

SHRIRAM TRANSPORT FINANCE COMPANY LTD

27 June 2017

Initiating Coverage (BUY)

CMP

INR 975

Target Price

INR 1225

Stock Details

Industry	Finance (including NBFCs)
Bloomberg Code	SHTF:IN
BSE Code	511218
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	220,981
52wk. Low/High (Adjusted) ((Rs.))	1325.00/778.00

Shareholding Pattern Mar '17

Promoter (%)	26.08
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	73.92
No. of Share Outstanding (mn)	226.8

Valuation Summary

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	18.21	17.46	17.00	17.00
EV/EBITDA (x)	07.41	4.55	10.07	10.10
P/BV (x)	2.12	1.95	2.51	2.57

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	109,027	121,020	128,281	141,109
EBITDA	68,848	71,586	80,401	87,166
Net Profit	11,836	12,656	14,027	16,348
EPS (Rs.)*	52.2	55.8	61.8	72.1

*Un adjusted

Key Ratios

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	66.8	65.6	66.4	67.9
EBIT Margin (%)	68.9	65.3	66.1	67.6
Net Pro. Margin (%)	11.5	11.6	11.6	12.7
Debt/Equity (x)	2.97	2.97	3.55	3.12
RoNW (%)	12.2	11.8	13.5	16.1
RoCE (%)	2.6	2.7	2.9	3.4

One Year Price / Volume



We recommend 'BUY' on SHRIRAM TRANSPORT FINANCE for a target of INR 1225 - valuing the company at P/E 17x of FY19E Earning.

INVESTMENT RATIONALE:

- Pioneer in the pre-owned commercial vehicles financing sector.
- One of the largest asset financing companies in India with Pan-India presence with 918 branch offices.
- Unique relationship-based business model with extensive experience and expertise in credit appraisal and collection process
- Strong brand name
- Strong financial track record with rapid growth in AUMs
- Experienced senior management team
- Strong relationships with public, private as well as foreign banks, institutions and investors
- More than 14.5 lacs customers across India
- Growth in the Commercial vehicles, passenger vehicles and tractors market
- Loans for working capital requirements of CV users
- Partnerships with private financiers to enable enhancement of reach without significant investments in building infrastructure
- Increased penetration into rural markets leading to growth in cargo LCVs

VALUATIONS AND VIEW:

SHTF is one of the largest asset financing NBFCs in India with asset under management of INR788b as of March 2017. SHTF's primary focus is on financing pre-owned commercial vehicles. It is among the leading financing institutions in the organized sector for the commercial vehicle industry for first time users ("FTUs"), and small road transport operators ("SRTOS"). We value the business at 17x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 1225 per share.

RISK & CONCERNS

- Shriram Transport is mainly present in the commercial vehicles finance sector. The CV industry is cyclical and competition in the CV finance industry has intensified.
- The asset quality of the company is also one of the concern for the company. The gross NPAs have risen sharply in the last few years. However the situation has stabilized.

COMPANY BACKGROUND:

Shriram Transport Finance (SHTF) established in 1979, is one of the largest asset financing NBFCs in India with asset under management of INR788b as of March 2017. SHTF's primary focus is on financing pre-owned commercial vehicles. It is among the leading financing institutions in the organized sector for the commercial vehicle industry for first time users ("FTUs"), and small road transport operators ("SRTOs"). It also provides financing for passenger commercial vehicles, multi-utility vehicles, etc.

"SHRIRAM" conglomerate has significant presence in financial services viz., commercial vehicle financing business, consumer finance, life and general insurance, stock broking, chit funds and distribution of financial products such as life and general insurance products and units of mutual funds. Apart from these financial services, the group is also present in non-financial services business such as property development, engineering projects and information technology.

A professionally managed company, STFC has fostered the culture of entrepreneurship across all levels in the organization. Presently, the company is driven by 18,500+ motivated entrepreneurs (including ~10,500 product/credit executives) championing a unique "relationship based" business model through a pan-India network comprising 918 branches, 854 rural centers and partnerships with ~500 private financiers.

INDUSTRY OVERVIEW:

The country's financial services sector consists of the capital markets, insurance sector and non-banking financial companies (NBFCs). India's gross domestic savings (GDS) as a percentage of Gross Domestic Product (GDP) has remained above 30 per cent since 2004. It is projected that national savings in India will reach US\$ 1,272 billion by 2019. Over 95 per cent of household savings in India are invested in bank deposits and only 5 per cent in other financial asset classes.

The asset management industry in India is among the fastest growing in the world. Corporate investors accounted for around 45.9 per cent of total AUM in India, while High Net Worth Individuals (HNWI) and retail investors account for 28.6 per cent and 22.9 per cent, respectively. In the Asia-Pacific, India is among the top five countries in terms of HNWIs. RBI has allowed 100 per cent foreign investment under the automatic route in 'other financial services'.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Rural Elec.Corp.	182	5.8	35,884.3	4.71	1,319.2	13.72	5,794.0	(4.46)	1.03
Bajaj Holdings	166	20.3	659.0	1.53	562.8	(0.18)	180.3	48.24	5.24
Bajaj Finserv	4,220	29.7	67,153.6	0.04	534.9	3.27	7,043.2	11.59	4.29
Power Fin.Corp.	129	16.0	34,070.3	5.39	(3,409.5)	(370.67)	5,672.1	(15.41)	0.90
Bajaj Fin.	1,402	42.0	77,083.6	0.17	449.2	42.57	2,665.0	39.08	8.41
Shriram Trans.	975	17.5	22,098.0	0.40	149.6	3.97	2,711.9	(7.43)	1.99
Muthoot Finance	451	17.0	238,466.1	1.33	321.8	21.33	1,709.6	18.15	1.95

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight

(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)
Revenue	29,172.80	26,854.00	27,132.00	27,169.40	27,119.20	-7.04%	-0.18%
Other Income	7.5	5.9	3.9	4.9	3.9		
Total Income	29,180.30	26,859.90	27,135.90	27,174.30	27,123.10	-7.05%	-0.19%
Expenditure	-12,492.50	-7,967.50	-7,797.30	-9,019.70	-24,733.60		
As a % of Sales	42.82%	29.67%	28.74%	33.20%	91.20%		
Interest	-14424	-13107.8	-13311.6	-12777.4	--	#VALUE!	#VALUE!
PBDT	2263.8	5784.6	6027	5377.2	2309.7		
As a % of Sales	7.76%	21.54%	22.21%	19.79%	8.52%		
Depreciation	-91.6	-88.1	-87.3	-83.9	--		
PBT	2172.2	5696.5	5939.7	5293.3	2309.7	6.33%	-56.37%
As a % of Sales	7.45%	21.21%	21.89%	19.48%	8.52%		
Tax	-733	-1955.5	-2063.2	-1833.7	-813.4	10.97%	-55.64%
Net Profit	1439.2	3741	3876.5	3459.6	1496.3	3.97%	-56.75%
As a % of Sales	4.93%	13.93%	14.29%	12.73%	5.52%		
Equity	2269.1	2269.1	2269.1	2269.1	2269.1	0.00%	0.00%
EPS (Rs)	6.34	16.49	17.08	15.25	--	#VALUE!	#VALUE!
CEPS (Rs)	6.75	16.87	17.47	15.62	6.59		
OPM %	57.2	70.35	71.28	66.82	8.52		
NPM %	4.93	13.93	14.29	12.73	5.52		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 13A	FY 14A	FY 15A	FY 16A	FY 17E	FY 18P	FY 19P
Net Sales	84,760	91,770	103,103	109,027	121,020	128,281	141,109
Other Operating Income	42	26	35	18	30	33	35
Expenditure	22,747	28,123	34,289	37,458	40,649	41,149	46,294
EBITDA	62,055	63,674	68,848	71,586	80,401	87,166	94,851
Depreciation	328	432	376	349	362	380	401
EBIT	61,727	63,242	68,472	71,238	80,040	86,786	94,450
Interest Expenses	42,022	46,746	50,579	51,857	58,465	61,497	67,908
PBT	19,705	16,496	17,893	19,380	21,575	25,288	26,541
Tax	6,125	6,211	6,057	6,724	7,547	8,940	9,410
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-	-
Net Income Before Adjustment	13,579	10,284	11,836	12,656	14,027	16,348	17,131
Monority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	13,579	10,284	11,836	12,656	14,027	16,348	17,131

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 13A	FY 14A	FY 15A	FY 16A	FY 17E	FY 18P	FY 19P
Equity share capita	2,269	2,269	2,269	2,269	2,269	2,269	2,269
Reserves & surplus	82,833	90,389	99,486	111,050	92,691	105,905	119,752
Share Warrants	-	-	-	-	-	-	-
Net worth	85,102	92,658	101,755	113,319	94,960	108,174	122,021
Minority Interest	-	-	-	-	-	-	-
Loan Funds	239,621	328,556	302,689	336,986	336,988	336,986	336,984
Net deferred tax liability	-	-	-	-	-	-	-
Other Long-term Liabilities	9,881	9,716	11,635	13,106	14,548	15,421	16,963
Long-term Provisions	13,030	18,720	28,427	38,939	43,223	45,816	50,398
Total Liabilities	347,634	449,651	444,507	502,353	489,720	506,399	526,368
Net block	1,548	1,543	1,521	1,342	1,121	930	717
Investment, Loan & Adv.	245,174	336,564	445,585	492,186	543,613	578,622	638,463
Total Current Assets	276,501	283,429	233,028	250,977	(5,904)	(23,641)	(62,812)
Current Liabilities & Provisions	175,590	171,886	235,629	242,154	49,112	49,514	50,003
Net Current Assets	100,911	111,543	(2,601)	8,823	(55,015)	(73,156)	(112,815)
Total Assets	347,634	449,651	444,507	502,353	489,720	506,399	526,368

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 16A	FY 17E	FY 18P	FY 19P
Operating Cash Flow	(26,615)	(136,278)	64,836	61,386
Cash Flow from Investments	(172)	(55,212)	(35,209)	(60,041)
Cash Flow from Financing	30,165	(54,019)	(61,055)	(65,271)
Net Changes in Cash	3,378	(245,509)	(31,428)	(63,926)
Opening Cash	8,055	11,432	(234,077)	(265,505)
Closing Cash Balance	11,432	(234,077)	(265,505)	(329,432)

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