

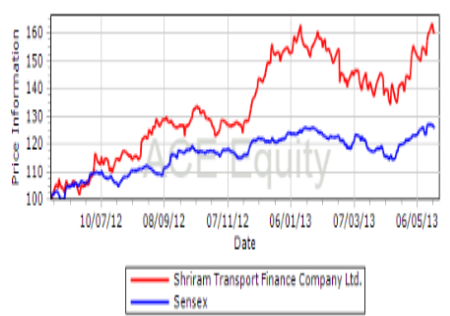
22nd May, 2013

CMP: Rs 788
Rating: NEUTRAL

Stock Info	
BSE Group	A
BSE Code	511218
NSE Symbol	SRTRANSFIN
Bloomberg	SHTF.IN
Reuters	SRTR.BO
BSE Sensex	20062
NSE Nifty	6094

Market Info	
Market Capitalization(Rs)	178.93 billion
Equity Capital(Rs)	2,268.9 million
2W Avg. Trading Vol.	2.189 million
52 Wk High/ Low (Rs)	808.50/482.20
Face Value (Rs)	10

Shareholding Pattern (%) (31 st March, 2013)	
Promoters	25.79
Domestic Institutions	5.06
Foreign Institutions	49.45
Others	19.70
Total	100.00



We interacted with management of Shriram Transport Finance Company (STFC) post Q4FY13 results to get insight into company's ongoing business and its future growth outlook. Below is the snapshot of our interaction with the management:

Key takeaways

Performance highlights:

Net profit of STFC rose 15.31% to Rs 3.55 billion in the quarter ended March, 2013 as against Rs 3.08 billion during the previous quarter ended March, 2012. Sales rose 19.66% to Rs 17.74 billion in the quarter ended March, 2013 as against Rs 14.83 billion during the previous quarter.

Compression in NIM:

The reported NIM on AUM compressed by 29 bps q-o-q, owing to lower yields from securitized assets (revised RBI guidelines that cap the yields) and shift in the loan mix towards lower yielding, newer used commercial vehicles. However, going forward, a fall in interest rates should offset the change in loan mix, thus stabilizing the fall in NIM.

Asset quality:

The macro-economic headwinds lead to deterioration in asset quality during the quarter with Gross NPLs rising 13% q-o-q and the ratio increasing to 3.2%. Credit cost was marginally lower than the previous quarter at annualized 1.8% and therefore provisioning cover declined to 76% and the Net NPA level inched-up to 0.8%. Based on RBI's draft guidelines, STFC's GNPL ratio and credit costs (being a one-time adjustment) is expected to materially increase in the next three years.

Strong AUM growth:

Shriram's AUM growth (23.5% y-o-y) remained stronger than guidance provided by management. This was aided in the quarter by a pickup in securitization. Loans securitized this quarter grew 23% y-o-y, hence indicating that the regulatory changes for securitization have had only a limited impact on securitization activity.

Going forward:

The forthcoming quarters may show some pressures on margins owing to moderation in economic growth and a shift towards lower yielding newer vehicle category. However, monsoon and festive season ahead will be the key triggers to watch for, as they may aid increase in sales of commercial vehicles in the coming quarters. The management seems confident to maintain a CAGR of 15% pa for three years going ahead. Hence, valuing the company at a price target of 2x P/ABV FY14E, we derive a target price of Rs 782 and maintain a NEUTRAL view on the company.

About Company:

Shriram Transport Finance Co Ltd, established in 1979 and listed in 1999 is a part of Chennai based Shriram Group. It is the largest asset financing NBFC with assets under management of Rs 496.76 billion. The company is a leader in organized financing of pre-owned trucks with strategic presence in 5-12 year old trucks and a market share of around 25%. It has a pan-India presence with a network of 539 branches, and employs 16,178 employees including 10,057 field officers. The company has built a strong customer base of over 9,50,000 customers. Over the past 35 years, it has developed strong competencies in the areas of loan origination, valuation of pre-owned trucks and collection. It has a vertically integrated business model and offers financing for pre-owned CV, new CV, commercial passenger vehicles, tractors and construction equipments. Other loan portfolios include accidental repair loans, tyre loans and working capital finance.

Profit & Loss Statement

(Rs. mn)

Profit & Loss Statement	Q4 FY12	Q1 FY13	Q2 FY13	Q3 FY13	Q4 FY13	YoY%	QoQ%	FY12	FY13	YOY%
Interest Income	9,158.20	8,875.50	10,945.80	12,045.70	13,103.60	43.08	8.78	36,659.40	44,970.50	22.67
Interest Expended	6,258.90	6,173.30	6,858.50	7,350.20	8,057.20	28.73	9.62	24,473.30	28,439.40	16.21
Net Interest Income	2,899.30	2,702.20	4,087.30	4,695.50	5,046.40	74.05	7.47	12186.10	16,531.10	35.66
Income From Securitisation	5,429.80	5,508.30	4,713.80	4,424.00	4,077.00	-24.91	-7.84	20,934.60	18,723.20	-10.56
Less : Securitisation Expenses	273.10	185.60	123.40	172.50	184.60	-32.42	7.01	859.40	666.20	-22.48
Income From Securitisation (Net)	5,156.60	5,322.70	4,590.40	4,251.50	3,892.40	-24.52	-8.45	20,075.20	18,057.10	-10.05
Net Interest Income including Income from Securitisation	8,055.90	8,024.90	8,677.70	8,947.00	8,938.80	10.96	-0.09	32,261.30	34,588.20	7.21
Other Fee Based Income	-	-	5.50	11.50	12.10	-	4.59	-	29.10	0.00
Operating Income	8,055.90	8,024.90	8,683.20	8,958.50	8,950.90	11.11	-0.09	32,261.30	34,617.30	7.30
Operating Expenditure	1,782.30	1,940.40	1,872.20	1,998.50	2,049.00	14.96	2.53	7,114.10	7,860.10	10.49
Core Operating Profit (before Provisions& Contingen.)	6,273.60	6,084.50	6,811.00	6,960.00	6,901.90	10.02	-0.83	25,147.20	26,757.20	6.40
Other Income	255.20	702.30	308.20	288.30	557.00	118.27	93.20	1,283.70	1,855.90	44.57
Operating Profit	6,528.80	6,786.80	7,119.20	7,248.30	7,458.90	14.25	2.90	26,430.90	28,613.10	8.26
Provision for Bad Debts	1,953.40	1,945.70	2,017.50	2,081.30	2,179.10	11.56	4.70	7,561.00	8,223.60	8.76
Provisions against Standard Assets	(35.00)	80.10	88.5	44.80	14.30	-140.7	-68.16	60.80	227.60	274.27
PBT	4,610.40	4,761.00	5,013.20	5,122.20	5,265.50	14.21	2.80	18,809.10	20,161.90	7.19
Tax	1,529.80	1,542.50	1,637.60	1,662.30	1,713.30	12.00	3.07	6,234.60	6,555.70	5.15
PAT	3,080.60	3,218.50	3,375.60	3,459.90	3,552.20	15.31	2.67	12,574.50	13,606.20	8.20

Source: Company

Ratio Analysis	Q4 FY12	Q1 FY13	Q2 FY13	Q3 FY13	Q4 FY13	YoY%	QoQ%	FY12	FY13	YOY%
EPS (Rs)	13.62	14.22	14.92	15.25	15.66	14.98	2.69	55.59	59.98	7.90
Book Value (Rs)	263.05	277.45	291.93	304.48	315.58	19.97	3.65	263.05	315.58	19.97
ROA (%)	3.53	3.72	3.86	3.58	3.34	-5.38	-6.70	3.75	3.61	-3.73
ROE (%)	20.92	20.92	20.83	20.36	20.10	-3.92	-1.28	22.82	20.53	-10.01
NIM (on AUM) (%)	7.24	7.42	7.67	7.52	7.23	-0.14	-3.86	7.51	7.46	-0.67
Gross NPA (%)	3.06	3.00	2.89	2.89	3.20	4.58	10.73	3.06	3.20	4.58
Net NPA (%)	0.44	0.62	0.61	0.63	0.77	75.00	22.22	0.44	0.77	75.00
Coverage Ratio (%)	85.91	79.73	79.50	78.86	76.43	-11.03	-3.08	85.91	76.43	-11.03
CRAR (%)	22.26	21.31	20.48	19.16	20.58	-7.55	7.41	22.26	20.58	-7.55

Source: Company

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Stock Rating Scale

Absolute Return

BUY	:	>20%
ACCUMULATE	:	12-20%
HOLD	:	5-12%
NEUTRAL	:	0-5%
REDUCE	:	< 0%

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