

I India
ADD (no change)

Consensus ratings*: Buy 31 Hold 4 Sell 2

Current price:	Rs1,266
Target price:	Rs1,650 ▲
Previous target:	Rs1,000
Up/downside:	30.3%
EIP Research / Consensus:	10.6%
Reuters:	SRTR.BO
Bloomberg:	SHTF IN
Market cap:	US\$4,373m
	Rs3,20,338m
Average daily turnover:	US\$61.6m
	Rs4512.1m
Current shares o/s:	226.9m
Free float:	74.0%

*Source: Bloomberg

Key changes in this note

- Raise FY22F/23F PPOP by 1.9%/1.6%
- Raise FY22F/23F PAT by 14.6%/8.7%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.8)	18.7	17.5
Relative (%)	(9.2)	7.3	(12.4)

Major shareholders	% held
Shriram Capital Ltd	26.5
Fidelity Investment Trust	4.9
Sanlam Life Insurance Ltd	3.0

Analyst(s)

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Shriram Transport Finance

Sharp fall in credit cost to drive earnings

- We upgrade our TP for SHTF to Rs 1,650, from Rs1,000, on the back of 14.6% /8.7% PAT upgrades for FY22/23F. It remains one of our preferred NBFC picks.
- With 39.7% PCR, credit costs likely will fall sharply through FY23F (210/200bp) as delinquencies normalise. Uptick in growth is yet another earnings lever.
- We expect average ROA/RoE of 2.6/14% through FY23F and ascribe a 1.5x FY23F BV translating into a TP of Rs1,650. We maintain our Add rating.

Sharp fall in delinquencies driving confidence in earnings

We believe SHTF's asset quality has held up well contrary to our earlier expectations of high delinquencies. SHTF has made provisions of Rs23.9bn over the last three quarters. With overall collection efficiencies at 104% for Dec 2020, we think asset quality pain seems to have stabilised. Loan to value (LTV) ratios at 60-70% for old vehicles remain comfortable and we note that the economics for used commercial vehicles (CVs) vis-à-vis new remain favourable in the current environment;

Current PCR at ~40% implies sharp fall in credit costs at the margin

SHTF's current provisioning coverage ratio (PCR) is 39.7% on Stage 3 NPLs on a reported basis. But assuming a standard provisioning of 40bp on standard assets, we estimate SHTF to be carrying +85% provisioning account of high provisions made over the last three quarters. We note that the actual loss given defaults (LGDs) over the long term have been below 40%. As a result, once overall delinquencies normalise, we expect credit costs to fall sharply and build in 210/200bp credit costs for FY22/23F (~260bp for 9MFY21). This is likely to be the key driver of earnings going forward – a sharp increase in diesel prices is a risk but we note that freight prices have been rising consistently over the last few months (Figure 1).

Growth gradually looking up – funding environment benign for now

While the growth rates are likely to be ~5-6% in FY21F, we expect double-digit growth rate for FY22F/23F driven by a sharp bounce back in GDP. The funding environment remains benign, in our view, as reflected in the incremental rate of borrowings at 8-8.5% across various instruments. Yields on advances should look up from here on largely due to lower interest reversals. Liquidity on balance sheet (~Rs130bn) remains a drag on net interest margins (NIMs) for now but will gradually come off aiding NIMs. We expect moderate NIM expansion here on. We expect NIMs at ~7.2% (having bottomed out at 6.4% in 1QFY21F).

14% RoE for FY23F; raise TP to Rs1,650; our preferred NBFC pick

Increased visibility around credit costs and growth leads us to raise our FY22/23F PAT for SHTF by 14.6%/8.7% largely on credit costs falling to 2.1%/2% for FY22/23F. As a result, we expect RoA/RoE to improve to 2.6/14% by FY23F. With current tier-I capital at 20.5%, we do not expect any meaningful dilution in the near term. We expect SHTF to trade at 1.5x FY23F BV, translating to a raised target price of Rs1,650. A sustained slowdown leading to higher delinquencies/credit costs remains a key risk to our call. Maintain Add.

Financial Summary

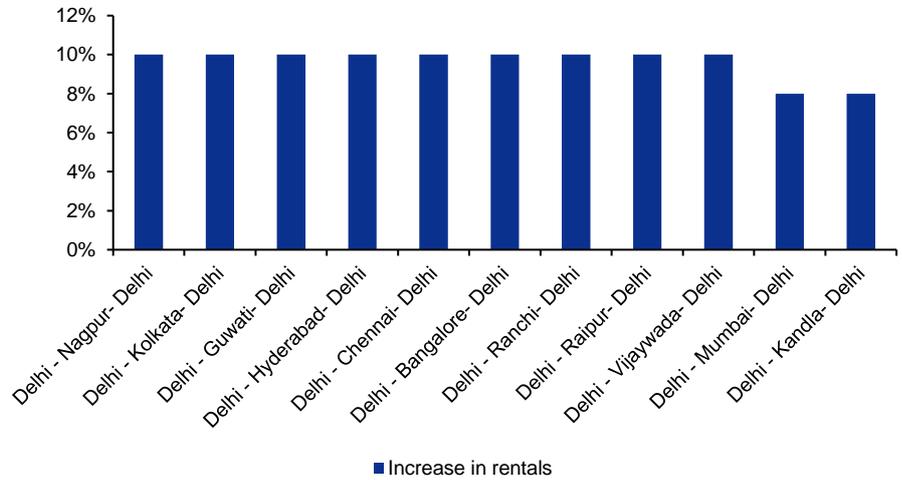
	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Net Interest Income (Rsm)	78,730	79,168	83,644	90,290	99,555
Total Non-Interest Income (Rsm)	1,614	2,847	2,913	3,220	3,563
Operating Revenue (Rsm)	80,344	82,015	86,557	93,510	1,03,118
Total Provision Charges (Rsm)	(23,823)	(27,949)	(32,069)	(26,831)	(28,293)
Net Profit (Rsm)	25,640	25,019	25,288	32,682	36,691
Core EPS (Rs)	113.00	110.27	99.93	129.15	144.99
Core EPS Growth	4%	(2%)	(9%)	29%	12%
FD Core P/E (x)	11.20	11.48	12.67	9.80	8.73
DPS (Rs)	12.00	12.00	13.00	12.00	12.00
Dividend Yield	0.95%	0.95%	1.03%	0.95%	0.95%
BVPS (Rs)	697.9	793.6	855.2	970.3	1,101.2
P/BV (x)	1.81	1.60	1.48	1.30	1.15
ROE	17.4%	14.8%	12.8%	14.1%	14.0%
% Change In Core EPS Estimates			30.9%	14.6%	8.7%
EIP Research/Consensus EPS (x)			1.03	1.02	0.97

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 8 MAR 2021

Key charts

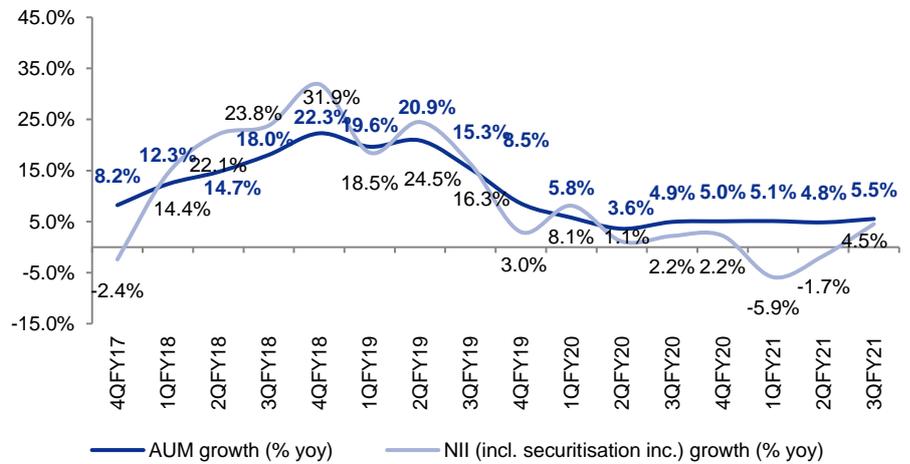
Over the last couple of months freight costs spiked offsetting rising diesel prices, which were passed on to customers. Last month diesel prices rose only 4-5%, whereas freight tariffs increased 8-10%.

Figure 1: Growth in average truck rentals for Feb 2021 to Mar 2021



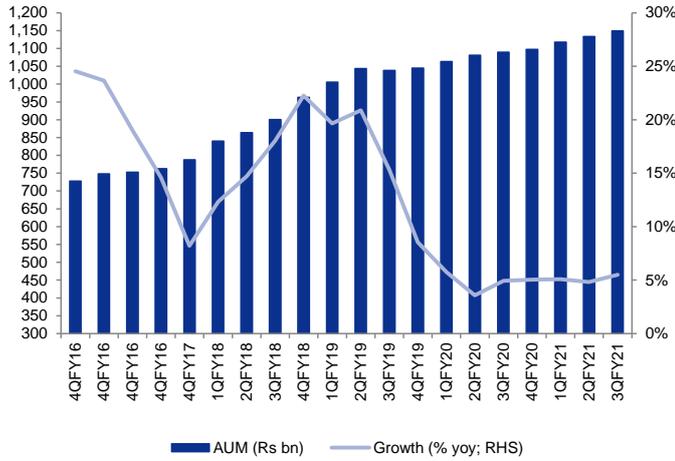
SOURCES: EIP RESEARCH, COMPANY REPORTS

Figure 2: NII growth and AUM growth (% yoy)



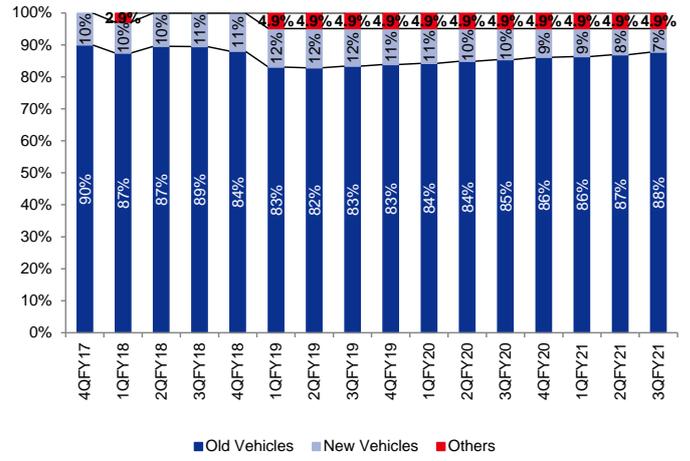
NOTE: FROM 1QFY18 NUMBERS ARE AS PER INDAS
SOURCES: EIP RESEARCH, COMPANY REPORTS

Figure 3: AUM growth trajectory



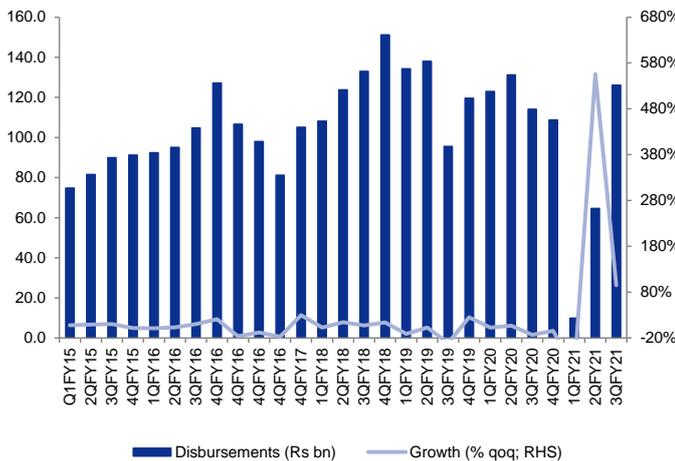
SOURCES: EIP RESEARCH, COMPANY REPORTS

Figure 4: AUM mix: old vs. new vehicles (%)



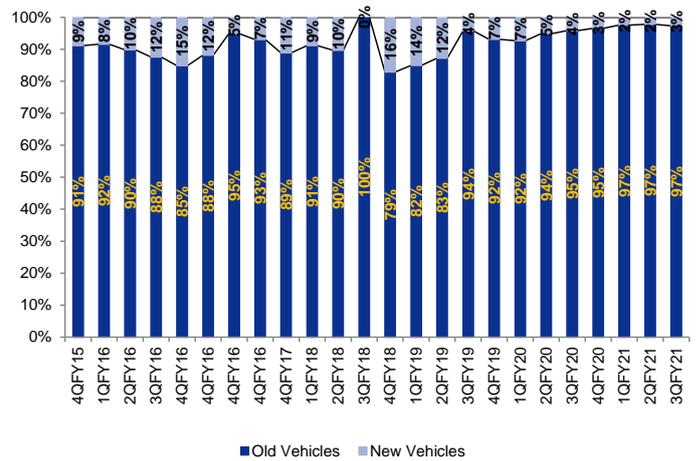
SOURCES: EIP RESEARCH, COMPANY REPORTS

Figure 5: Disbursements growth trajectory



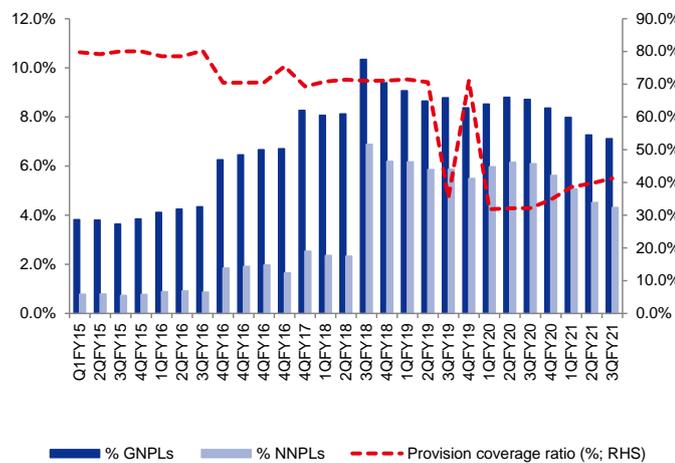
SOURCES: EIP RESEARCH, COMPANY REPORTS

Figure 6: Disbursement mix: old vs. new vehicles (%)



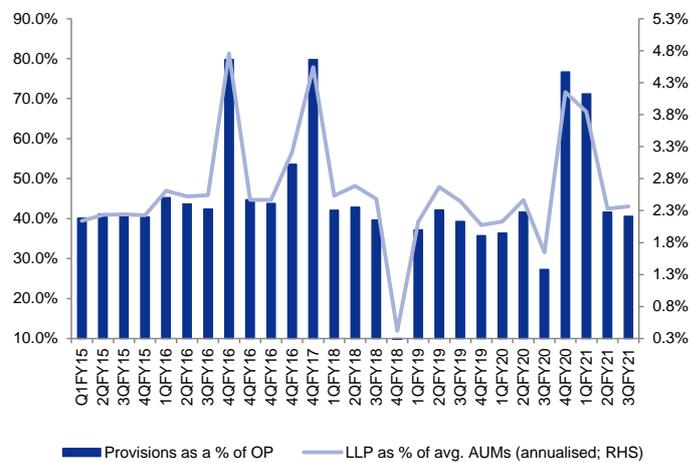
SOURCES: EIP RESEARCH, COMPANY REPORTS

Figure 7: Asset quality trend



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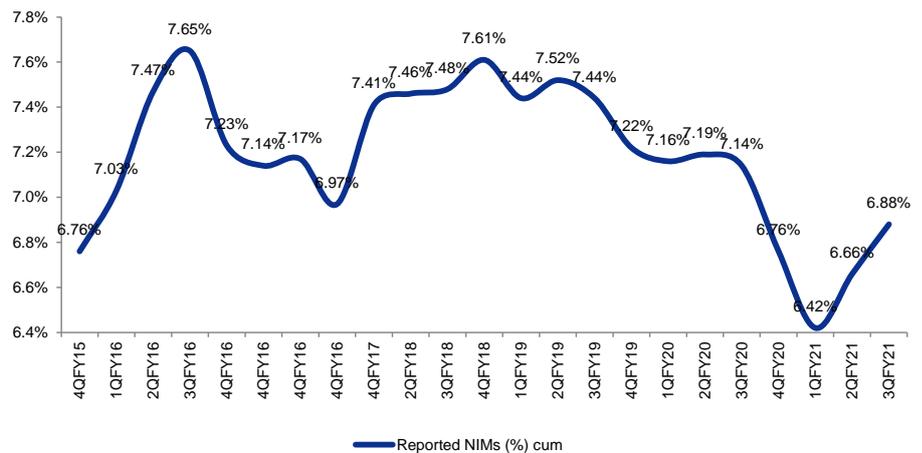
Figure 8: Trend in credit costs (%)



NOTE: FROM 1QFY18 NUMBERS ARE AS PER INDAS
SOURCES: EIP RESEARCH, COMPANY REPORTS

Liquidity on balance sheet remains a drag on NIMs for now, but will gradually come off aiding NIMs. We expect moderate NIM expansion here on. Yields on advances should look up going forward largely due to lower interest reversals.

Figure 9: Reported net interest margin (%)



NOTE: FROM 1QFY18 NUMBERS ARE AS PER INDAS
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Figure 10: ROE tree

Particulars	FY19A	FY20A	FY21F	FY22F	FY23F
Net Interest Income / Avg. Assets	7.8%	7.2%	7.1%	7.1%	7.0%
Securitisation income / Avg. Assets	0.0%	0.0%	0.0%	0.0%	0.0%
Other Income / Avg. Assets	0.2%	0.3%	0.2%	0.3%	0.2%
Income Yield / Avg. Assets	7.9%	7.5%	7.4%	7.3%	7.2%
Op. Cost (Staff cost) / Avg Assets	0.9%	0.7%	0.7%	0.7%	0.7%
Op. Cost (Other costs) / Avg Assets	1.0%	1.1%	1.1%	1.1%	1.1%
Operating profit / Avg Assets	6.1%	5.7%	5.6%	5.5%	5.4%
Total provisions / Avg. assets	2.4%	2.5%	2.7%	2.1%	2.0%
Pre-Tax ROA	3.7%	3.1%	2.9%	3.4%	3.4%
Tax Retention Rate	67.9%	72.8%	74.8%	74.8%	74.8%
Post Tax ROA	2.5%	2.3%	2.2%	2.6%	2.6%
Leverage = Avg. Assets / Avg. Equity	6.9	6.5	5.9	5.5	5.5
ROE (Leverage * ROA)	17.4%	14.8%	12.8%	14.1%	14.0%

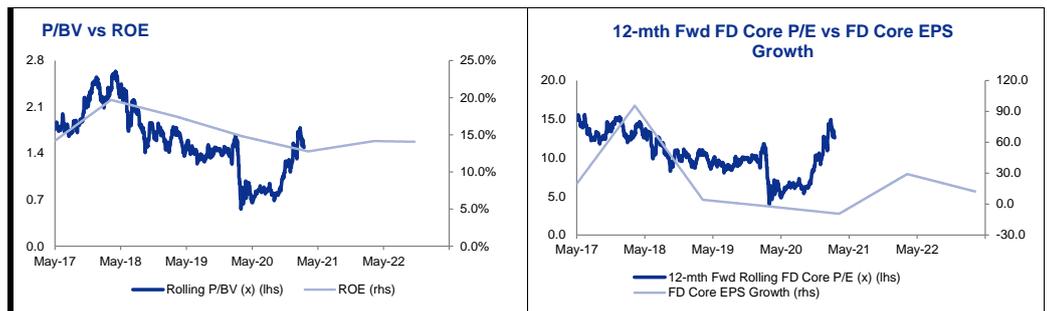
SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: Changes in estimates

Particulars	Old estimates			New estimates			Change (%)		
	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F
Rs m									
NII (incl. securitisation income)	78,230	89,163	98,981	83,644	90,290	99,555	6.9%	1.3%	0.6%
PPoP	60,734	69,192	76,098	65,863	70,507	77,325	8.4%	1.9%	1.6%
PAT	19,314	28,519	33,761	25,288	32,682	36,691	30.9%	14.6%	8.7%
EPS (Rs.)	76.3	112.7	133.4	99.9	129.1	145.0	30.9%	14.6%	8.7%
RoE	9.9%	12.8%	13.5%	12.8%	14.1%	14.0%	2.9%	1.4%	0.5%

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Net Interest Income	78,730	79,168	83,644	90,290	99,555
Total Non-Interest Income	1,614	2,847	2,913	3,220	3,563
Operating Revenue	80,344	82,015	86,557	93,510	1,03,118
Total Non-Interest Expenses	(18,739)	(19,679)	(20,694)	(23,003)	(25,793)
Pre-provision Operating Profit	61,605	62,336	65,863	70,507	77,325
Total Provision Charges	(23,823)	(27,949)	(32,069)	(26,831)	(28,293)
Operating Profit After Provisions	37,783	34,387	33,794	43,676	49,032
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	37,783	34,387	33,794	43,676	49,032
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	37,783	34,387	33,794	43,676	49,032
Exceptional Items					
Pre-tax Profit	37,783	34,387	33,794	43,676	49,032
Taxation	(12,143)	(9,368)	(8,506)	(10,993)	(12,341)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	25,640	25,019	25,288	32,682	36,691
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	25,640	25,019	25,288	32,682	36,691
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	6.9%	8.2%	8.9%	8.9%	8.9%
Avg Liquid Assets/Avg IEAs	7.2%	8.8%	9.6%	9.6%	9.6%
Net Cust Loans/Assets	91.9%	89.6%	89.3%	89.2%	89.1%
Net Cust Loans/Broad Deposits	260.2%	240.7%	246.6%	246.6%	246.6%
Equity & Provns/Gross Cust Loans	19.6%	20.9%	24.8%	25.5%	26.1%
Asset Risk Weighting	100.0%	100.0%	100.0%	100.0%	100.0%
Provision Charge/Avg Cust Loans	2.54%	2.81%	3.06%	2.36%	2.22%
Provision Charge/Avg Assets	2.35%	2.55%	2.74%	2.11%	1.98%
Total Write Offs/Average Assets					

SOURCES: EIP RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Gross Loans	9,67,515	10,22,316	10,73,432	12,02,244	13,46,513
Liquid Assets & Invst. (Current)	39,857	27,985	40,621	45,495	50,955
Other Int. Earning Assets					
Total Gross Int. Earning Assets	10,07,372	10,50,301	11,14,053	12,47,739	13,97,468
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	10,07,372	10,50,301	11,14,053	12,47,739	13,97,468
Intangible Assets					
Other Non-Interest Earning Assets	3,392	15,712	18,854	22,625	27,150
Total Non-Interest Earning Assets	5,738	17,836	21,278	25,409	30,365
Cash And Marketable Securities	39,815	73,149	66,229	74,090	83,040
Long-term Investments					
Total Assets	10,52,925	11,41,286	12,01,560	13,47,238	15,10,873
Customer Interest-Bearing Liabilities					
Bank Deposits	3,71,893	4,24,746	4,35,298	4,87,534	5,46,038
Interest Bearing Liabilities: Others	4,45,232	4,62,271	4,75,164	5,38,987	6,10,470
Total Interest-Bearing Liabilities	8,79,144	9,43,718	9,67,162	10,83,222	12,13,208
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	15,418	17,517	17,985	18,473	18,984
Total Liabilities	8,94,562	9,61,235	9,85,147	11,01,695	12,32,193
Shareholders Equity	1,58,363	1,80,052	2,16,413	2,45,543	2,78,680
Minority Interests					
Total Equity	1,58,363	1,80,052	2,16,413	2,45,543	2,78,680

Key Ratios					
	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Income Growth	15.4%	0.6%	5.7%	7.9%	10.3%
Operating Profit Growth	11.5%	1.2%	5.7%	7.1%	9.7%
Pretax Profit Growth	(1%)	(9%)	(2%)	29%	12%
Net Interest To Total Income	98.0%	96.5%	96.6%	96.6%	96.5%
Cost Of Funds	8.83%	9.18%	8.78%	8.76%	8.75%
Return On Interest Earning Assets	15.9%	15.8%	15.5%	15.3%	15.1%
Net Interest Spread	7.04%	6.65%	6.70%	6.49%	6.37%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	7.77%	7.22%	7.14%	7.08%	6.97%
Provisions to Pre Prov. Operating Profit	39%	45%	49%	38%	37%
Interest Return On Average Assets	7.77%	7.22%	7.14%	7.08%	6.97%
Effective Tax Rate	32.1%	27.2%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	12.4%	12.7%	15.2%	10.9%	9.7%
Return On Average Assets	2.53%	2.28%	2.16%	2.56%	2.57%

Key Drivers					
	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Loan Growth (%)	6.6%	5.7%	5.0%	12.0%	12.0%
Net Interest Margin (%)	8.1%	7.7%	7.7%	7.6%	7.5%
Non Interest Income Growth (%)	(47.6%)	76.4%	2.3%	10.5%	10.7%
Cost-income Ratio (%)	23.3%	24.0%	23.9%	24.6%	25.0%
Net NPL Ratio (%)	1.1%	1.4%	1.2%	1.3%	1.3%
Loan Loss Reserve (%)	36.8%	37.0%	47.1%	50.6%	54.7%
GP Ratio (%)	0.2%	0.2%	0.2%	0.2%	0.2%
Total CAR (%)	25.1%	24.0%	25.7%	24.9%	24.2%

SOURCES: EIP RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BPCG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, n/a, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** - Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TMB** - Excellent, Certified, **TNR** – Very Good, Certified, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.