

11 November 2011

Shriram Transport Finance

Lower estimates and price target but maintain a Buy

Rating: **Buy**

Target Price: ₹845

Share Price: ₹580

STF's 2QFY12 net profit was flat yoy (on a higher base), pulled down by higher credit cost. We trim our FY12/FY13 EPS by ~₹4.5%/2.5% respectively, owing to: i) lower loan growth and margins from macro headwinds and, ii) higher credit cost. We lower our price target from ₹935 to ₹845, yet retain a Buy rating as STF's niche presence, matchless model and diversified branch network are likely to support +3.7% RoA and ~24% RoE over FY11-14e.

- Strong AUM growth; likely moderation ahead.** Assets under management (AUM) grew 20.1% yoy (and 2.9% qoq) to ₹381bn. STF has done securitization worth ₹4.9bn in 2QFY12 and its share of off-book loans was 36% in Sep '11. We expect disbursement growth to slow ahead, owing to a high interest rate and a slowing economy. We estimate 17.9% CAGR (20% earlier) in STF's loans over FY11-14.
- Higher credit cost resulted in manageable NPA levels.** Gross NPA increased 9.4% qoq to ₹6.6bn. STF has prudently provided for a rise in delinquencies, resulting in lower net NPA sequentially. Credit cost as percent of assets was 2.9% (vs 2.2 in 1QFY12). NPA coverage was a healthy 85%. We expect a moderately higher credit cost in FY12/13 (vs FY11) on account of the economic slowdown.
- Gross spread declined 40bps qoq to 10.5%** due to lower securitization income and higher borrowing cost. We expect 50bps contraction in spreads, and 20bps in NIM (on AUM).
- FY14 estimates.** We introduce FY14 estimates and expect 17.9% CAGR in STF's loan book over FY11-FY14 and 20% in net profit.
- Valuation.** At our revised price target of ₹845, the stock would trade at a PBV of 3.2x FY12e and 2.6x FY13e. **Risks:** Economic slowdown and thereby slower loan growth and high NPAs; regulatory changes.

Key data	SHTF IN / SRTR .BO
52-week high / low	₹900 / ₹533
Sensex / Nifty	17025 / 5118
3-m average volume	US\$6.1m
Market cap	₹131bn / US\$2.7bn
Shares outstanding	226.2m

Shareholding pattern (%)	Sep-11	Jun-11	Mar-11
Promoters	41.4	41.3	41.3
- of which, pledged	-	-	-
Free float	58.6	58.7	58.7
- Foreign institutions	43.2	42.4	40.7
- Domestic institutions	2.0	2.2	2.9
- Public	13.4	14.1	15.1

Estimates revision (%)	FY12e	FY13e	FY14e
Net interest income	-4.3	-3.2	NA
PAT	-4.6	-2.5	NA
RoE	-260bps	-75bps	NA
Target multiple (x)	0	0	NA

Financials (YE: Mar)	FY12e	FY13e
Net interest income (₹m)	33,723	40,110
Net profit (₹m)	13,271	17,196
EPS (₹)	58.7	76.0
Growth (%)	7.9	29.6
PE (x)	9.9	7.6
PABV (x)	2.2	1.8
RoE (%)	24.4	25.7
RoA (%)	3.7	3.9
Dividend yield (%)	1.6	2.1
Net NPA (%)	0.1	0.2

Source: Anand Rathi Research

Quarterly results (YE: Mar)	2QFY11	2QFY12	% yoy	1HFY11	1HFY12	% yoy
Net interest income (₹m)	7,527	8,347	10.9	14,541	16,493	13.4
Non-interest income (₹m)	232	258	11.1	592	735	24.1
Operating expenses (₹m)	2,034	1,788	(12.1)	3,782	3,465	(8.4)
Cost-income (%)	26.2	20.8	(544)bps	25.0	20.1	(488)bps
Pre-provisioning profit (₹m)	5,725	6,818	19.1	11,351	13,763	21.2
Provisions (₹m)	1,264	2,363	87.0	2,545	4,109	61.5
PBT (₹m)	4,461	4,454	(0.2)	8,806	9,654	9.6
Tax (₹m)	1,472	1,460	(0.8)	2,927	3,187	8.9
PAT (₹m)	2,990	2,994	0.2	5,879	6,467	10.0
EPS (₹)	13.3	13.2	(0.2)	26.1	28.6	9.7

Source: Company, Anand Rathi Research

Anand Rathi Share and Stock Brokers Limited does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Disclosures and analyst certifications are located in Appendix 1

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
Net interest income	21,560	29,582	33,723	40,110	48,762
NII growth (%)	28.2	37.2	14.0	18.9	21.6
Non-interest inc	968	1,995	1,375	1,550	1,720
Total income	22,528	31,577	35,098	41,660	50,482
Total income growth (%)	28.5	40.2	11.2	18.7	21.2
Op. expenses	5,176	7,540	7,655	9,256	11,082
Operating profit	17,352	24,037	27,444	32,405	39,401
Operating profit growth (%)	41.5	38.5	14.2	18.1	21.6
Provisions	4,106	5,548	7,637	6,739	7,924
PBT	13,246	18,489	19,807	25,666	31,477
Tax	4,515	6,190	6,536	8,470	10,387
PAT	8,731	12,299	13,271	17,196	21,089
PAT growth (%)	42.6	40.9	7.9	29.6	22.6
FDEPS (₹/share)	38.7	54.4	58.7	76.0	93.2
DPS (₹/share)	6.0	6.5	9.0	12.0	15.0

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
Share capital	2,255	2,262	2,262	2,262	2,262
Reserves & surplus	36,168	46,782	57,671	71,691	88,811
Borrowings	184,599	198,817	263,797	319,035	376,394
Current liab. & prov.	46,741	68,223	75,046	79,486	84,216
Minority interests	-	-	-	-	-
Total Liabilities	269,764	316,084	398,775	472,474	551,683
Advances	179,650	198,656	263,167	312,485	367,637
Investments	18,560	36,507	40,158	43,170	46,407
Cash & Bank Bal	45,373	36,251	45,650	61,280	75,538
Fixed & Other Assets	26,181	44,670	49,800	55,539	62,101
Total Assets	269,764	316,084	398,775	472,474	551,683
No. of shares (m)	226	226	226	226	226
Borrowings growth (%)	(8.3)	7.7	32.7	20.9	18.0
Advances growth (%)	0.1	10.6	32.5	18.7	17.6

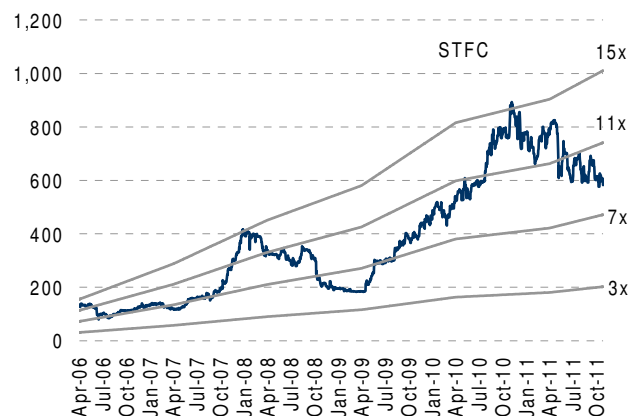
Source: Company, Anand Rathi Research

Fig 3 – Key ratios @ ₹580

Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
NIM (%)	6.9	8.1	7.8	7.8	7.9
Other inc. / Total inc. (%)	4.3	6.3	3.9	3.7	3.4
Cost-Income (%)	23.0	23.9	21.8	22.2	22.0
Provision coverage (%)	75.6	85.9	97.4	94.7	92.9
Dividend payout (%)	17.8	13.9	17.9	18.5	18.8
Borrowings-loans (%)	102.8	100.1	100.2	102.1	102.4
Investment-Deposit (%)					
Gross NPA (%)	2.8	2.6	2.7	3.1	3.5
Net NPA (%)	0.7	0.4	0.1	0.2	0.3
BV (₹)	170.0	216.7	264.8	326.8	402.5
Adj. BV (₹)	168.1	215.5	264.5	326.0	401.1
CAR (%)	21.4	21.5	21.4	21.9	20.0
RoE (%)	28.6	28.2	24.4	25.7	25.6
RoA (%)	3.4	4.2	3.7	3.9	4.1
Dividend Yield (%)	1.0	1.1	1.6	2.1	2.6

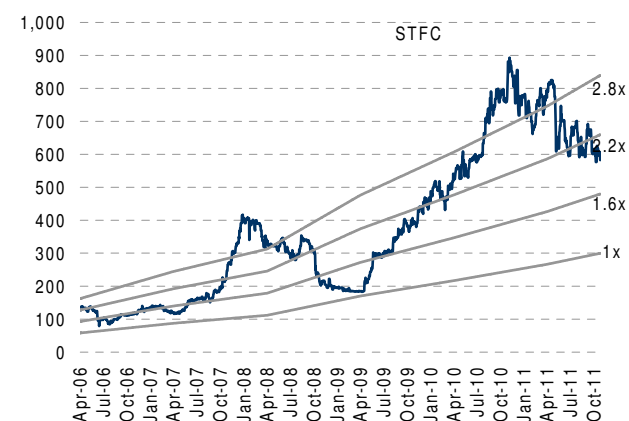
Source: Company, Anand Rathi Research

Fig 4 – PE band



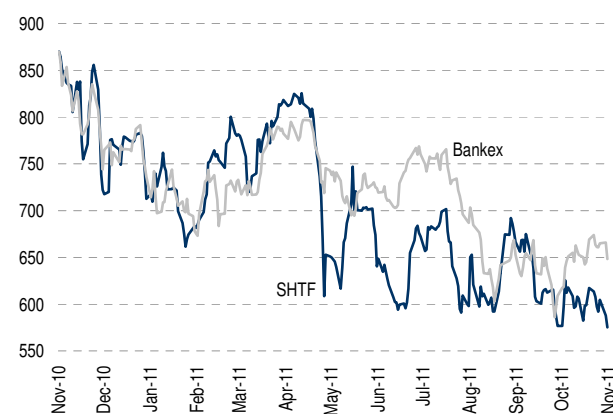
Source: Bloomberg, Anand Rathi Research

Fig 5 – Price-to-book band



Source: Bloomberg, Anand Rathi Research

Fig 6 – STF vs BANKEX



Source: Bloomberg

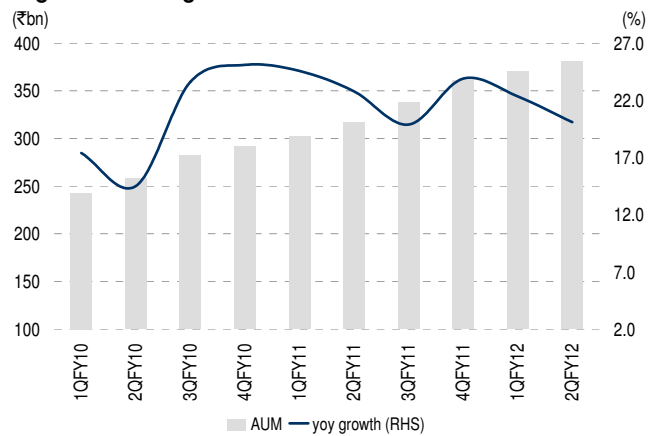
Results review

STF's 2QFY12 net profit was flat yoy (on a higher base), pulled down by higher credit cost. We trim FY12e/FY13e EPS by ~4.5%/2.5%, respectively, owing to: i) lower loan growth and margins from macro headwinds and, ii) higher credit cost. We lower our target price from ₹935 to ₹845, yet maintain a Buy rating as STF's niche presence, matchless model and diversified branch network are likely to support +3.7% RoA and ~24% RoE over FY11-14e.

Strong AUM growth; likely moderation ahead

Assets under management (AUM) grew 20.1% yoy (and 2.9% qoq) to ₹381bn. STF has done securitization worth ₹4.9bn in 2QFY12 and the share of off-book loans was 36% in Sep '11. Disbursement growth in the quarter was weak at 5% yoy and largely flat qoq. New vehicle disbursement was down 8.2% yoy and 5.9% qoq indicating weakening demand due to higher interest rates and a slower economy.

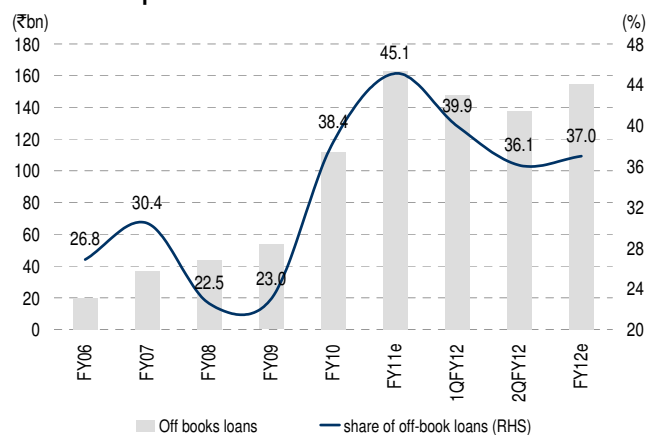
Fig 7 – AUM growth slowing down



Source: Company

We expect the company to go slow on securitization in order to manage the risk on the balance sheet. We expect off-book loans to largely be flat at end-FY12 and the share in AUM to come down to ~37%, from 45% in FY11.

Fig 8 – Loan-book composition



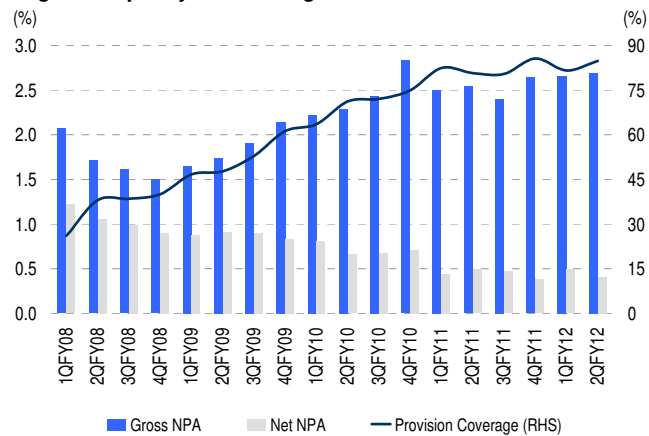
Source: Company Note: Data as on 30 Sep '10

Higher credit cost resulted in manageable NPA levels

Gross NPA increased 9.4% qoq to ₹6.6bn. STF has prudently provided for a rise in delinquencies, which has resulted in lower net NPA sequentially. Net NPAs declined 9.5% qoq to ₹987m. Net NPA ratio stood at a manageable 0.41% vs 0.49% in 1Q and 2QFY12.

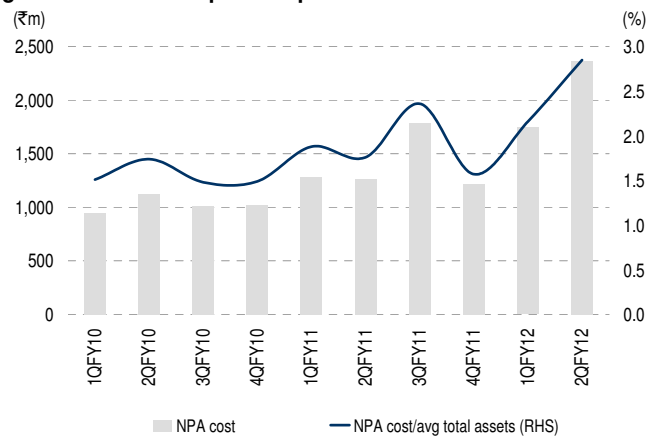
Credit cost as percent of assets was 2.9%, vs 2.2 in 1QFY12. NPA coverage was a healthy 85%. We expect moderately higher credit cost in FY12/13 (vs FY11) on account of a slowing economy.

Fig 9 – Strong asset quality with manageable net NPAs



Source: Company

Fig 9 – Highest credit cost in past 10 quarters



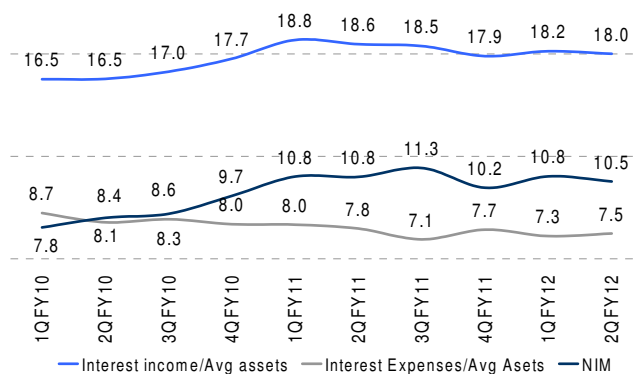
Source: Company

Gross spread declined by 40bps qoq

Gross spread declined 40bps qoq to 10.5% due to lower securitization income and higher borrowing cost. Total income as percent of average assets has come off sharply from 1QFY11 on. Total income/avg. assets has declined from 18.8% to 18% despite ~200bps increase in interest rates due to lower securitization. This is hurting spreads more than the borrowing cost. Interest expense/average assets have come off from 4QFY11 level of 7.7% to 7.5% in 2QFY12.

We expect 50bps contraction in spreads, and 20bps in NIM (on AUM).

Fig 10 – Lower earning yields hurting spread (%)



Source: Company

Fig 12 – Estimate revisions

(₹m)	From		To		% change	
	FY12e	FY13e	FY12e	FY13e	FY12e	FY13e
NII (₹m)	35,229	41,424	33,723	40,110	-4.3	-3.2
PAT (₹m)	13,914	17,634	13,271	17,196	-4.6	-2.5
RoA (%)	4.3	4.1	3.7	3.9	(60)bps	(20)bps
RoE (%)	27.0	26.4	24.4	25.7	(260)bps	(75)bps
EPS (₹)	61.4	78.0	58.7	76.0	-4.5	-2.5
BV (₹)	267.1	331.0	264.8	326.8	-0.8	-1.3

Source: Anand Rathi Research

Valuation

We trim our FY12e/FY13e EPS by 4.5% and 2.5%, respectively, owing to: i) lower loan growth due to macro-economic headwinds, ii) lower margins due to a rise in wholesale borrowing cost, and iii) higher provision cost. We lower our price target from ₹935 to ₹845.

Fig 13 – Past one-year-forward PBV



Source: Bloomberg, Anand Rathi Research

Risks

- A slowdown would hit the rural economy and lead to slower loan growth and more delinquencies.
- Any regulatory changes regarding SLR/CRR requirements and sector caps could impact the company.

Financials

We introduce FY14 estimates and expect a 17.9% CAGR in STF's loan book over FY11-FY14, with a 20% CAGR in net profit.

Fig 14 – Income statement (₹m)

Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
Interest income	44,028	52,302	65,031	79,589	96,134
Interest expended	22,468	22,720	31,308	39,479	47,372
Net interest income	21,560	29,582	33,723	40,110	48,762
Growth (%)	9.9	(9.5)	18.9	23.4	21.1
Non-interest income	968	1,995	1,375	1,550	1,720
Total income	22,528	31,577	35,098	41,660	50,482
Non-interest income / total income (%)	4.3	6.3	3.9	3.7	3.4
Operating expenses	5,176	7,540	7,655	9,256	11,082
Employee expenses	2,251	3,582	4,119	4,943	5,932
Other expenses	2,925	3,958	3,535	4,312	5,150
Pre-provisioning profit	17,352	24,037	27,444	32,405	39,401
Growth (%)	41.5	38.5	14.2	18.1	21.6
Provisions	4,106	5,548	7,637	6,739	7,924
Profit before tax	13,246	18,489	19,807	25,666	31,477
Taxes	4,515	6,190	6,536	8,470	10,387
Tax rate (%)	34.1	33.5	33.0	33.0	33.0
Profit after tax	8,731	12,299	13,271	17,196	21,089
Growth (%)	42.6	40.9	7.9	29.6	22.6
Number of shares	226	226	226	226	226
Earnings per share	38.7	54.4	58.7	76.0	93.2

Source: Company, Anand Rathi Research

Fig 15 – Balance sheet (₹m)

Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
Share capital	2,255	2,262	2,262	2,262	2,262
Reserves and surpluses	36,168	46,782	57,671	71,691	88,811
Net worth	38,424	49,044	59,933	73,953	91,073
Borrowings	184,599	198,817	263,797	319,035	376,394
Deposits	46,741	68,223	75,046	79,486	84,216
Total loans					
Total liabilities	269,764	316,084	398,775	472,474	551,683
Advances	179,650	198,656	263,167	312,485	367,637
Investments	18,560	36,507	40,158	43,170	46,407
Cash & bank balances	45,373	36,251	45,650	61,280	75,538
Fixed & other assets	26,181	44,670	49,800	55,539	62,101
Total assets	269,764	316,084	398,775	472,474	551,683

Source: Company, Anand Rathi Research

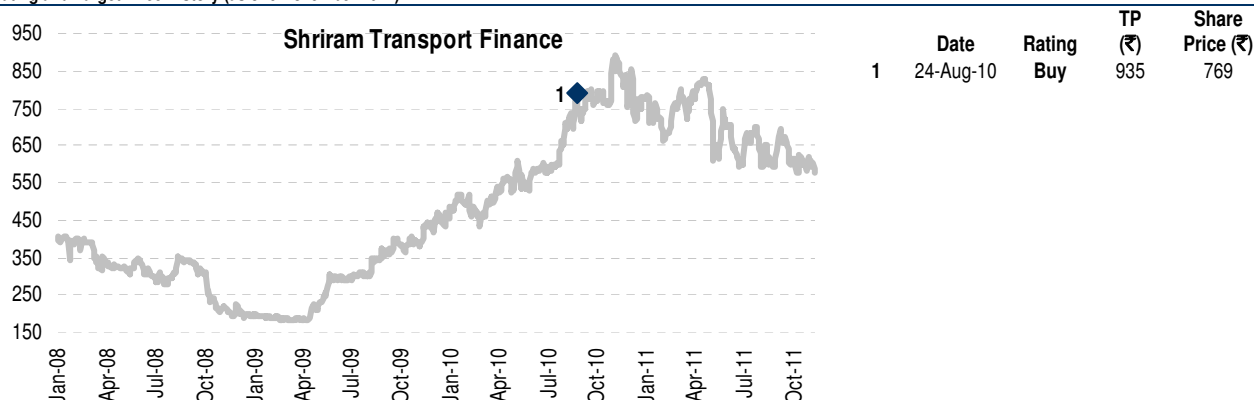
Appendix 1

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Important Disclosures on subject companies

Rating and Target Price History (as of 9 November 2011)



The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below.

Ratings Guide

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

Anand Rathi Research Ratings Distribution (as of 11 March 2011)

	Buy	Hold	Sell
Anand Rathi Research stock coverage (158)	73%	15%	12%
% who are investment banking clients	5%	4%	0%

Other Disclosures

This report has been issued by Anand Rathi Share & Stock Brokers Limited (ARSSBL), which is regulated by SEBI.

The information herein was obtained from various sources; we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities ("related investments"). ARFSL and its affiliates may trade for their own accounts as market maker / jobber and/or arbitrageur in any securities of this issuer(s) or in related investments, and may be on the opposite side of public orders. ARSSBL, its affiliates, directors, officers, and employees may have a long or short position in any securities of this issuer(s) or in related investments. ARSSBL or its affiliates may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. This research report is prepared for private circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Past performance is not necessarily a guide to future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report.

This document is intended only for professional investors as defined under the relevant laws of Hong Kong and is not intended for the public in Hong Kong. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. No action has been taken in Hong Kong to permit the distribution of this document. This document is distributed on a confidential basis. This document may not be reproduced in any form or transmitted to any person other than the person to whom it is addressed.

If this report is made available in Hong Kong by, or on behalf of, Anand Rathi Financial Services (HK) Limited., it is attributable to Anand Rathi Financial Services (HK) Limited., Unit 1211, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. Anand Rathi Financial Services (HK) Limited. is regulated by the Hong Kong Securities and Futures Commission.

Anand Rathi Financial Services Limited and Anand Rathi Share & Stock Brokers Limited are members of The Stock Exchange, Mumbai, and the National Stock Exchange of India.

© 2011 Anand Rathi Share & Stock Brokers Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Anand Rathi Financial Services Limited.

Additional information on recommended securities/instruments is available on request.