at INR10.8b v/s INR14.5b a year ago.

### Share of Gross Stage 1 loans remains above 80%

At the start of FY21, SHTF reported higher concerns over loan performance due to its cash collection business model and a DCO/SRTO kind of customer base. With steady improvement in collections (led by unlocking), CE improved sharply (3Q/4Q at 97.5%/103.3% of demand), reflected in the stage-wise movement of loans. The GS1 (less than 30dpd) loan share remained steady at 80.8% v/s 80.2% a year ago and was significantly better than 72.4% reported in FY19. This was owing to the combination of lower slippages from new underwriting and focus on upgrades from Stage 2/3 loans.

### Reduction in NPAs led by recoveries and upgrades; ECL improves

The flow of loans from the opening Stage 1 bucket to Stage 2/3 continued to trend downwards, reaching 14% (v/s 15.4% a year ago and ~17% in FY18/19). Upgrades from Stage 2 opening to Stage 1 increased to 60–70% in FY20/FY21 v/s 20–40% in FY18/FY19. Upgrades from Stage 3 opening to Stage 1 increased to 20–24% in FY20/FY21 v/s ~12% in FY18/FY19. Importantly, the share of GS3 loans declined 140bp YoY to 7.1%.

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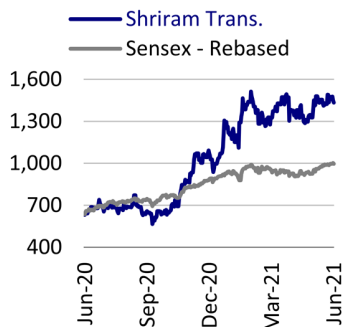
**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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

**Shareholding pattern (%)**

As On	Mar-21	Dec-20	Mar-20
Promoter	26.5	26.5	26.3
DII	6.9	5.4	2.7
FII	61.0	61.7	64.7
Others	5.6	6.4	6.4

FII Includes depository receipts

**Stock performance (one-year)**

The company restructured ~50bp of loans and provided ECGLS to ~70bp. ECL/EAD improved to 6.8% from 5.8%, with overall improvement in coverage across stages. PCR on Stage 3 loans increased to 42% from 35%. **In our view, GNPA and restructured loans may increase moderately in FY22 due to the unavailability of the moratorium benefit amid the second wave.**

**Diversifying liability base further; focus on increasing share of foreign liabilities through ECB**

SHTF utilized the opportunity to further diversify its liability base, and the share of foreign liabilities increased further to 20.6% v/s 17.9% a year ago and 6.3% in FY19. The share of deposits increased to 15.3% v/s 12.7% a year ago and 11–12% in FY18/FY19. The company raised USD500m (INR36.7b) and USD225m (INR16.3b) on 13<sup>th</sup> Jan and 31<sup>st</sup> March 2021, respectively, issued under the USD3b GMTN program at 4.4%. The bonds are listed on the Singapore Stock Exchange and are fully hedged. In FY20, the company raised USD250m/USD500m at an interest rate of 5.38%/5.1%.

**Efficient ALM management**

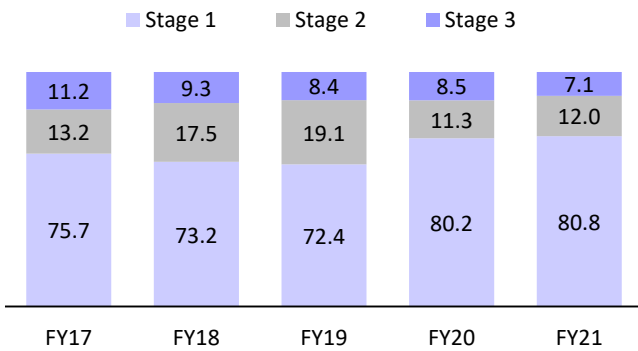
As of FY21 (FY20), SHTF had positive ALM with 35% (27%) of domestic loans + investments maturing in less than a year v/s 43% (33%) domestic liabilities (borrowings + deposits). A fifth of the liabilities / ~19% of assets are over three years' duration. The company runs a very high positive ALM in the 1–3 year ALM bucket.

**Valuation and view**

Since the IL&FS crisis, the company has diversified into new borrowing sources, such as retail NCDs as well as ECBs, and increased reliance on deposits. The share of ECBs in the borrowing mix has increased meaningfully to 21% (from 13% five quarters ago). SHTF has also increased liquidity to 16% of borrowings. AUM growth has been weak for the past several quarters; however, signs of a sharp reversal are seen in its core segment of Used Vehicle Financing. SHTF has done a good job in reducing the GNPL ratio over the past year. **With the sharp rise in input costs, prices of new CVs are likely to go up and should have a consequent impact on used CV pricing as well.** This should aid disbursement growth as well as lead to lower LGDs. We have incorporated the recent capital raise in our estimates. Reiterate Buy, with Target Price of INR1,750 (1.6x FY23E BV).

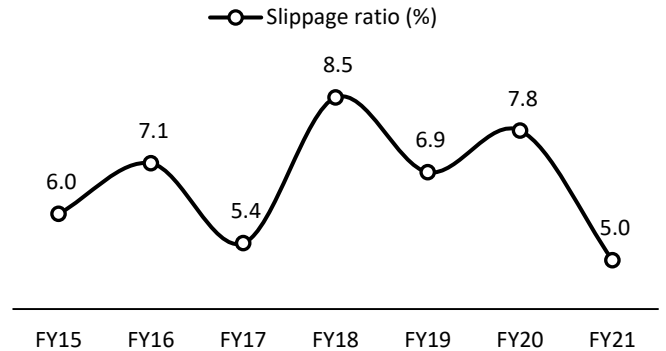
**Key exhibits**

**Exhibit 1: Sharp drop in GS3 loans – a positive surprise**



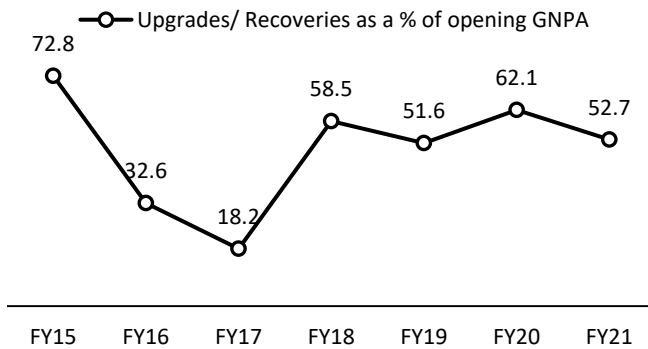
Source: MOFSL, Company

**Exhibit 2: Slippage ratio down ~280bp YoY**



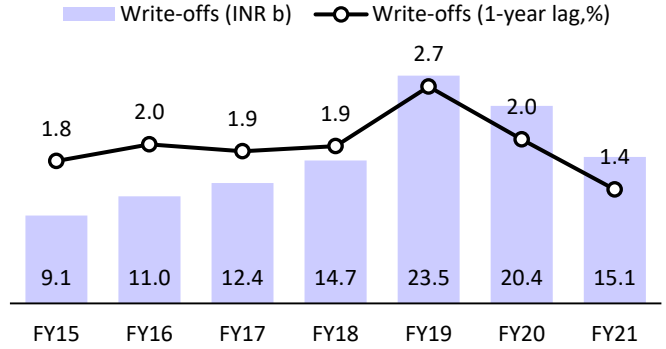
Source: MOFSL, Company

**Exhibit 3: Upgrades at 53% of opening GNPA**



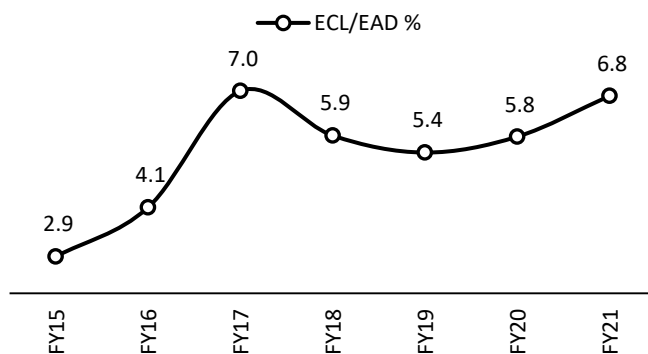
Source: MOFSL, Company

**Exhibit 4: Write-offs at 1.4% (one-year lag)**



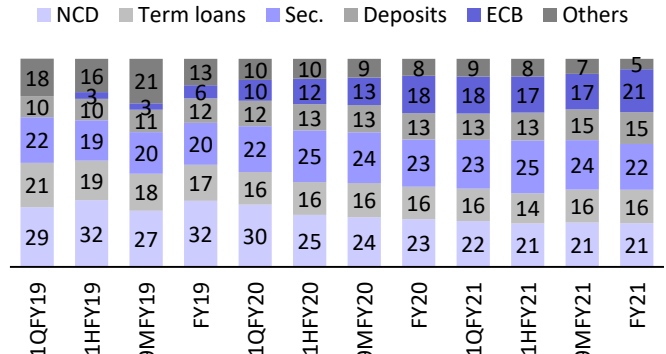
Source: MOFSL, Company

**Exhibit 5: ECL/ EAD at ~7%**



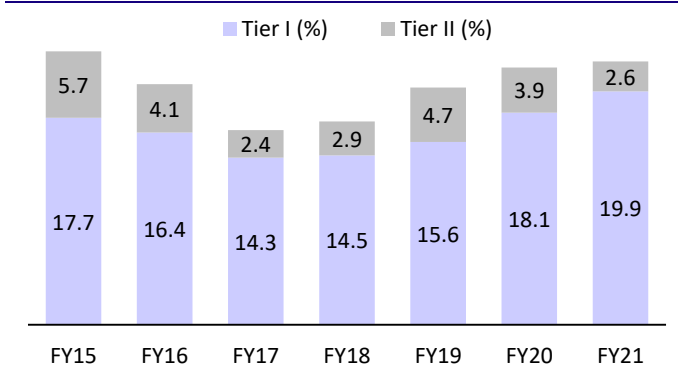
Source: MOFSL, Company

**Exhibit 6: Share of ECBs up 300bp YoY**



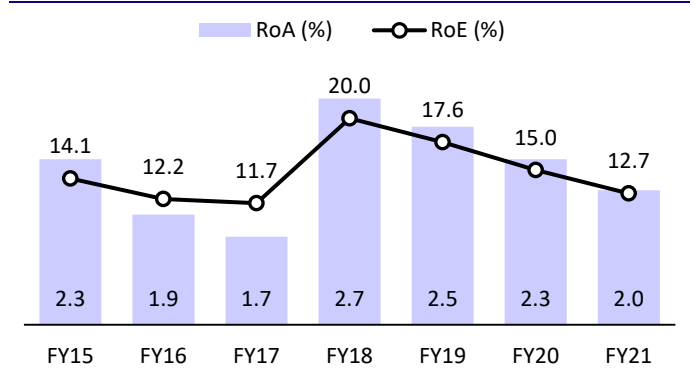
Source: MOFSL, Company, borrowing mix %

**Exhibit 7: Adequate capitalization with Tier I at ~23% (post the recent capital raise)**



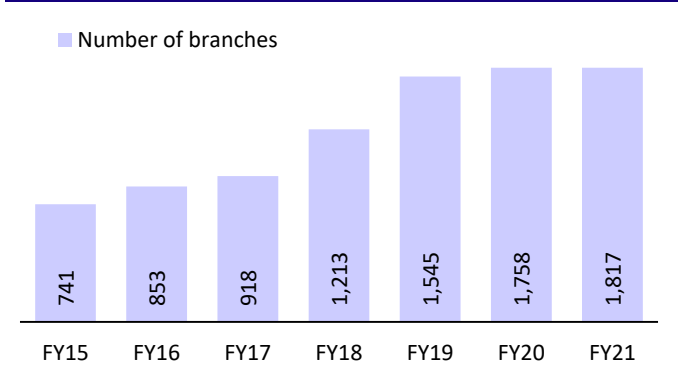
Source: MOFSL, Company

**Exhibit 8: Profitability impacted due to higher COVID-related provisions (%)**



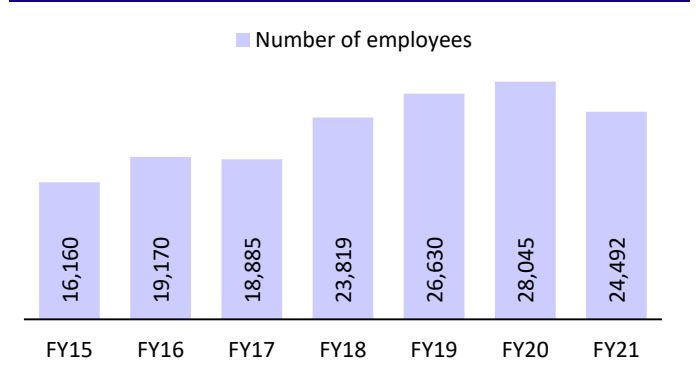
Source: MOFSL, Company

**Exhibit 9: ~60 branches added during the year**



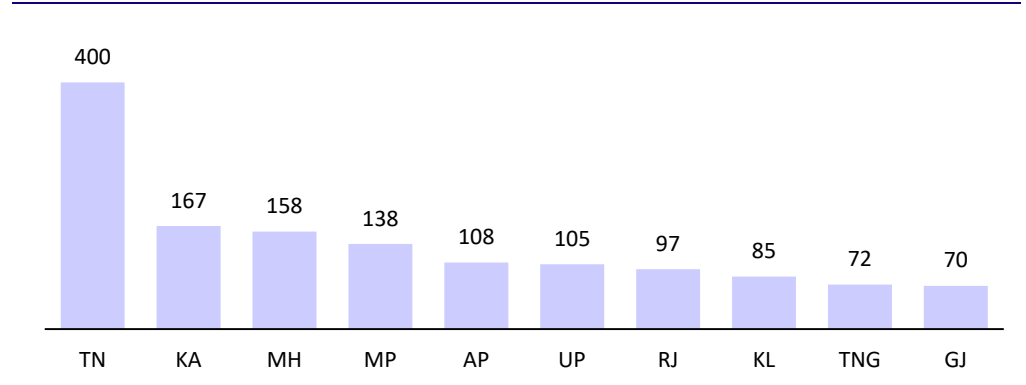
Source: MOFSL, Company

**Exhibit 10: Employee count down 13% YoY**



Source: MOFSL, Company

**Exhibit 11: Highest number of branches in Tamil Nadu**



Source: MOSL, Company

## Key updates

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### Total COVID-related provisioning stands at 2.3% of loans

#### COVID-related updates

- The company made COVID-related provisions of INR16.82b, taking the total to INR25.92b (2.25% of loans).
- **It credited ex-gratia amount, the payment difference between compound and simple interest, of INR2.3b to eligible borrowers and put forward the claim to SBI.**
- The company took interest income reversals of INR370m for provisions towards a compound interest waiver on loans >INR20m.
- **The company rewarded employees with a one-time payment of 15 days of the salary (totaling INR220m) as a token of appreciation for their work during the pandemic.**

#### Management changes with effect from 1<sup>st</sup> Apr'21

- Mr Umesh Ravankar was promoted to the position of Vice Chairman and MD.
- Mr Parag Sharma was promoted and re-designated as Joint MD and CFO.
- Mr S. Sunder, Mr P Sridharan, Mr Sudarshan Holla, and Mr Nilesh Odedara were promoted to Joint Managing Director.

#### Other key takeaways

- It opened 59 branches, taking the total count to 1,817.
- **It raised INR14.9b via a rights issue in the ratio of three shares for every 26 held at a price of INR570/share.**
- **The company paid an INR1.73b royalty to promoters v/s INR870m in FY20.**
- LCR as of FY21 stands at 482%, comfortably above the peak requirement of 100%.
- **Risk-weighted assets to loans continued to decline and stood at ~87% v/s earlier levels of 100%+ over FY17–19 and 88% in FY20.**
- Liquidity on the balance sheet includes INR46.4b (INR37b) kept with banks as margins for credit enhancement and INR2.35b (INR1.5b) for guarantees and pledge for lien against loans.
- **~40% of outstanding NCDs (21% of liabilities) carrying ~10%+ interest is likely to come up for maturity and would be replaced at a lower interest rate.**
- Almost one-third the deposits are coming up for repayment in FY22.
- Shriram Automall (an associate in which SHTF holds 44% stake) reported income of INR1.6b and PAT of INR260m in FY21. It had 89 branches at the end of FY21.

## Valuation and view

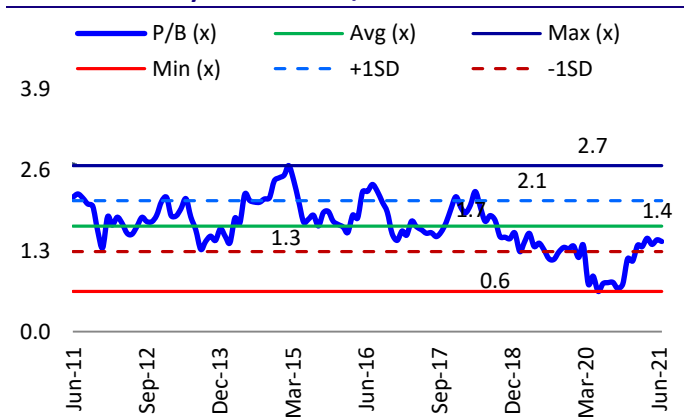
- Since the IL&FS crisis, the company has diversified into new borrowing sources – retail NCDs and ECBs. The share of ECBs in total borrowings has increased meaningfully to 21% (from 13% five quarters back). SHTF has also increased liquidity to 16% of borrowings.
- AUM growth has been weak for the past several quarters; however, signs of a sharp reversal are seen in its core segment of Used Vehicle Financing.
- **SHTF has done a good job of reducing the GNPL ratio over the past year. With the sharp rise in input costs, prices of new CVs are likely to go up and should have a consequent impact on used CV pricing as well. This should aid disbursement growth as well as lead to lower LGDs.**
- We further incorporate the recent capital raise in our estimates. Reiterate Buy, with Target Price of INR1,750 (1.6x FY23 BV).

**Exhibit 12: Upgrading estimates to factor in better margin performance, along with the recent capital raise**

INR b	Old Est			New Est.			Change (%)		
	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
NII (incl. Sec. Inc.)	88.6	104.9	117.3	89.5	106.9	119.6	1.0	1.9	2.0
Other Income	4.0	4.8	5.7	4.0	4.8	5.7			
<b>Total Income</b>	<b>92.6</b>	<b>109.6</b>	<b>123.0</b>	<b>93.5</b>	<b>111.7</b>	<b>125.3</b>	<b>1.0</b>	<b>1.9</b>	<b>1.9</b>
Operating Expenses	22.7	26.0	29.8	22.7	26.0	29.8	0.0	0.0	0.0
<b>Operating Profits</b>	<b>69.8</b>	<b>83.6</b>	<b>93.3</b>	<b>70.7</b>	<b>85.7</b>	<b>95.6</b>	<b>1.3</b>	<b>2.4</b>	<b>2.5</b>
Provisions	26.2	31.3	32.7	26.2	31.3	32.7	0.1	0.0	0.0
<b>PBT</b>	<b>43.7</b>	<b>52.4</b>	<b>60.6</b>	<b>44.5</b>	<b>54.4</b>	<b>62.8</b>	<b>2.0</b>	<b>3.9</b>	<b>3.8</b>
Tax	11.2	13.4	15.5	11.4	13.9	16.1	2.0	3.9	3.8
<b>PAT</b>	<b>32.5</b>	<b>39.0</b>	<b>45.1</b>	<b>33.1</b>	<b>40.5</b>	<b>46.8</b>	<b>2.0</b>	<b>3.9</b>	<b>3.8</b>
AUM	1,264	1,403	1,584	1,264	1,403	1,584	0.0	0.0	0.0
Loans	1,169	1,298	1,465	1,169	1,298	1,465	0.0	0.0	0.0
Borrowings	1,017	1,129	1,274	991	1,100	1,241	-2.5	-2.5	-2.5
NIM (%)	7.9	8.5	8.5	7.9	8.7	8.7			
Credit Cost (%)	2.3	2.5	2.4	2.3	2.5	2.4			
<b>RoA</b>	<b>2.0</b>	<b>2.5</b>	<b>2.9</b>	<b>2.0</b>	<b>2.6</b>	<b>3.0</b>			

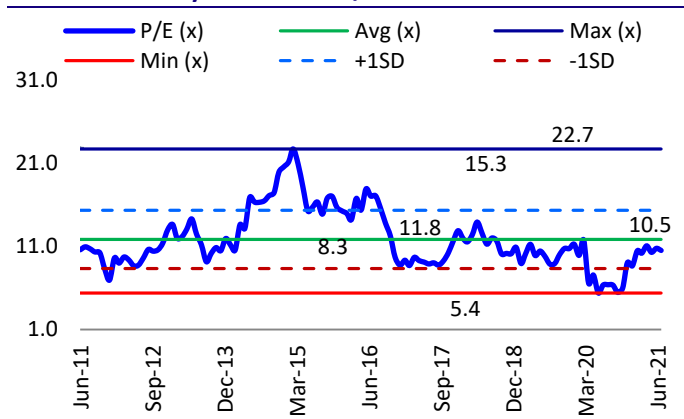
Source: MOFSL, Company

**Exhibit 13: One-year forward P/B**



Source: MOFSL, Company

**Exhibit 14: One-year forward P/E**



Source: MOFSL, Company

## Financials and valuations

Income Statement								(INR m)		
Y/E March	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Interest Income	77,779	95,300	98,013	1,31,935	1,53,843	1,62,675	1,71,281	1,79,822	1,95,777	2,19,128
Interest Expenses	44,029	50,744	52,094	63,688	75,113	82,703	90,543	90,330	88,871	99,511
<b>Net Interest Income</b>	<b>33,750</b>	<b>44,556</b>	<b>45,919</b>	<b>68,248</b>	<b>78,730</b>	<b>79,972</b>	<b>80,739</b>	<b>89,492</b>	<b>1,06,906</b>	<b>1,19,617</b>
Change (%)	42.5	32.0	3.1	48.6	15.4	1.6	1.0	10.8	19.5	11.9
Other Operating Income	7,379	6,171	9,293	1,051	1,382	2,880	2,923	3,800	4,560	5,472
Other Income	707	762	758	2,027	233	203	160	183	211	243
<b>Net Income</b>	<b>41,836</b>	<b>51,489</b>	<b>55,970</b>	<b>71,326</b>	<b>80,344</b>	<b>83,055</b>	<b>83,821</b>	<b>93,475</b>	<b>1,11,677</b>	<b>1,25,331</b>
Change (%)	9.7	23.1	8.7	27.4	12.6	3.4	0.9	11.5	19.5	12.2
Operating Expenses	10,783	13,089	12,288	16,085	18,739	20,720	19,857	22,749	26,009	29,752
<b>Operating Profit</b>	<b>31,054</b>	<b>38,400</b>	<b>43,682</b>	<b>55,241</b>	<b>61,605</b>	<b>62,336</b>	<b>63,964</b>	<b>70,727</b>	<b>85,668</b>	<b>95,580</b>
Change (%)	8.7	23.7	13.8	26.5	11.5	1.2	2.6	10.6	21.1	11.6
Provisions	12,630	20,586	24,443	17,223	23,823	27,949	31,184	26,177	31,277	32,738
<b>PBT</b>	<b>18,424</b>	<b>17,814</b>	<b>19,239</b>	<b>38,018</b>	<b>37,783</b>	<b>34,387</b>	<b>32,780</b>	<b>44,549</b>	<b>54,392</b>	<b>62,842</b>
Tax	6,046	6,032	6,666	13,413	12,143	9,368	7,908	11,405	13,924	16,087
Tax Rate (%)	32.8	33.9	34.6	35.3	32.1	27.2	24.1	25.6	25.6	25.6
<b>PAT</b>	<b>12,378</b>	<b>11,782</b>	<b>12,573</b>	<b>24,605</b>	<b>25,640</b>	<b>25,018</b>	<b>24,873</b>	<b>33,145</b>	<b>40,467</b>	<b>46,754</b>
Change (%)	-2.1	-4.8	6.7	95.7	4.2	-2.4	-0.6	33.3	22.1	15.5
Proposed Dividend	2,151	2,731	2,995	3,006	3,282	3,037	4,554	6,629	8,093	9,351

Balance Sheet								(INR m)		
Y/E March	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Capital	2,269	2,269	2,269	2,269	2,269	2,269	2,531	2,704	2,704	2,704
Reserves & Surplus (Ex OCI)	90,111	99,272	1,10,247	1,31,871	1,54,228	1,75,965	2,12,265	2,63,607	2,95,981	3,33,385
<b>Net Worth</b>	<b>92,380</b>	<b>1,01,541</b>	<b>1,12,516</b>	<b>1,34,140</b>	<b>1,56,497</b>	<b>1,78,234</b>	<b>2,14,796</b>	<b>2,66,312</b>	<b>2,98,686</b>	<b>3,36,089</b>
Other Comprehensive Income			-13	-26	-49	-97	-1,027	-1,027	-1,027	-1,027
<b>Net Worth</b>	<b>92,380</b>	<b>1,01,541</b>	<b>1,12,503</b>	<b>1,34,114</b>	<b>1,56,448</b>	<b>1,78,137</b>	<b>2,13,769</b>	<b>2,65,285</b>	<b>2,97,659</b>	<b>3,35,062</b>
Change (%)	11.7	9.9	10.8	19.2	16.7	13.9	20.0	24.1	12.2	12.6
<b>Borrowings</b>	<b>4,42,762</b>	<b>4,97,907</b>	<b>6,87,982</b>	<b>8,21,308</b>	<b>8,79,144</b>	<b>9,43,718</b>	<b>10,61,964</b>	<b>9,90,993</b>	<b>11,00,083</b>	<b>12,41,360</b>
Change (%)	23.2	12.5	38.2	19.4	7.0	7.3	12.5	-6.7	11.0	12.8
Other Liabilities	58,130	80,185	16,627	17,028	17,333	19,432	21,055	21,477	21,906	22,344
<b>Total Liabilities</b>	<b>5,93,272</b>	<b>6,79,633</b>	<b>8,17,112</b>	<b>9,72,450</b>	<b>10,52,925</b>	<b>11,41,286</b>	<b>12,96,789</b>	<b>12,77,754</b>	<b>14,19,648</b>	<b>15,98,766</b>
Investments	33,272	13,562	22,587	23,415	39,991	27,985	31,979	35,176	38,694	42,563
Change (%)	22.1	-59.2	66.5	3.7	70.8	-30.0	14.3	10.0	10.0	10.0
<b>Loans</b>	<b>5,07,638</b>	<b>6,37,701</b>	<b>7,40,157</b>	<b>9,07,456</b>	<b>9,67,515</b>	<b>10,22,316</b>	<b>10,83,030</b>	<b>11,69,371</b>	<b>12,98,098</b>	<b>14,64,805</b>
Change (%)	30.5	25.6	16.1	22.6	6.6	5.7	5.9	8.0	11.0	12.8
Other Assets	52,362	28,371	54,369	41,579	45,419	90,985	1,81,780	73,206	82,856	91,398
<b>Total Assets</b>	<b>5,93,272</b>	<b>6,79,633</b>	<b>8,17,112</b>	<b>9,72,450</b>	<b>10,52,925</b>	<b>11,41,286</b>	<b>12,96,789</b>	<b>12,77,754</b>	<b>14,19,648</b>	<b>15,98,766</b>

## Financials and valuations

<b>Ratios</b>	(%)									
<b>Y/E March</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>Spreads Analysis (%)</b>										
Yield on loans	16.2	16.1	13.9	15.7	16.0	15.8	15.8	15.6	15.5	15.5
Cost of funds	11.0	10.8	8.8	8.4	8.8	9.1	9.0	8.8	8.5	8.5
Spread on loans	5.2	5.3	5.1	7.2	7.2	6.7	6.8	6.8	7.0	7.0
NIMs	7.5	7.8	6.7	8.3	8.4	8.0	7.7	7.9	8.7	8.7
<b>Profitability Ratios (%)</b>										
Cost/Income	25.8	25.4	22.0	22.6	23.3	24.9	23.7	24.3	23.3	23.7
Emp/Operating Exp	39.8	45.0	44.6	44.3	47.1	48.8	45.6	45.8	46.1	46.3
RoE	14.1	12.2	11.7	20.0	17.6	15.0	12.7	13.8	14.4	14.8
RoA	2.3	1.9	1.7	2.7	2.5	2.3	2.0	2.6	3.0	3.1
ROA (On AUM)	2.2	1.8	1.7	2.8	2.6	2.3	2.2	2.7	3.0	3.1
<b>Asset Quality (%)</b>										
GNPA	18,941	38,702	88,597	89,345	86,163	91,771	82,928	84,505	94,402	1,02,724
NNPA	3,791	11,437	56,419	58,401	56,465	59,911	48,067	49,013	56,641	61,634
GNPA %	3.6	5.8	11.1	9.3	8.4	8.5	7.1	6.8	6.8	6.6
NNPA %	0.7	1.8	7.6	6.4	5.8	5.9	4.4	4.2	4.4	4.2
PCR %	80.0	70.4	36.3	34.6	34.5	34.7	42.0	42.0	40.0	40.0
<b>Capitalisation (%)</b>										
CAR	23.4	20.6	16.6	17.4	20.3	22.0	22.5	23.0	23.4	23.5
Tier I	17.7	16.4	14.3	14.5	15.6	18.1	19.9	20.9	21.7	22.1
Tier II	5.7	4.1	2.4	2.9	4.7	3.9	2.6	2.1	1.7	1.4
Average Leverage on Assets (x)	6.2	6.6	7.0	7.3	7.0	6.6	6.2	5.4	4.8	4.8
<b>Valuations</b>										
Book Value (INR)	407	448	496	591	690	786	849	985	1,105	1,243
BV Growth (%)	11.7	9.9	10.8	19.2	16.7	13.9	8.0	16.0	12.2	12.5
Price-BV (x)					<b>2.0</b>	<b>1.8</b>	<b>1.7</b>	<b>1.4</b>	<b>1.3</b>	<b>1.1</b>
Adjusted BV (INR)	395	412	322	411	516	601	716	858	958	1,083
Price-ABV (x)					<b>2.7</b>	<b>2.3</b>	<b>2.0</b>	<b>1.6</b>	<b>1.5</b>	<b>1.3</b>
OPS (INR)	137	169	193	243	272	275	253	262	317	353
Growth (%)	8.7	23.7	13.8	26.5	11.5	1.2	-8.0	3.5	21.1	11.6
Price-Earnings (x)					<b>5.2</b>	<b>5.1</b>	<b>5.6</b>	<b>5.4</b>	<b>4.5</b>	<b>4.0</b>
EPS (INR)	55	52	55	108	113	110	98	123	150	173
Growth (%)	-2.1	-4.8	6.7	95.7	4.2	-2.4	-10.9	24.7	22.1	15.5
Price-Earnings (x)					<b>12.5</b>	<b>12.8</b>	<b>14.4</b>	<b>11.5</b>	<b>9.4</b>	<b>8.2</b>
Dividend	8.0	10.0	10.0	11.0	12.0	13.4	18.0	24.5	29.9	34.6
Dividend Yield (%)					<b>0.9</b>	<b>0.9</b>	<b>1.3</b>	<b>1.7</b>	<b>2.1</b>	<b>2.5</b>



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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