

Shriram Transport

21 February, 2022

Reuters: SRTR.BO; Bloomberg: SHTF IN

AUM growth at ~15% for FY23; Asset quality to improve

We hosted Shriram Transport (SHTF) as part of our annual investor conference. The key highlights of the call are– (1) Expect merger between SHTF, Shriram City Union Finance (SCUF) and Shriram Capital to be completed by Oct-Nov'22 ([our note on merger](#)) (2) Expect combined entity (SHTF + SCUF) to report combined AUM growth of 15% for FY23 (3) The NBFC may continue to follow Nov'12 circular on NPA recognition despite the extension in deadline to Sept'23 (4) Credit costs for 4QFY22 expected at ~2% (5) CoF likely to improve by 20-25bps over the next two quarters as 85-90% of the borrowings are fixed in nature. Disbursements and collections were affected for three weeks from Dec'21 end until 10th Jan'22, post which the same has improved. Demand for Used CVs remains strong from Infra and Mining activities, with utilization improving to 85-90%. Used Vehicle prices are up by 15-20%. Shriram Transport is the largest player in the Used CV market and is well placed to gain market share from the pick-up in CV replacement demand. In the last two years, SHTF's asset quality has remained better compared to peers while write-offs at 1.6% (avg over last 7 qtrs) have remained in line with the 10-year average of 1.7%. The third covid wave has been less severe than expected with minimal impact on disbursements and collections. With this note, we rollover our valuation basis to FY24E (earlier Sept'23). We value SHTF at 1.8x FY24E P/ABV to arrive at a target price (TP) of Rs1,761 and maintain BUY.

Merger expected to be completed by Oct-Nov'22: The NBFC has applied to regulators and there are no major observations that may delay the process. IT integration is likely to take 7-10 days as both the entities are using the same platform. HR integration is likely to be smooth as both the entities follow the same culture/processes. There is minimal branch overlap in North, West and East while there is some overlap in South. However, no layoffs or branch closure is anticipated. The management expects AUM growth of ~15% for the merged entity. SHTF executives with field expertise will be transferred to SCUF and vice-versa. All SCUF products (ex-SME) will be rolled out in SHTF branches while SCUF will roll out LCV and Used CV products. It maintained its guidance of 8-10% (net of merger costs) incremental profit in the first year post merger and 12-14% in the second year from cross-sell opportunities. Assuming no synergy benefits and cost of Rs4bn towards merger-related expenses in the first year, it will reduce profitability by 7.5% for the combined entity.

Asset quality on the mend: Daily NPA tagging led to 80bps QoQ increase in GNPA to 8.4% in 3QFY22. Around 2.5p.p. GNPA are less than 90dpd but are classified as GNPA due to daily tagging. The NBFC expects 40-50% of increase in GNPA to fall by 4QFY22. The RBI recently extended NPA recognition and classification deadline to 30th Sept'22. However, the Board may take a call on provision reversals or on continuation of daily tagging. The IR was of the view that it may remain compliant to daily tagging. Credit cost for 4QFY22 is expected at 2%. The stressed segment of ola/uber/bus transportation, etc. constitutes 3-3.5% of the portfolio. 50-60% of them are now generating cash flows. 90% of restructuring is towards this segment.

Other highlights: Digital is at 20% and bank collections are at 30-40% of overall collections. Expect this to increase by 3-5p.p. each year.

BUY

Sector: NBFC

CMP: Rs1,254

Target Price: Rs1,761

Upside: 40.0%

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Key Data

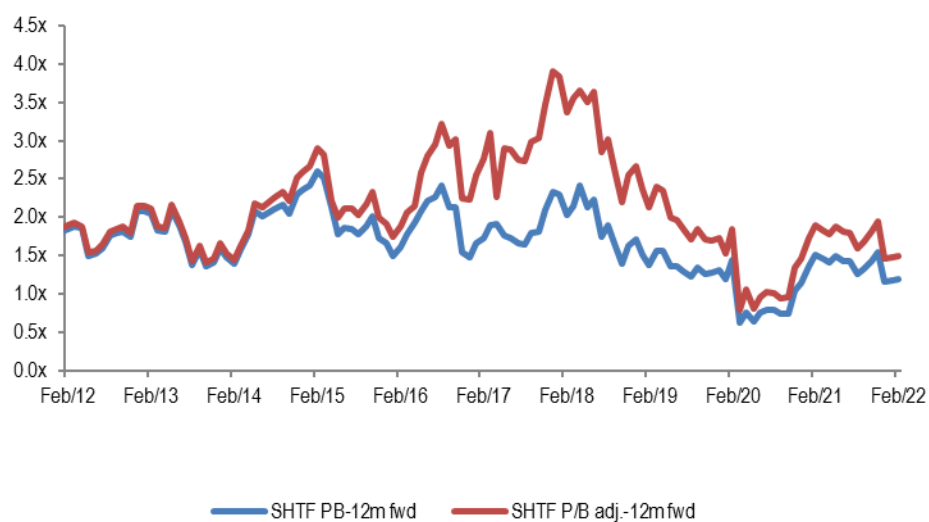
Current Shares O/S (mn)	270.5
Mkt Cap (Rsbn/US\$bn)	340.3/4.6
52 Wk H / L (Rs)	1,696/1,103
Daily Vol. (3M NSE Avg.)	1,125,327

Price Performance (%)

	1 M	6 M	1 Yr
SHTF	3.0	0.3	(10.4)
Nifty Index	(1.9)	5.0	15.3

Source: Bloomberg

Exhibit 1: One-year forward P/B and P/B adj.



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 2: Income statement

Y/E March (Rs mn)	2020	2021	2022E	2023E	2024E
Financing Income	1,62,675	1,71,281	1,87,834	2,10,531	2,41,069
Financing charges	82,703	90,543	99,644	1,07,371	1,22,945
Net Financing income	79,972	80,739	88,190	1,03,160	1,18,124
Change (%)	1.6	1.0	9.2	17.0	14.5
Other Income	3,152	3,083	3,391	3,560	3,738
Net Income	83,124	83,821	91,581	1,06,721	1,21,862
Change (%)	3.5	0.8	9.3	16.5	14.2
Employee Cost	10,108	9,063	10,087	11,440	12,364
Other Operating Exp.	10,680	10,795	11,207	12,310	13,731
Operating Profit	62,336	63,964	70,287	82,971	95,768
Change (%)	1.2	2.6	9.9	18.0	15.4
Total Provisions	27,949	31,184	38,562	29,440	29,805
% to operating income	44.8	48.8	54.9	35.5	31.1
PBT	34,387	32,780	31,724	53,531	65,963
Tax	9,368	7,908	7,995	13,490	16,623
Tax Rate (%)	27.2	24.1	25.2	25.2	25.2
PAT	25,018	24,873	23,730	40,041	49,341
Change (%)	-2.4	-0.6	-4.6	68.7	23.2
Dividend	1,134	4,555	5,952	7,034	7,386

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance sheet

Y/E March (Rs mn)	2020	2021	2022E	2023E	2024E
Capital	2,269	2,531	2,705	2,705	2,705
Reserves & Surplus	1,77,783	2,13,153	2,55,756	2,88,763	3,30,718
Net Worth	1,80,052	2,15,684	2,58,462	2,91,469	3,33,423
Borrowings	9,43,718	10,61,964	11,04,209	12,81,812	14,50,302
Change (%)	7.3	12.5	4.0	16.1	13.1
Other Liabilities	17,517	19,141	19,913	20,708	21,371
Total Liabilities	11,41,286	12,96,789	13,82,583	15,93,989	18,05,097
Investments	27,985	31,979	35,176	38,694	42,563
Change (%)	-30.0	14.3	10.0	10.0	10.0
Loans	10,22,316	10,83,030	12,05,797	13,99,738	15,83,730
Change (%)	5.7	5.9	11.3	16.1	13.1
Net Fixed Assets	4,804	4,353	3,837	3,898	4,017
Net Current Assets	86,181	1,77,426	1,37,773	1,51,658	1,74,786
Total Assets	11,41,286	12,96,789	13,82,583	15,93,989	18,05,096

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

Y/E March (Rs mn)	2020	2021	2022E	2023E	2024E
Spreads Analysis (%)					
Interest yields (on advances)	16.4	16.3	16.4	16.2	16.2
Avg Cost of funds	9.1	9.0	9.2	9.0	9.0
NIMs	8.0	7.7	7.7	7.9	7.9
Interest spread	7.3	7.2	7.2	7.2	7.2
Profitability Ratios (%)					
RoE	14.8	12.6	10.0	14.6	15.8
RoA	2.3	2.0	1.8	2.7	2.9
Int. Expended/Int.Earned	50.8	52.9	53.0	51.0	51.0
Other Inc./Net Income	3.8	3.7	3.7	3.3	3.1
	2.3	2.2	1.9	2.9	3.1
Efficiency Ratios (%)					
Op. Exps./Net Income	25.0	23.7	23.3	22.3	21.4
Empl. Cost/Op. Exps.	48.6	45.6	47.4	48.2	47.4
Asset-Liability Profile (%)					
Loans/Borrowings Ratio	108.3	102.0	109.2	109.2	109.2
GNPA	91,771	82,928	1,02,454	1,18,696	1,37,361
NNPA	59,911	48,067	52,764	59,348	68,680
GNPL ratio (%)	8.4	7.1	7.9	7.9	8.1
NNPL ratio (%)	5.6	4.2	4.0	3.9	4.0
Leverage	6.3	6.0	5.3	5.5	5.4
Average leverage (on BS)	6.5	6.2	5.7	5.4	5.4
CAR	22.0	22.5	23.4	22.4	22.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Valuations

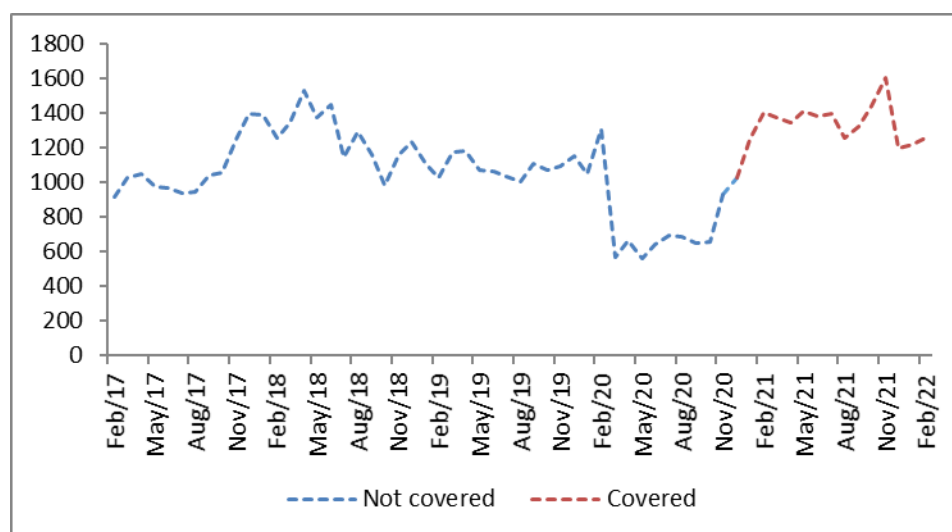
Valuations	2020	2021	2022E	2023E	2024E
BVPS (INR)	794	852	955.35	1,077.35	1,232.4
BV Growth (%)	13.7	7.4	12.1	12.8	14.4
Price-BV (x)	1.6	1.5	1.3	1.2	1.0
Adjusted BV per share	529.5	662.4	760.3	858.0	978.6
P/ABV	2.4	1.9	1.6	1.5	1.3
EPS (INR)	107.4	101.0	87.7	148.0	182.4
Growth (%)	-4.9	-6.0	-13.1	68.7	23.2
Price-Earnings (x)	11.7	12.4	14.3	8.5	6.9
Dividend	6.0	18.0	22.0	26.0	27.3
Dividend Yield (%)	0.5	1.4	1.8	2.1	2.2

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 December 2020	Buy	1,016	1,265
31 Jan 2021	Buy	1,291	1,490
21 Feb 2021	Buy	1,405	1,714
3 May 2021	Buy	1,345	1,732
8 June 2021	Buy	1,487	1,730
2 Aug 2021	Buy	1,390	1,805
25 Aug 2021	Buy	1,267	1,805
26 Sep 2021	Buy	1,356	1,745
31 Oct 2021	Buy	1,449	1,785
9 Dec 2021	Buy	1,492	1,785
14 Dec 2021	Buy	1,385	1,785
26 Jan 2022	Buy	1,167	1,653
21 Feb 2022	Buy	1,254	1,761

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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