



Shriram Transport Finance

 Relative to sector: **Neutral**
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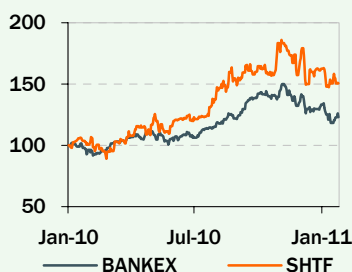
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Relative Performance


Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 226 mn
Market cap	: Rs 155 bn
52 week high/low	: Rs 900/ Rs 427
Avg. daily vol. (6mth)	: 484,300 shares
Bloomberg code	: SHTF IB
Reuters code	: SRTR.BO

Shareholding (%)

	Dec-10	QoQ chg
Promoters	: 41.3	(0.1)
FIs	: 40.2	2.2
MFs / UTI	: 3.3	(0.3)
Banks / FIs	: 0.1	0.0
Others	: 15.1	(1.8)

Financial Summary

Y/E Mar	PAT (Rs mn)	FDEPS (Rs)	Change YoY (%)	P/E (x)	BV (Rs)	Adj. BV (x)	P/BV (x)	P/Adj.BV (x)	RoE (%)	RoA (%)	Net NPA (%)
2009	6,124	30	57	22.7	113	105	6.1	6.5	30.0	2.8	0.8
2010	8,731	39	29	17.7	170	165	4.0	4.2	28.5	3.4	0.7
2011E	12,086	54	38	12.8	214	209	3.2	3.3	27.9	3.9	0.5
2012E	14,137	63	17	10.9	266	260	2.6	2.6	26.1	3.6	0.4

Source: Company, ENAM Research

STABLE PERFORMANCE

Shriram Transport Finance (STFC) reported profit growth of 27% YoY to Rs 3 bn, in-line with our estimates. Net interest income declined 4% YoY which led to moderation in NIMs (down 53 bps YoY). However, robust income growth from securitization (up 64% YoY) drove 38% YoY growth in operating profit. AUM rose 20% YoY to Rs 338 bn (up 7% QoQ) driven by higher share of pre-owned CV (up 300 bps YoY to 77%). Therefore, on an AUM basis, NIMs increased 154 bps YoY to 8.91%.

Key highlights

- **Asset Quality:** STFC maintained healthy asset quality with gross NPA ratio declining by 14 bps QoQ to 2.4%. However, in absolute terms gross NPAs rose 4% QoQ whereas due to a marginal decline in provision coverage ratio (80%), Net NPAs increased by 7% QoQ.
- **New CV – the main driver:** Disbursements rose 30% YoY driven mainly by the growth in new CV segment. New CV disbursements increased at a higher rate at 112% YoY & 36% QoQ (comprising 29% of disbursements made during the quarter). Pre-owned CV disbursement share declined to 71% from 82% a year ago.
- **Off-book AUM continues to remain high** at 34% of total AUM (24% in 3QFY10) as STFC has done a securitization of Rs 15 bn in Q3. However, its share has dropped by 200 bps sequentially, leading to significant increase in securitization income. We expect STFC to restrict its off-book share to maintain the leverage levels.

Valuations

On the back of STFC's strong return ratios (highest amongst peers), healthy biz growth & focus on a better ALM mix, we believe the stock is well poised to deliver a steady performance. We expect higher yields to be maintained, as there is structural demand-supply mismatch. STFC is well capitalized (CAR at 23.6%) to fund its growth in new biz like equipment finance. However, we have revised our EPS estimates downwards by 12% to factor moderating NIMs. As the stock has corrected by >20% in past 3 months, we upgrade our rating to **BUY** with a TP of Rs 780 (Target P/BV of 3x FY12E Adj BV and 12.4x FY12E EPS).

Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Interest Earned	9,784	10,256	(5)	9,562	2	38,017	36,155	5
Interest Expended	5,396	5,708	(5)	5,578	(3)	22,029	22,467	(2)
Net Interest Income	4,388	4,548	(4)	3,984	10	15,988	13,687	17
Other Income	4,162	1,363	205	3,775	10	16,367	8,842	85
Total Income	13,946	11,619	20	13,337	5	54,383	44,996	21
Total Net Income	8,550	5,911	45	7,759	10	32,355	22,529	44
Staff Expenses	940	546	72	934	1	8,103	5,176	57
Other operating expenses	1,259	772	63	1,101	14	4,501	2,925	54
Operating Profit	6,351	4,593	38	5,725	11	24,252	17,353	40
Provision & Contingencies	1,787	1,006	78	1,264	41	5,913	4,107	44
Provision for tax	1,551	1,219	27	1,472	5	6,254	4,515	39
Reported Profit	3,014	2,368	27	2,990	1	12,086	8,731	38
Adjusted Profits	3,014	2,368	27	2,990	1	12,086	8,731	38
EPS - Rs per share	13	11	20	13	1	54	39	38
Return ratios (%)								
Return on Avg. Net worth	26.49	31.58	(509) bps	27.93	(144) bps	27.86	28.46	(60) bps
Return on Avg. Assets	3.99	3.45	54 bps	4.16	(17) bps	3.94	3.36	58 bps
Asset quality (%)								
Gross NPAs (Rs.)	5,428	5,245	3	5,223	4	6,125	5,116	20
Gross NPA	2.40	2.43	(3) bps	2.54	(14) bps	2.40	2.80	(40) bps
Net NPAs (Rs.)	1,050	1,439	(27)	977	7	1,137	1,285	(12)
Net NPA	0.47	0.68	(21) bps	0.49	(2) bps	0.46	0.72	(27) bps
Provisioning	80	72	840 bps	81	(29) bps	81	74	682 bps
Business growth								
Disbursements	51,440	39,447	30	45,647	13	186,480	146,835	27
New CV	15,012	7,092	112	11,010	36	55,655	28,541	95
Pre owned CV	36,428	32,356	13	34,637	5	130,826	118,294	11
AUM	337,797	281,790	20	317,068	7	380,182	291,461	30
New CV	79,355	72,590	9	71,749	11	95,045	69,857	36
Pre owned CV	258,442	209,200	24	245,319	5	285,136	221,604	29

Source: Company, ENAM Research,

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