

Shriram Transport Finance Ltd. (STFL)

May 03, 2012

NSE/BSE Code

Promoter's holding	45.64%
FV	Rs. 10
Equity Share Capital (Rs. in mn)	2,262.5
Market Capitalization (Rs. in mn)	128,510
52 week high/low	Rs. 784.25 (25 th May, 2011)/Rs. 416 (2 nd Jan, 2012)
CMP	Rs. 568
Target Price	750
Upside (%)	32

Shriram Transport Finance Ltd. (STFC), one of the largest assets financing NBFC, witnessed marginal increase in bottom-line with PAT at Rs. 303crores in Q3FY12 as against Rs 301crores in the corresponding Q3FY12. GNPA of the firm stood at 2.79% in Q3FY12 whereas NNPA stood at 0.40% as against 0.41% in Q3FY12. Regulatory concerns with respect to NBFCs guidelines, priority sector norms and securitization guidelines may pose few hurdles for the company. But we remain positive on the stock owing to core business strength, healthy capitalization and stable returns. Owing to STFL's niche business model catering to Used CV segment, the company looks attractive for the longer term. We recommend a "BUY" with a target price of Rs. 750/- (2.34x of FY13E Book Value) for investors with a horizon of 9-12 months.

Financial summary (Rs. cr)

Particulars	FY10	FY11	FY12E	FY13E
Operating Income	4,403	5,230	5,976	7,171
Interest Expenses	2,247	2,272	2,801	3,420
<i>Net Interest Income</i>	<i>2,156</i>	<i>2,958</i>	<i>3,176</i>	<i>3,751</i>
Growth (%)	28	37	7	18
Total Income	2,253	3,158	3,269	3,901
PBT	1,280	1,849	2,056	2,541
Taxes	451	619	720	864
PAT	828	1,230	1,337	1,677
Cost of Funds	11.6	11.8	12.2	10.1
NIM	10.0	11.4	11.6	9.1
Cost/Income (%)	24.97	23.88	24.10	23.97
RoAE	28.60	28.16	36.67	26.21
RoAA	3.90	5.22	5.02	4.15
OPM (%)	38.39	45.96	41.52	41.35
NPM (%)	19.83	23.52	22.36	23.38
Gross NPAs	2.85	2.58	1.78	1.80
Net NPAs	0.71	0.37	0.91	0.90
EPS	38.7	54.4	59.0	73.8
Book Value	170	216.7	243.3	320.4

Source: Company, Ajcon Research (FY12 and FY13 projections based on conservative street estimates)

Key Positives

1) Large Assets under Management (as on December 31, 2011)

Total Assets Under Management (AUM) of Rs. 380.76 bn
Pre-Owned CV: Approximately Rs. 301.71 bn
New CV: Approximately Rs. 89.7 bn
Others: Approximately Rs. 19 bn

2) Extensive Distribution Network

Pan – India presence through a network of
a) 69 Strategic Business Units (SBUs)
b) 498 branch offices

3) Healthy Asset Quality

The Company enjoys healthy asset quality on account of the following factors:

Prudent Credit Norms

- Substituted formal credit evaluation tools, such as IT returns and bank statements with personal understanding of the customers' proposed business model.
- Client and truck-wise exposure limits

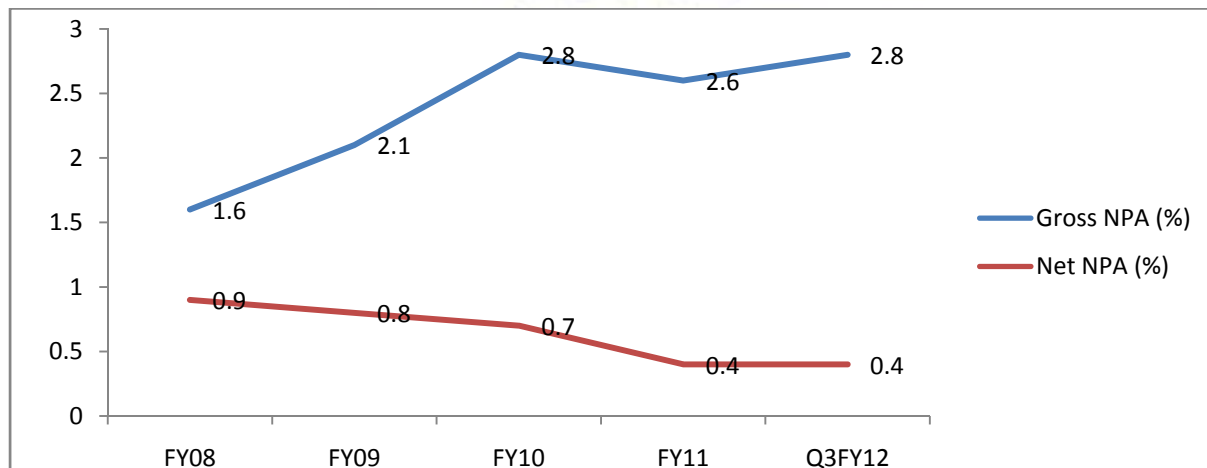
Reasons for Low Delinquency

- Asset backed lending with adequate cover
- Assets are easy to repossess with immediate liquidity
- Target segment generally operates on state highways and short distances, ferrying essential commodities

Incentive Schemes

- Well defined incentive plan for field officers to ensure low default rates
- Field officers are responsible for recovery of loans they originate

NPA levels



4) Optimized Balance Sheet: Access to Low Cost Funds

Borrowings:

- 1) Strategic mix of retail deposits and institutional funding
- 2) Average cost of funds declined over the years with increase in Bank/Institutions liabilities
- 3) Access to fixed rate long term loans of 3-5 years due to strong relationships with public, private sector, foreign banks and institutions.

Securitization

- 1) Securitization of loan book at regular intervals to fund new originations and maintain growth momentum.
- 2) Securitized assets portfolio stands at Rs. 155.42 bn at the end of Q3FY12.
- 3) Conservative recognition of income on account of amortization of securitization income over the tenor of the agreements.

Key Milestone

Year	Particulars
1979	STFC was established
1984	Initial Public Offering
1990	Investment from Telco and Ashok Leyland
1999	Tied up with Citicorp for CV financing under Portfolio Management Services (PMS) The 1 st securitization transaction by STFC AUM: Rs. 2.44 bn
2002-04	Preferential Allotment to Citicorp Finance (India) in 2002 Preferential Allotment to Axis Bank and Reliance Capital in 2004
2005-06	Merger of Shriram Investment Ltd. and Shriram Overseas Finance Ltd. with STFC, PAT crosses Rs. 1000 mn in 2006 Investment from ChrysCapital (2005) and TPG (2006)
2009	Successfully placed Rs. 10 bn of NCD with domestic investors Purchased hypothecation loan outstandings of commercial vehicles and construction equipments of GE Capital Services India and GE Capital Financial Services (GE) aggregating to approximately Rs. 11 bn.
2010	Securitized Rs. 87.57 bn during FY10 Successfully raised Rs. 5.84 bn through QIP with domestic and international investors AUM: Rs. 361.83 bn as on March 31, 2011

About the Company

- 1) **Shriram Transport Finance Company Limited (STFC) is one of the largest asset financing NBFC** with approximately 20-25% market share in pre-owned and approximately 7-8% market share in new truck financing
- 2) **Strategically present in high yield - pre-owned CV financing** with expertise in loan origination, valuation and collection

- 3) **Expanded product portfolio** to include financing of tractors, small commercial vehicles, 3-wheelers, passenger commercial vehicles and construction equipment
- 4) **Large customer base** in excess of 0.8 mn as of December 31, 2011
- 5) **Employee strength** of approximately 15,679 including 8,716 product/ credit executives as of December 31, 2011
- 6) **Equity investment** from reputed private equity and institutional investors including TPG

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