

Rating: BUY | CMP: Rs1,125 | TP: Rs1,441

October 27, 2019

Q2FY20 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	1,441		1,441	
NII (Rs.)	84,940	94,669	85,787	95,329
% Chng.	(1.0)	(0.7)		
PPoP (Rs.)	65,289	73,744	64,698	72,094
% Chng.	0.9	2.3		
EPS (Rs.)	117.8	130.7	119.3	130.6
% Chng.	(1.3)	-		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Int.Inc. (Rs m)	80,112	84,940	94,669	107,456
Growth (%)	15.6	6.0	11.5	13.5
Op. Profit (Rs m)	61,605	65,289	73,744	84,993
PAT (Rs m)	25,640	26,726	29,654	33,704
EPS (Rs.)	113.0	117.8	130.7	148.5
Gr. (%)	4.2	4.2	11.0	13.6
DPS (Rs.)	13.0	15.5	15.5	15.5
Yield (%)	1.2	1.4	1.4	1.4
Margin (%)	8.0	7.6	7.4	7.3
RoAE (%)	17.4	15.6	14.8	14.6
RoAA (%)	2.5	2.4	2.3	2.3
PE (x)	10.0	9.6	8.6	7.6
P/BV (x)	1.6	1.4	1.2	1.0
P/ABV (x)	1.9	1.5	1.3	1.1

Key Data

SRTR.BO | SHTF IN

52-W High / Low	Rs.1,297 / Rs.909
Sensex / Nifty	39,058 / 11,584
Market Cap	Rs.255bn / \$ 3,600m
Shares Outstanding	227m
3M Avg. Daily Value	Rs.2905.48m

Shareholding Pattern (%)

Promoter's	26.25
Foreign	60.75
Domestic Institution	4.77
Public & Others	8.23
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.9	(2.4)	3.7
Relative	(0.3)	(3.2)	(10.5)

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Early signs of BS strengthening

Quick Pointers:

- Disbursements spring positive surprise, grow 7% QoQ
- Slight deterioration in asset quality; credit costs spike to 242bps; collection efforts upped

Backed by one-time tax gains (Rs1.7bn), accelerated disbursements (7%QoQ/9%YoY) and steady asset quality (8.8% Stage 3 assets), SHTF Q2FY20 earnings (PAT at Rs7.65bn vs PLe: Rs7.13bn grew 26%YoY) stood impressive defying market challenges. While funding pressures sustained for past couple of quarters, they have seemingly appeared to be subsiding as margins stand stable (719bps vs 716bps QoQ) and Management confident of a better H2FY20 performance. Credit costs, however, disappointed slightly with spike to 242bps on account of early bucket transitioning reflecting underlying weak sectoral trends.

While Management cited confidence of a better H2 SHTF on the back of good monsoon translating into better farm-related cash flows, possible pick-up in infrastructure activity and government initiatives boosting used CV demand, sustainable economic growth and stable funding is the key. With business trends and core operating profit showing signs of stability, SHTF can put up AUM growth at 15-16%, 7.3% NIMs and 210bps credit costs translating into 15% RoEs over FY20-22E. While our target price at Rs1,441 valued at 1.5x PABV Sep-21E implies 50% discount to diversified CV player like CIFC, it also sufficiently incorporates market apprehensions. Maintain BUY.

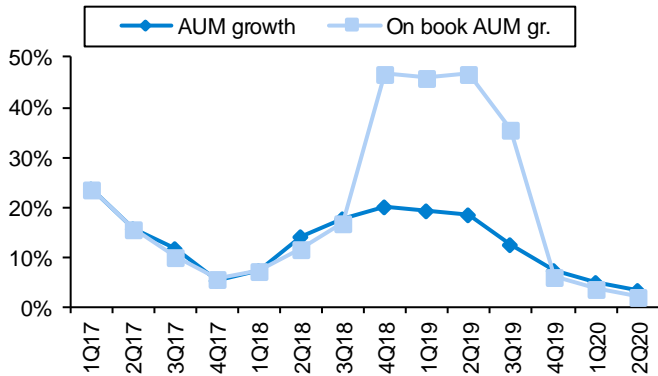
- Core book growth impressive:** AUM at Rs 1081bn [PLe: Rs 1106bn] grew 2% QoQ /4% YoY with used CV share in overall mix now at 84.4% as against 82% a year ago. Used vehicle disbursements stood encouraging at 9%QoQ/7%YoY growth indicative of built-up of healthier business trends ahead. BSVI pre-buying Jan'20 onwards, increased rural reach through satellite branches in suburbs and incremental focus on LCV should enable SHTF to put up 15-16% AUM growth over FY20-22E.
- Asset quality slightly deteriorates; collection efficiency intact:** GNPA stood at 8.8% vs 8.6% in the previous quarter [PLe of 8%], absolute terms GNPA increased 3% YoY/ 5% QoQ and PCR stood at 32%; credit costs spiking to 246bps [PLe: 215bps]. A better winter crop and bountiful monsoons translating into bettering farm cash flows should see credit quality improvement in H2FY20. Moreover, Co.'s collection efforts in terms of increased customer visit trips, digital collection drives and importantly reduction in LTV by 5-10% to 60-65% for used and 70-75% for new promises a better performance for rest FY20. We assess 210bps credit costs and ~7% Stage 3 assets over FY21-22E.
- RoE catch-up likely:** Initial signs of healthy business pick-up, core operating metrics stabilizing and bettering funding environment should translate into steady 15% RoEs over FY21-22E with positive upward bias.

Exhibit 1: Lower tax, healthy disbursements support PAT

Y/e March (Rs mn)	Q2FY20	Q2FY19	YoY gr.	Q1FY20	QoQ gr.
Interest income	41,099	39,126	5.0	39,868	3.1
Interest expenses	21,134	18,504	14.2	20,431	3.4
Net Interest Income	19,965	20,622	(3.2)	19,436	2.7
Total Net Interest Income	19,965	20,622	(3.2)	19,436	2.7
Operating & Other Income	1,099	352	212.4	749	46.8
Net revenue	21,064	20,974	0.4	20,185	4.4
Operating expenses	5,189	4,748	9.3	4,758	9.1
Staff Cost	2,505	2,321	7.9	2,331	7.5
Operating profit	15,875	16,226	(2.2)	15,428	2.9
Provisions	6,607	6,836	(3.4)	5,612	17.7
Profit before tax	9,269	9,390	(1.3)	9,816	(5.6)
Tax	1,618	3,295	(50.9)	3,473	(53.4)
Profit after tax	7,651	6,096	25.5	6,343	20.6
Busines mix					
Total AUM	1,081,202	1,043,798	3.6	1,063,435	1.7
on book	1,064,634	1,043,563	2.0	1,044,014	2.0
off book	16,569	235	6,944.5	19,421	(14.7)
on book %	98%	100%	(1.5)	98%	0.3
Used CV book	912,146	860,574	6.0	890,205	2.5
New CV book	109,667	127,188	(13.8)	114,505	(4.2)
Used CV book share	84%	82%	1.9	84%	0.7
New CV book share	10%	12%	(2.0)	11%	(0.6)
Disbursement	131,200	138,030	(4.9)	122,960	6.7
Used CVs	122,820	115,080	6.7	112,600	9.1
New CVs	6,660	16,910	(60.6)	8,910	(25.3)
Asset quality					
Gross NPA (mn)	93,966	77,488	21.3	70,998	32.3
Net NPA (mn)	63,800	22,782	180.1	20,554	210.4
Gross NPA (%)	8.8%	8.8%	0.0	8.5%	0.3
Net NPA (%)	5.9%	2.8%	3.2	2.6%	3.4
Coverage ratio(%)	32.1%	70.6%	(38.5)	71.0%	(38.9)
Credit Cost (%)	2.5%	2.7%	(0.2)	2.0%	0.5
Ratios					
Gross Spread (on book)	6.1%	3.6%	254	6.0%	16
NIM/AUM	7.5%	8.2%	(71)	7.4%	14
NIM/AUM - Reported	7.2%	7.5%	(33)	7.2%	3
Asset quality under IND-AS					
Gross Stage 3	93,966	90,925	3.3	89,257	5.3
Gross Stage 3 (%)	8.8%	8.6%	16	8.5%	3.3
Net Stage 3	63,800	59,794	6.7	60,852	4.8
Net Stage 3 (%)	5.9%	5.7%	17	5.7%	3.1
ECL Prov. on Gross Stage 3	30,165	31,131	(3.1)	28,406	6.2
Coverage Ratio Stage 3	32.1%	34.2%	(214)	31.8%	0.9
Gross Stage 1 & 2	974,057	961,726	1.3	958,895	1.6
Net Stage 1 & 2	946,393	935,683	1.1	931,271	1.6
ECL Prov. on Gross Stage 1 & 2	27,665	26,043	6.2	27,624	0.1
ECL Prov. (%) Stage 1 & 2	2.8%	2.7%	13	2.9%	(1.4)

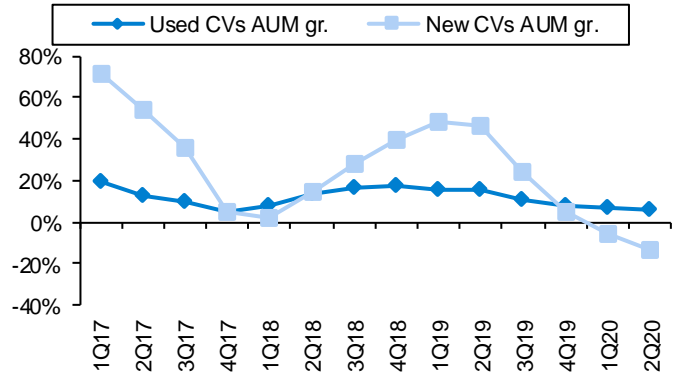
Source: Company, PL

Exhibit 2: AUM growth improves...



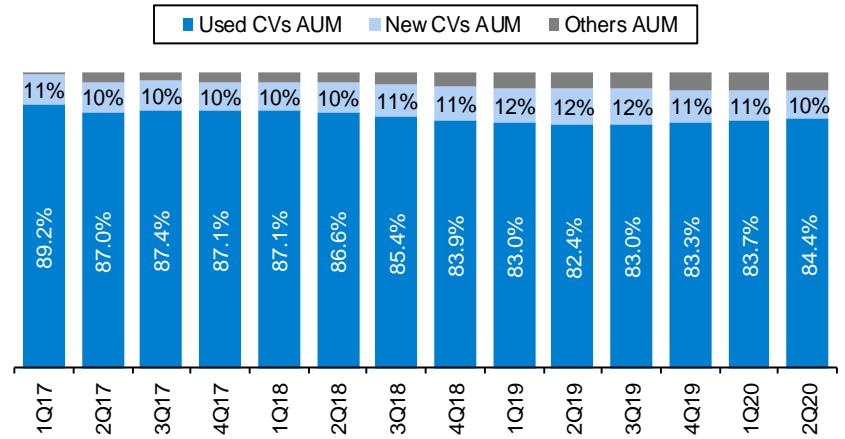
Source: Company, PL

Exhibit 3: ...contributed from used CVs



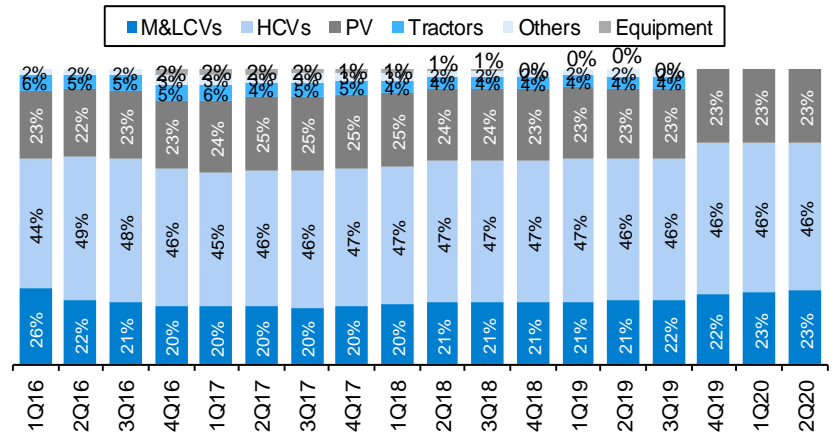
Source: Company, PL

Exhibit 4: CV mix largely maintained



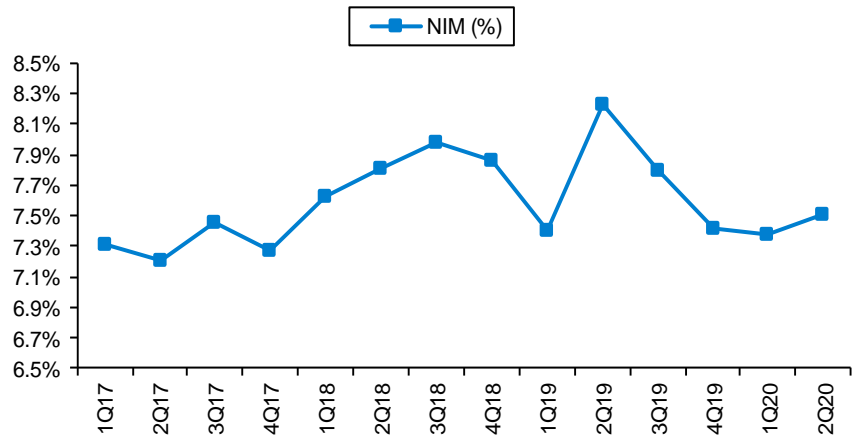
Source: Company, PL

Exhibit 5: M&LCVs share inching up



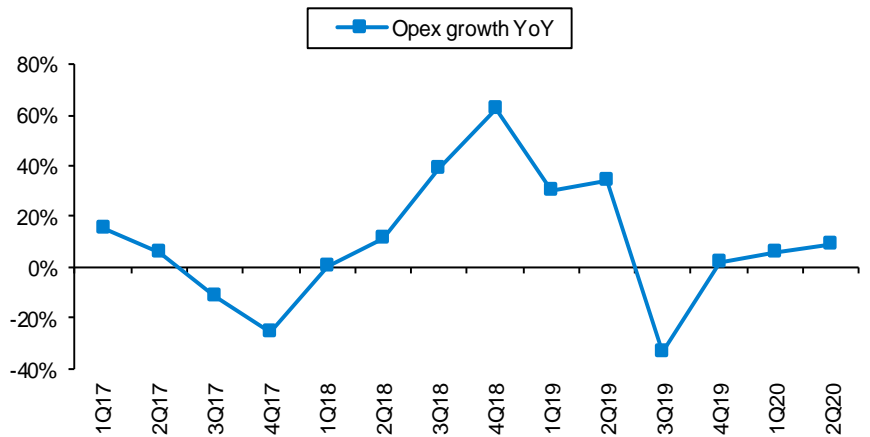
Source: Company, PL

Exhibit 6: NIMs stable as funding challenges begin to subside



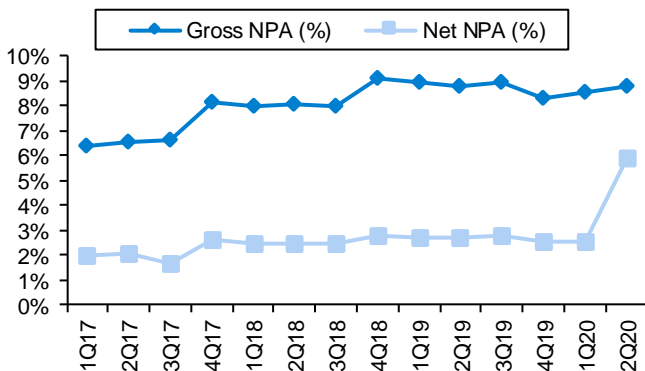
Source: Company, PL

Exhibit 7: Opex climbs as collection efforts increase



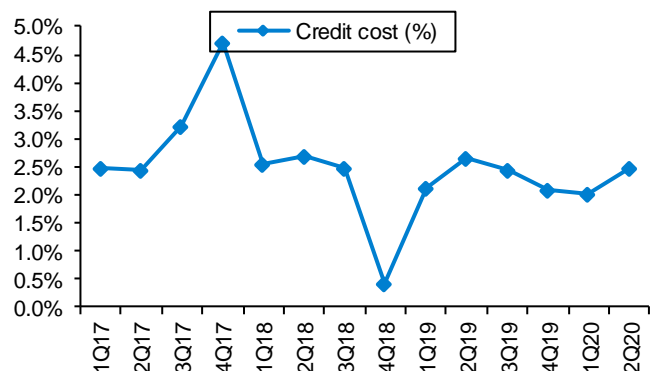
Source: Company, PL

Exhibit 8: Asset quality steady



Source: Company, PL

Exhibit 9: Credit costs spike, H2 should improve



Source: Company, PL

Exhibit 10: TP maintained at Rs1,441, reiterate BUY on compelling valuations

Fair price - EVA	1,750
Fair price - P/ABV	1,132
Average of the two	1,441
Target P/ABV	1.5
Target P/E	10.3
Current price, Rs	1125
Upside (%)	28%
Dividend yield (%)	1%
Total return (%)	29%

Source: Company, PL



Income Statement (Rs. m)				
Y/e Mar	FY19	FY20E	FY21E	FY22E
Int. Inc. / Opt. Inc.	155,316	186,029	209,723	235,025
Interest Expenses	75,113	86,541	99,846	110,840
Net interest income	80,112	84,940	94,669	107,456
Growth(%)	15.6	6.0	11.5	13.5
Non-interest income	233	523	811	1,176
Growth(%)	(63.1)	125.0	55.0	45.0
Net operating income	80,344	85,464	95,481	108,632
Expenditures				
Employees	8,831	9,537	10,395	11,331
Other Expenses	9,479	10,048	10,751	11,718
Depreciation	430	590	590	590
Operating Expenses	18,309	19,584	21,146	23,049
PPP	61,605	65,289	73,744	84,993
Growth(%)	14.4	6.0	13.0	15.3
Provisions	23,823	29,574	34,116	39,953
Profit Before Tax	37,783	35,715	39,629	45,040
Tax	12,143	8,989	9,974	11,337
Effective Tax rate(%)	32.1	25.2	25.2	25.2
PAT	25,640	26,726	29,654	33,704
Growth(%)	4.2	4.2	11.0	13.7

Balance Sheet (Rs. m)				
Y/e Mar	FY19	FY20E	FY21E	FY22E
Source of funds				
Equity	2,269	2,269	2,269	2,270
Reserves and Surplus	156,094	182,819	212,473	246,177
Networth	158,363	185,088	214,742	248,447
Growth (%)	16.7	16.9	16.0	15.7
Loan funds	879,144	996,252	1,122,369	1,297,135
Growth (%)	7.0	13.3	12.7	15.6
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	15,418	20,590	35,350	36,080
Other Liabilities	-	-	-	-
Total Liabilities	1,052,925	1,201,930	1,372,462	1,581,662
Application of funds				
Net fixed assets	1,454	1,528	1,604	1,685
Advances	967,515	1,107,805	1,281,730	1,486,807
Growth (%)	6.6	14.5	15.7	16.0
Investments	39,991	40,790	41,198	41,610
Current Assets	40,734	41,036	44,375	63,792
Net current assets	25,316	20,447	9,025	27,712
Other Assets	3,211	3,311	3,533	3,713
Total Assets	1,052,925	1,201,930	1,372,462	1,581,662
Growth (%)	8.3	14.2	14.2	15.2
Business Mix				
AUM	1,044,823	1,195,727	1,374,008	1,584,051
Growth (%)	8.5	14.4	14.9	15.3
On Balance Sheet	850,847	978,474	1,135,030	1,321,175
% of AUM	81.43	81.83	82.61	83.40
Off Balance Sheet	193,976	217,253	238,978	262,876
% of AUM	18.57	18.17	17.39	16.60

Profitability & Capital (%)				
Y/e Mar	FY19	FY20E	FY21E	FY22E
NIM	8.0	7.6	7.4	7.3
ROAA	2.5	2.4	2.3	2.3
ROAE	17.4	15.6	14.8	14.6

Source: Company Data, PL Research

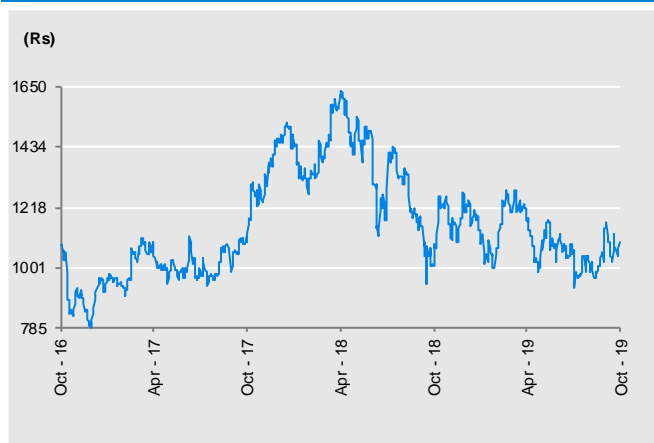
Quarterly Financials (Rs. m)				
Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Int. Inc. / Operating Inc.	39,484	38,197	39,868	41,099
Income from securitization	-	-	-	-
Interest Expenses	19,187	18,885	20,431	21,134
Net Interest Income	20,297	19,313	19,436	19,965
Growth (%)	14.7	5.0	6.7	(3.2)
Non-Interest Income	457	607	749	1,099
Net Operating Income	20,754	19,920	20,185	21,064
Growth (%)	16.4	2.9	9.7	0.4
Operating expenditure	4,553	4,799	4,758	5,189
PPP	16,202	15,120	15,428	15,875
Growth (%)	-	-	-	-
Provision	6,362	5,398	5,612	6,607
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	9,839	9,722	9,816	9,269
Tax	3,485	2,262	3,473	1,618
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	35.4	23.3	35.4	17.5
PAT	6,355	7,460	6,343	7,651
Growth	18	(9)	11	26
AUM	1,038,179	1,044,823	1,063,435	1,081,202
YoY growth (%)	14.1	8.5	5.8	3.6
Borrowing	721,717	877,796	1,019,299	1,201,665
YoY growth (%)	16.0	28.8	17.4	30.1

Key Ratios				
Y/e Mar	FY19	FY20E	FY21E	FY22E
CMP (Rs)	1,125	1,125	1,125	1,125
EPS (Rs)	113.0	117.8	130.7	148.5
Book value (Rs)	697.9	815.7	946.4	1,094.7
Adj. BV(Rs)	607.3	738.9	880.0	1,016.6
P/E(x)	10.0	9.6	8.6	7.6
P/BV(x)	1.6	1.4	1.2	1.0
P/ABV(x)	1.9	1.5	1.3	1.1
DPS (Rs)	13.0	15.5	15.5	15.5
Dividend Payout Ratio(%)	11.5	13.2	11.9	10.4
Dividend Yield(%)	1.2	1.4	1.4	1.4

Asset Quality				
Y/e Mar	FY19	FY20E	FY21E	FY22E
Gross NPAs(Rs m)	70,998	84,826	92,423	104,631
Net NPA(Rs m)	20,554	17,424	15,076	17,722
Gross NPAs to Gross Adv.(%)	-	-	-	-
Net NPAs to net Adv.(%)	2.2	1.7	1.3	1.3
NPA coverage(%)	71.0	79.5	83.7	83.1

Du-Pont as a % of AUM				
Y/e Mar	FY19	FY20E	FY21E	FY22E
NII	7.8	7.5	7.4	7.3
NII INCl. Securitization	7.8	8.8	8.5	8.4
Total income	7.9	8.9	8.6	8.5
Operating Expenses	1.8	1.8	1.7	1.6
PPOP	6.0	7.1	6.9	6.9
Total Provisions	2.3	2.6	2.7	2.7
RoAA	2.5	2.4	2.3	2.3
Avg. Assets/Avg. net worth	-	-	-	-
RoAE	17.4	15.6	14.8	14.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	BUY	1,441	1,035
2	4-Jul-19	BUY	1,481	1,063
3	9-May-19	BUY	1,481	1,027
4	22-Apr-19	BUY	1,568	1,213
5	5-Apr-19	BUY	1,568	1,224
6	29-Jan-19	BUY	1,657	1,056
7	7-Jan-19	BUY	1,660	1,176

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	4,668	4,050
2	Capital First	UR	-	495
3	Cholamandalam Investment and Finance Company	BUY	356	287
4	Edelweiss Capital	NR	-	276
5	HDFC	Accumulate	2,274	1,972
6	L&T Finance Holdings	Hold	88	86
7	LIC Housing Finance	Accumulate	409	373
8	Mahindra & Mahindra Financial Services	Accumulate	362	334
9	Shriram Transport Finance	BUY	1,441	1,035

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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