

3rd February, 2011

Key Data	₹
CMP	671
Target Price	830
Bloomberg Code	SHTF IN
Reuters Code	SRTR.BO
BSE Code	511218
NSE Code	SRTRANSFIN
Face Value (INR)	10
Market Cap (INR Bn)	151
52 Week High (INR)	900
52 Week Low (INR)	427
Avg. Daily Volume (6m)	492840

Shareholding	%
Promoters	41.3
Mutual Funds / Bank/ FI	3.4
Foreign Institutional Investors	40.2
Bodies corporate/Individuals/others	15.1
Total	100.0

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Shriram Transport Finance Company Ltd

STFCL has reported strong growth of 20% YoY in its AUM in 3QFY11 which has resulted in net interest income growth of 44% to ₹8.4 billion. The net profits were up by 27% to ₹2.3 billion during 3QFY11.

KEY HIGHLIGHTS FOR 3Q FY11:

- STFCL's disbursements grew by 30% YoY in 3QFY11 to ₹51 billion with majority of the disbursements being made to the used CV segment.
- Driven by growth in disbursements, the net interest income including income from securitisation has gone by 44% YoY to ₹8.4 billion. Further the net profits are up by 27% YoY to ₹3 billion in 3QFY11.
- In a rising interest rate environment the company has reduced its floating rate liabilities and also reduced the surplus cash on its books, which has resulted in reducing cost of funds for the company from 7.93% in 2QFY11 to 7.1% in 3QFY11.
- The net interest margins for the company have improved to 8.9% compared to 8.34% in 2QFY11 and 7.3% in 3QFY10 on the back of 20% YoY growth in Asset Under Management (AUM).
- STFCL is well capitalised with capital adequacy of 23.62% as on 3QFY11.

Valuation and Recommendation

STFCL has reported strong growth of 20% YoY in its AUM in 3QFY11 which has resulted in net interest income growth of 44%. In an increasing interest rate environment the company has manage to reduce its cost of funds and thereby improve its margins during the quarter. STFCL is focusing on increasing the share of fixed rate liabilities and also increasing securitisation levels to manage its cost of funds. Asset quality is also robust. Going forward we also expect the fee income to improve on the back of the commencement of auto mall and truck bazaar. Further we believe the commencement of the construction equipment finance segment will aid disbursement growth.

We expect loan to register a 21% CAGR during FY10-12 and earnings to register a 32% CAGR during the same period. We maintain "BUY" on Shriram Transport Finance Company Ltd with a target price of ₹830. (3.0x its book value of ₹276.6 of FY12).

Disbursement growth

STFCL's disbursements grew by 30% YoY in 3QFY11 to ₹51 billion with majority of the disbursements being made to the used CV segment. While the disbursements to the used CV segment grew by 12% YoY, the disbursements to the new CV segment registered a significant 115% YoY growth. As on 3QFY11, AUM stood at ₹338 billion, a growth of 20% YoY and 7% QoQ. Going forward we expect disbursements to register a 22% CAGR during FY10-12 from ₹144 billion in FY10 to ₹215 billion in FY12.

Borrowing profile

The borrowing profile of STFCL is more skewed towards wholesale funding forming almost 80% of the total borrowings. In a rising interest rate environment the company has reduced its floating rate liabilities to 25% as on 3QFY11 and also utilised the surplus cash on its books, which has resulted in reducing cost of funds for the company from 7.93% in 2QFY11 to 7.1% in 3QFY11. Further the management intends to reduce its floating rate liabilities to 20% by March 2011, thereby reducing interest rate risk.

Asset quality

The asset quality has increased on a QoQ basis where the gross NPA is at 2.4% and Net NPA is at 0.5%. The provision coverage ratio has declined from 83% in 1QFY11 to 81.2% in 2QFY11 to 80.66% in 3QFY11.

Net Interest Margins continue to grow

During the 3QFY11, STFCL reported margins of 8.91% compared to 8.34% as on 2QFY11 and 7.3% as on 3QFY10. The yields have declined from 18.95% in 2QFY11 to 18.5% as on 3QFY11 (on account of disbursements to the used CV space where yields are lower), while the cost of funds have declined to 7.93% in 3QFY11 from 7.1% in 3QFY11. The decline in the cost of funds is also on account of STFCL utilizing the huge cash balance it had built up during the crisis.

New ventures

The company has begun operations in the construction equipment-financing subsidiary. During the Dec quarter, the company has an AUM of ₹20 billion in the subsidiary and the company expects the AUM to reach ₹50 billion by March 2013.

Capital Adequacy

STFCL has capital adequacy of 23.6% as on 3QFY11

Valuation and Recommendation

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Interim Results (₹ Mn)	3QFY11	3QFY10	% Chng	2QFY11	% Chng
Interest Income	13,762.6	11,534.9		13,104.7	
Interest expended	5,396.1	5,708.0		5,577.9	
Net Interest Income	8,366.5	5,826.9	43.6	7,526.8	11.2
Other Income	183.8	92.7		232.3	
Operating Income	8,550.3	5,919.6		7,759.1	
Operating Expenses	2,198.9	1,318.8		2,034.2	
Profit before provisions	6,351.4	4,600.8		5,724.9	
Provision for Bad debts	1,787.3	1,013.5		1,263.7	
Profit before Taxes	4,564.1	3,587.3		4,461.2	
Provisions for taxes	1,550.5	1,219.2		1,471.6	
Net Profit	3,013.6	2,368.1	27.3	2,989.6	0.8
Equity Share capital	2,261.8	2,115.7		2,255.4	
EPS	13.3	11.2		13.3	

Source: Company

Earnings Summary				₹ Mn
Particulars	FY09	FY10	FY11E	FY12E
Interest Income	33,816.6	37,544.4	38,553.6	47,952.7
Interest expended	19,776.7	21,862.2	22,441.7	28,506.7
Net Interest Income	14,039.9	15,682.2	16,111.9	19,446.0
Income from securitisation	3,389.6	6,531.0	15,701.5	16,612.2
Other Income	105.1	651.1	975.8	1,079.2
Operating Income	17,534.6	22,864.3	32,789.2	37,137.3
Operating Expenses	5,270.8	5,512.0	8,040.0	9,229.3
Pre Provisioning Profits	12,263.8	17,352.3	24,749.2	27,908.1
Provisions & contingencies	3,057.5	4,106.5	5,383.0	4,805.9
Profit before Taxes	9,206.3	13,245.8	19,366.3	23,102.1
Provisions for taxes	3,082.3	4,514.7	6,603.9	7,877.8
Net Profit	6,124.0	8,731.1	12,762.4	15,224.3

Source: Company, ACMIIL research

Sources and Application of Funds				₹ Mn
Particulars	FY09	FY10	FY11E	FY12E
Liabilities				
Capital	2,035.1	2,255.2	2,255.2	2,255.2
Reserves & Surplus	21,132.9	36,168.7	47,389.6	61,075.1
Networth	23,168.1	38,423.9	49,644.8	63,330.3
Borrowings	201,213.1	184,599.0	226,820.0	281,100.3
Other Liabilities	25,252.1	45,994.2	56,219.3	61,295.2
Total	249,633.3	269,017.1	332,684.0	405,725.8
Assets				
Fixed assets	1,342.7	464.5	417.4	491.6
Investments	6,547.6	18,560.2	18,560.2	18,560.2
Loans	179,043.8	179,649.5	212,976.5	261,488.7
Other assets	62,699.2	70,343.0	100,730.0	125,185.3
Total	249,633.3	269,017.1	332,684.1	405,725.8

Source: Company, ACMIIL research

Key Ratios	FY09	FY10	FY11E	FY12E
Spreads				
Cost of Borrowings	11.3%	11.3%	10.9%	11.2%
Yield on Advances	20.5%	20.9%	19.6%	20.2%
Net Interest Income	9.2%	9.6%	8.7%	9.0%
Net interest margins	8.5%	8.7%	8.2%	8.2%
Profitability ratios				
Return On Average Assets (ROAA)	3.1%	3.9%	5.1%	4.9%
Return On Average Net worth (ROANW)	29.6%	28.4%	29.0%	27.0%
Balance sheet ratios				
Loan to borrowings ratio (%)	89.0	97.3	93.9	93.0
Debt/Equity Ratio (Times)	8.7	4.8	4.6	4.4
Growth Ratios				
Borrowings	36.2%	-8.3%	22.9%	23.9%
Loans	18.8%	0.3%	18.6%	22.8%
NII Growth	45.8%	29.0%	42.5%	13.7%
Book value	22.2%	55.6%	30.8%	28.2%
EPS	56.8%	28.7%	46.2%	19.3%
Valuation ratios				
EPS (₹.)	30.1	38.7	56.6	67.5
Book value (₹.)	95.0	147.7	215.7	276.6
P/E (X)	-	-	14.7	12.3
P/BV (X)	-	-	3.8	3.0

Source: Company, ACMIIL research

Notes

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