



Shriram Transport Finance

BSE SENSEX 18,091	S&P CNX 5,432	Rs663	Buy
Bloomberg	SHTF IN		
Equity Shares (m)	225.5		
52-Week Range (Rs)	900/427		
1,6,12 Rel.Perf.(%)	-3/-6/21		
M.Cap. (Rs b)	149.5		
M.Cap. (US\$ b)	3.3		
		YEAR	NET INCOME
		PAT	EPS
		EPS	P/E
		BY	P/BY
		P/ABY	ROAA
		ROAE	
		END	(RS M)
		(RS M)	(RS)
		GR. (%)	(X)
		(X)	(X)
		(X)	(%)
		(%)	(%)

Shriram Transport's (SHTF) 3QFY11 PAT grew 27% YoY to Rs3b, driven by 45% YoY growth in net income (including income from securitization). This was led by disbursement growth of 30% YoY and NIM improvement (on AUM) by 57bp QoQ to 8.91%. In 3QFY11 SHTF provided Rs552.7m to comply with recent RBI guidelines to provide 25bp on standard assets. Key highlights are:

- SHTF reported 3QFY11 PAT growth of 27% YoY at Rs3b (against our estimate of Rs3.3b, 41% YoY). Adjusted for provision on standard assets, PAT would have been higher at Rs3.4b (in line with our estimate).
- Net income (including income from securitization of Rs4b) was up 45% YoY at Rs8.5b. NIMs on AUM improved to 8.91% (7.37% in 3QFY10 and 8.34% in 2QFY11). The decline in cost of funds by 80bp and utilization of excess liquidity helped to improve NIM on AUM. Yield on funds declined 40b QoQ to 18.5% due to an increase in disbursements towards new vehicle loans to 29.2% from 24.1% in 2QFY11 and 18% in 3QFY10.
- Utilization of excess liquidity and resort to securitization led to lower borrowings in 3QFY11. Borrowings were down 6.3% YoY (up 3.9% QoQ) at Rs211b. At the end of 3QFY11, 74-75% of the liabilities were on a fixed rate basis.
- Operating expenses grew 67% YoY and 8.1% QoQ. Cost to income ratio was sequentially stable at 25.7% (22.3% in 3QFY10). Absolute increase in operating expenses was largely due to brokerage/commission charges paid for raising retail liabilities (up 9.4% QoQ). SHTF recruited 1,011 employees during the quarter.
- Gross NPA declined QoQ to 2.4% from 2.54% at the end of 2QFY11. Provision coverage ratio was 80.7%. Provision towards NPAs/bad debts written off (excluding standard asset provision) as a percentage of total assets was 1.63% against 1.8% in 2QFY11 and 1.5% in 3QFY10.
- The stock trades at 2.5x FY12E BV. Maintain **Buy** with a target price of Rs930 (2.8x FY13E BV).

Y/E MARCH	QUARTERLY PERFORMANCE										(RS MILLION)	
	FY10				FY11				FY10	FY11E		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Interest Income	9,038	9,470	10,256	8,742	8,740	9,562	9,784	10,398	37,507	38,484		
Interest expenses	5,384	5,248	5,708	5,522	5,450	5,578	5,396	6,033	21,862	22,457		
Net Interest Income	3,654	4,222	4,548	3,221	3,289	3,984	4,388	4,365	15,644	16,026		
Y-o-Y Growth (%)	13.2	14.6	34.4	-15.2	-10.0	-5.6	-3.5	35.5	11.0	2.4		
Securitisation income	1,037	1,044	1,208	3,242	3,725	3,543	3,979	4,226	6,531	15,472		
Net Income (Incl. Securitization)	4,691	5,266	5,756	6,462	7,014	7,527	8,367	8,591	22,175	31,498		
Y-o-Y Growth (%)	14.3	19.0	36.0	43.5	49.5	42.9	45.3	32.9	28.4	42.0		
Fees and Other Income	168	140	154	189	360	232	184	334	651	1,110		
Net Operating Income	4,859	5,406	5,911	6,651	7,374	7,759	8,550	8,925	22,827	32,608		
Y-o-Y Growth (%)	16.2	19.9	37.0	42.2	51.8	43.5	44.7	34.2	29.1	42.9		
Operating Expenses	1,454	1,227	1,318	1,513	1,748	2,034	2,199	2,349	5,512	8,330		
Operating Profit	3,405	4,179	4,593	5,138	5,626	5,725	6,351	6,577	17,315	24,279		
Y-o-Y Growth (%)	17.3	34.2	52.1	62.1	65.3	37.0	38.3	28.0	41.8	40.2		
Provisions	935	1,116	1,006	1,012	1,281	1,264	1,787	1,295	4,069	5,627		
Profit before Tax	2,469	3,063	3,587	4,127	4,345	4,461	4,564	5,281	13,246	18,652		
Tax Provisions	825	988	1,219	1,482	1,456	1,472	1,551	1,771	4,515	6,248		
Net Profit	1,644	2,074	2,368	2,645	2,889	2,990	3,014	3,511	8,731	12,404		
Y-o-Y Growth (%)	14.5	25.3	58.6	71.9	75.7	44.1	27.3	32.8	42.6	42.1		
Inf Exp/Inf Earned (%)	59.6	55.4	55.7	63.2	62.4	58.3	55.2	58.0	58.3	58.4		
Securitization Income/Net Income (%)	21.3	19.3	20.4	48.7	50.5	45.7	46.5	47.3	28.6	47.4		
Cost to Income Ratio (%)	29.9	22.7	22.3	22.7	23.7	26.2	25.7	26.3	24.1	25.5		
Tax Rate (%)	33.4	32.3	34.0	35.9	33.5	33.0	34.0	33.5	34.1	33.5		

E: MOSL Estimates; * Quarterly nos and full year nos will not tally due to different way of reporting financial nos

AUM up 20% YoY, off balance sheet AUM up 72% YoY

- Overall disbursements grew 30% YoY and 12.6% QoQ to Rs51.4b. The proportion of used CV disbursements to total disbursements was lower at 70.8% in 3QFY11 (against 76% in 2QFY11 and 82% in 3QFY10). Incremental disbursement in new CV sales was higher as SHTF benefited from strong demand for new CVs.
- Despite strong disbursals, AUM on books increased by 4% YoY and 9.6% QoQ to Rs224.5b as SHTF continued with its strategy of securitizing a large proportion of its new CV portfolio. SHTF securitized Rs15.6b loans in 3QFY11 against Rs25.5b in 2QFY11 due to which AUM off books increased 71.1% YoY (on a lower base) and 10.4% QoQ to Rs113.7b.
- Overall AUM grew 20% YoY (up 6.5% QoQ) to Rs337.7b. Used truck AUM grew 23.6% YoY (5.3% QoQ) to Rs258.4b. The share of new vehicle finance in overall AUM improved by 9bp to 23.5% YoY.

Earning visibility strong; maintain Buy

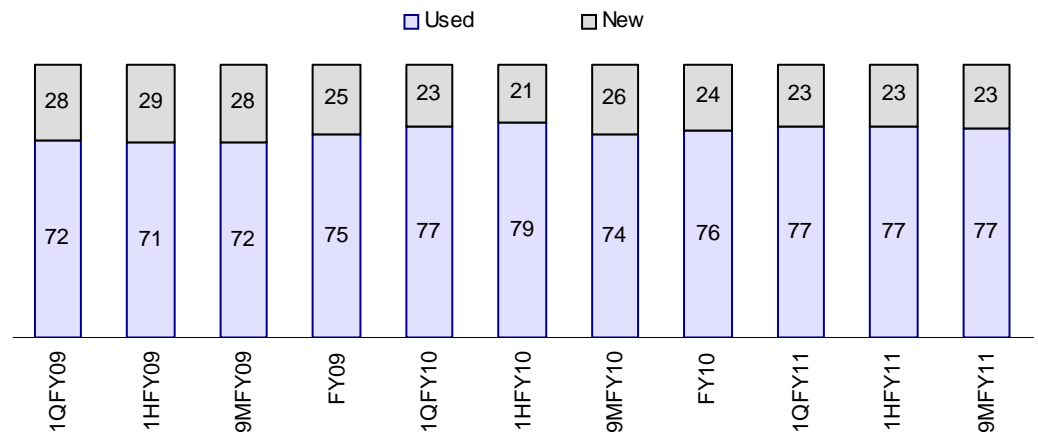
- Strong origination capabilities, a loyal customer base and improved economic activity will lead to healthy AUM growth for SHTF. Besides, with a strong ALM position, securitization of assets and adequate liquidity on the books, SHTF is well placed in a rising interest rate scenario.
- We model 23% CAGR in disbursements over FY10-13 and expect SHTF to report EPS of Rs55 in FY11, Rs66 in FY12 and Rs78 in FY13. BV will be Rs269 in FY12E and Rs333 in FY13E.
- SHTF has been generating high RoEs of 27-28% and its business growth is likely to be 20-25%. Even adjusting for a payout ratio of 20%, SHTF will be left with sufficient funds to manage its growth without diluting returns for shareholders.
- The stock trades at 2.5x FY12E BV with ROAs (on AUM) expected to remain to firm above 3%. Maintain Buy with a target price of Rs930 (2.8x FY13E BV).

Spread analysis (percentage of total assets)

	FY09				FY10				FY11		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Total Income	18.4	18.4	18.7	17.0	16.5	16.5	17.0	17.7	18.8	19.0	18.5
Interest Expenses	9.2	9.5	10.5	8.8	8.7	8.1	8.3	8.0	8.0	7.9	7.1
Gross Spreads	9.1	8.9	8.2	8.2	7.8	8.4	8.6	9.7	10.8	11.0	11.3
NPA Provisions	1.5	1.4	1.4	1.4	1.5	1.7	1.5	1.5	1.9	1.8	2.4
Overhead Cost	2.8	2.7	2.5	2.6	2.4	1.9	1.9	2.2	2.6	2.6	2.9
Net Spreads	4.8	4.8	4.3	4.1	4.0	4.8	5.2	6.0	6.4	6.7	6.1

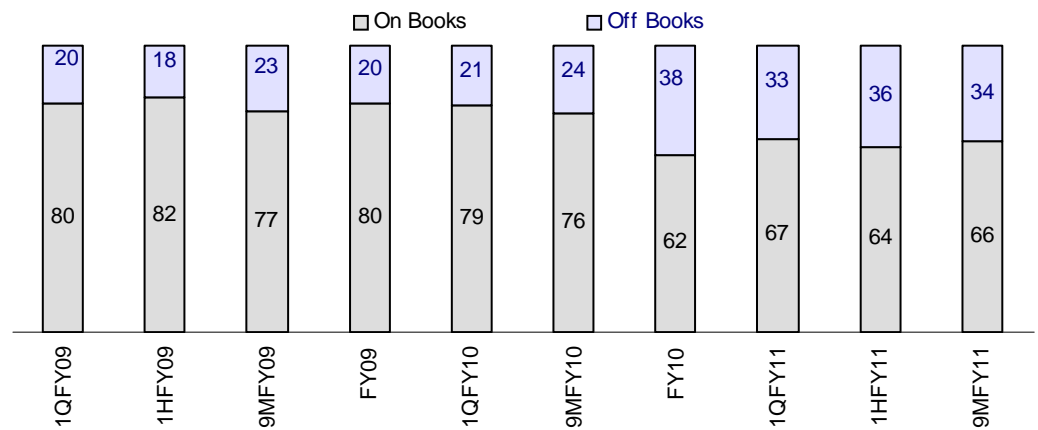
Source: Company/MOSL

Proportion of AUM (%) between used and new CV financed



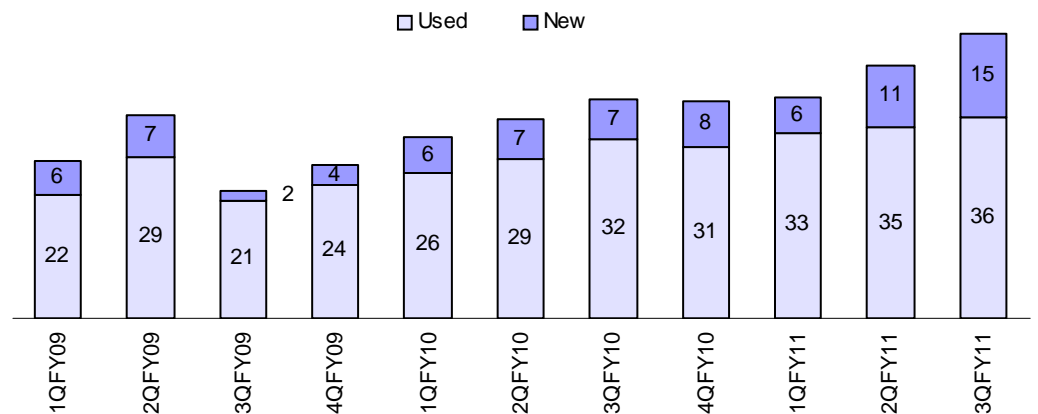
AUM proportion

AUM on-books is likely to be two-thirds of the total and off-books, one-third



Disbursement break-up (Rs b)

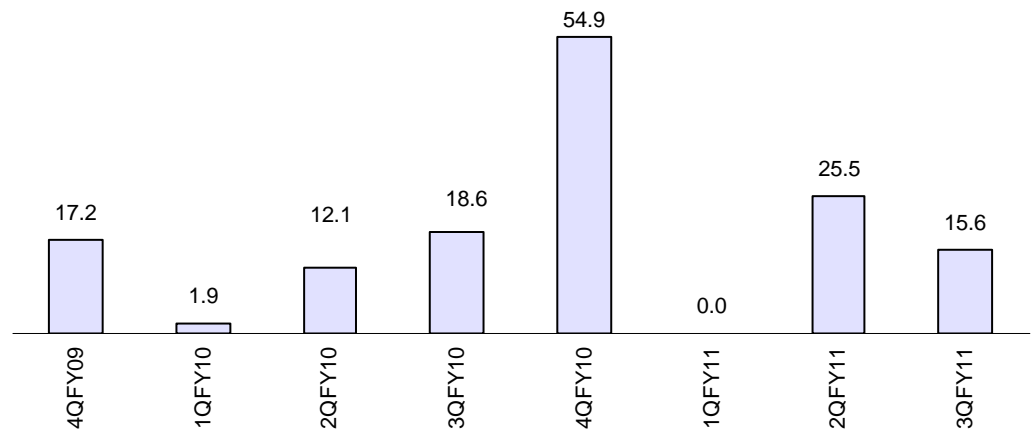
SHTF is using strong demand for new CVs to its advantage



Source: Company/MOSL

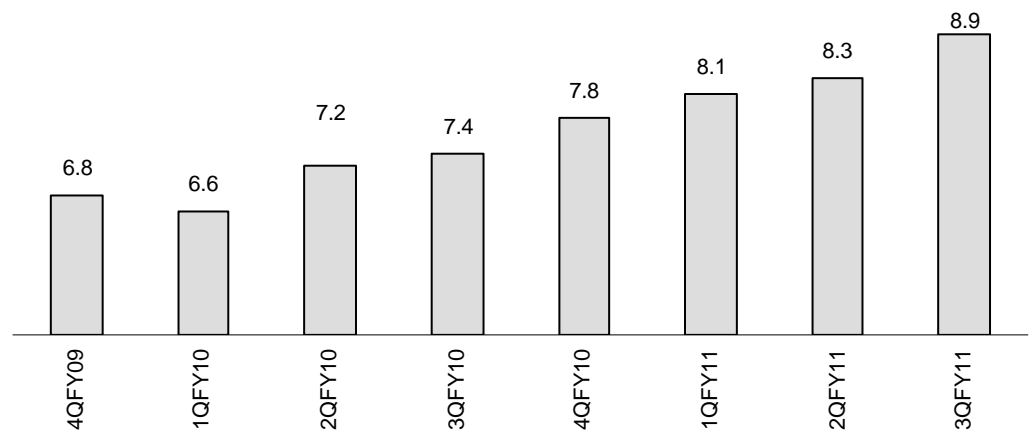
Securitization during the quarters (Rs b)

Securitization is being used to manage liquidity



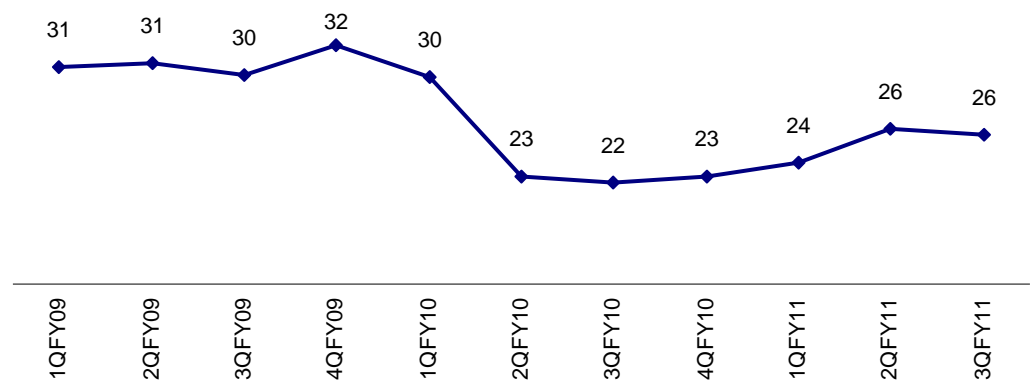
NIMS on AUM improves 57bp QoQ (%)

An 80bp QoQ decline in cost of funds leads to improved spreads



CI ratio stable (%)

Employee additions and expenses incurred on garnering retail liabilities results in higher opex in absolute terms, but with high operating income, CI ratio is stable



Source: Company/MOSL

Shriram Transport Finance: an investment profile

Company description

Shriram Transport Finance Co Ltd (SHTF), incorporated in 1979, is India's largest asset financing NBFC with total assets under management (AUM) of Rs317b. A flagship company of Chennai-based Shriram Group, SHTF provides commercial vehicle (CV) finance to more than 700,000 customers through 487 branches in India.

Key investment arguments

- SHTF's loan book growth will stay strong, aided by robust economic scenario, partnering with local financiers and freight-bill-discounting initiatives.
- To augment its fee income, SHTF has started organizing truck bazaars, bringing together customers and sellers of pre-owned trucks. In FY11 it will set up 6-7 auto malls, where repossessed vehicles can be refurbished and sold at auctions.
- A high PCR would position SHTF to absorb negative shocks on asset quality.

Key investment risks

- Increase in fuel prices without an accompanying increase in freight costs could reduce profitability for truck operators, and increase stress on asset quality.
- A slowdown in economic growth could impact SHTF's business.

Recent developments

- Nil.

Valuation and view

- We model 23% CAGR in disbursements over FY10-FY13 and expect SHTF to report EPS of Rs55 in FY11, Rs66 in FY12 and Rs78 in FY13. BV will be Rs269 in FY12E and Rs333 in FY13E.
- The stock trades at 2.5x FY12E BV with ROAs (on AUM) expected to remain to firm above 3%. Maintain **Buy** with a target price of Rs930 (2.8x FY13E BV).

Sector view

- In FY10 the CV industry rebounded with new vehicle sales rising 34.6% YoY (in volume terms) against a 22% drop in FY09.
- In line with heightened manufacturing activity, buoyant consumption, evolving distribution and service networks, easy availability of finance and road development programs the growth in new CV sales is expected to be strong in FY11.

Comparative valuations

		SHTF	M&M Fin
P/E (x)	FY11E	12.1	14.3
	FY12E	10.0	11.6
P/BV (x)	FY11E	3.1	3.3
	FY12E	2.5	2.7
RoE (%)	FY11E	28.6	24.3
	FY12E	27.3	24.8
RoA (%)	FY11E	3.4	3.5
	FY12E	3.3	3.3

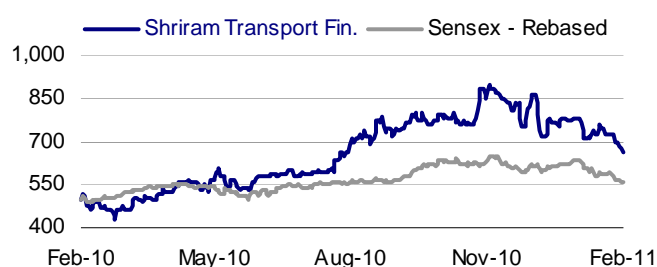
EPS: MOSL forecast v/s consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	55.0	54.0	1.9
FY12	66.2	66.9	-1.2

Target price and recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
663	930	40.3	Buy

Stock performance (1 year)



Shareholding pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	41.3	41.4	43.9
Domestic Inst	3.4	3.7	5.3
Foreign	40.4	38.2	26.7
Others	14.9	16.7	24.1

Financials and Valuations

INCOME STATEMENT				(RS MILLION)		
Y/E MARCH	2008	2009	2010	2011E	2012E	2013E
Financing Income	22,874	33,202	37,227	38,484	49,607	60,968
Financing charges	12,966	19,777	22,468	22,457	29,729	36,835
Net Financing income	9,908	13,426	14,759	16,026	19,877	24,133
<i>Change (%)</i>	<i>50.5</i>	<i>35.5</i>	<i>9.9</i>	<i>8.6</i>	<i>24.0</i>	<i>21.4</i>
Income from securitisation	1,658	3,390	6,801	15,472	17,793	20,462
Net Income (Incl Secur)	11,567	16,815	21,560	31,498	37,670	44,594
<i>Change (%)</i>	<i>72.0</i>	<i>45.4</i>	<i>28.2</i>	<i>46.1</i>	<i>19.6</i>	<i>18.4</i>
Fee income	0	0	305	350	525	709
Other Income	557	719	663	760	845	930
Net Income	12,124	17,535	22,528	32,608	39,040	46,233
<i>Change (%)</i>	<i>75.3</i>	<i>44.6</i>	<i>28.5</i>	<i>44.7</i>	<i>19.7</i>	<i>18.4</i>
Employee Cost	1,255	2,005	2,251	3,714	4,457	5,348
Brokerage & Commission	653	867	544	871	1,132	1,358
Other Operating Exp.	1,691	2,399	2,381	3,745	4,484	5,366
Operating Income	8,525	12,264	17,352	24,279	28,968	34,161
<i>Change (%)</i>	<i>87.1</i>	<i>43.9</i>	<i>41.5</i>	<i>39.9</i>	<i>19.3</i>	<i>17.9</i>
Total Provisions	2,467	3,057	4,106	5,627	6,528	7,742
<i>% to operating income</i>	<i>28.9</i>	<i>24.9</i>	<i>23.7</i>	<i>23.2</i>	<i>22.5</i>	<i>22.7</i>
PBT	6,058	9,206	13,246	18,652	22,440	26,419
Tax	2,160	3,082	4,515	6,248	7,517	8,850
<i>Tax Rate (%)</i>	<i>35.7</i>	<i>33.5</i>	<i>34.1</i>	<i>33.5</i>	<i>33.5</i>	<i>33.5</i>
PAT	3,898	6,124	8,731	12,404	14,922	17,569
<i>Change (%)</i>	<i>104.7</i>	<i>57.1</i>	<i>42.6</i>	<i>42.1</i>	<i>20.3</i>	<i>17.7</i>
Proposed Dividend	1,030	1,019	1,360	1,922	2,313	2,723
BALANCE SHEET				(RS MILLION)		
Y/E MARCH	2008	2009	2010	2011E	2012E	2013E
Capital	2,032	2,035	2,255	2,255	2,255	2,255
Reserves & Surplus	15,707	20,676	36,092	46,247	58,463	72,846
Net Worth	17,739	22,711	38,348	48,502	60,718	75,101
Borrowings	147,730	201,213	184,599	232,106	282,724	341,745
<i>Change (%)</i>	<i>69.1</i>	<i>36.2</i>	<i>-8.3</i>	<i>25.7</i>	<i>21.8</i>	<i>20.9</i>
Other Liabilities & Prov.	784	455	76	76	76	76
Total Liabilities	166,253	224,379	223,023	280,684	343,518	416,922
Investments	13,851	6,548	18,560	18,560	19,488	20,463
<i>Change (%)</i>	<i>516.8</i>	<i>-52.7</i>	<i>183.5</i>	<i>0.0</i>	<i>5.0</i>	<i>5.0</i>
Loans	150,727	179,535	179,650	237,972	289,869	350,381
<i>Change (%)</i>	<i>83.7</i>	<i>19.1</i>	<i>0.1</i>	<i>32.5</i>	<i>21.8</i>	<i>20.9</i>
Net Fixed Assets	1,426	1,343	464	490	690	916
Net Current Assets	249	36,954	24,349	23,662	33,471	45,163
Total Assets	166,253	224,379	223,023	280,684	343,518	416,922

E: MOSL Estimates

Financials and Valuations

RATIOS

Y/E MARCH	2008	2009	2010	2011E	2012E	2013E
Spreads Analysis (%)						
Avg. Yield - on Financing portfolio	19.3	19.6	20.1	15.7	16.1	16.3
Avg Cost of funds	11.0	11.3	11.6	10.8	11.5	11.8
Int Spread on Financing portfolio	8.3	8.3	8.5	4.9	4.5	4.5
NIM (incl Securitisation)	6.4	6.5	6.6	8.1	8.0	7.9
NIM (Excl Securitisation)	7.1	6.4	6.1	5.9	6.0	6.0
Profitability Ratios (%)						
RoE	27.4	30.3	28.6	28.6	27.3	25.9
RoA on AUM	2.3	2.5	2.8	3.4	3.3	3.2
Int. Expended/Int.Earned	56.7	59.6	60.4	58.4	59.9	60.4
Other Inc./Net Income	18.3	23.4	33.1	49.8	47.7	46.3
	2.3	2.5	2.8	3.4	3.3	3.2
Efficiency Ratios (%)						
Op. Exps./Net Income	29.7	30.1	23.0	25.5	25.8	26.1
Empl. Cost/Op. Exps.	34.9	38.0	43.5	44.6	44.2	44.3
Asset-Liability Profile (%)						
Net NPAs to Adv.	0.9	0.8	0.7	0.8	1.0	1.1
Leverage	9.4	9.9	5.8	5.8	5.7	5.6
Average leverage	9.3	9.7	7.3	5.8	5.7	5.6
CAR	13.6	15.0	21.4	15.0	15.0	15.0
Valuations						
Book Value (Rs)	87.3	111.6	170.0	215.0	269.2	333.0
Price-BV (x)	7.6	5.9	3.9	3.1	2.5	2.0
Adjusted BV (Rs)	85.0	109.1	168.1	212.0	264.9	327.2
Price-ABV (x)	7.8	6.1	3.9	3.1	2.5	2.0
OPS (Rs)	42.0	60.3	76.9	107.6	128.4	151.5
OPS Growth (%)	69.6	43.6	27.7	39.9	19.3	17.9
Price-OP (x)	15.8	11.0	8.6	6.2	5.2	4.4
EPS (Rs)	19.2	30.1	38.7	55.0	66.2	77.9
EPS Growth (%)	85.6	56.8	28.7	42.1	20.3	17.7
Price-Earnings (x)	34.6	22.0	17.1	12.1	10.0	8.5
Dividend	5.0	5.0	6.0	8.5	10.3	12.1
Dividend Yield (%)	0.8	0.8	0.9	1.3	1.5	1.8

E: MOSL Estimates



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

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Shriram Transport Finance

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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