

RESEARCH
[Initiation] Shriram Transport Finance | Target: Rs 1,000 | +52% | BUY

Limited pandemic headwinds – initiate with BUY

Logistics | Monthly Tracker

Limping back to normalcy

SUMMARY
Shriram Transport Finance

Over the last four decades, Shriram Transport Finance (SHTF) has built a pan-India network in a fragmented used-CV market (~16% CV market share). After a phase of weak growth since FY19, we expect business to rebound in H2FY22 led by firming up of used CV prices – we bake in a 7% AUM CAGR for FY20-FY23, with stable spreads (~6%). We expect restructuring post-pandemic to be limited to <10% of AUM, with average credit cost of ~300bps through to FY23. ROA/ROE are forecast to recover in FY22 to 2.4%/12.9%. Initiate with BUY; Sep'21 TP Rs 1,000.

[Click here for the full report.](#)
Logistics: Monthly Tracker

Lead logistics indicators continued to improve in August, slowing their pace of decline vs. July – major port cargo fell 10% YoY (vs. –13% in July), container rail volumes dipped 8% (vs. –13%), and e-way bills contracted 3% (vs. –7%) – while IR's freight volume grew 4% YoY (vs. –5%). Though a return to pre-Covid levels is still some time away, the festive season can provide impetus to domestic trade. Sustainable recovery hinges on economic revival (domestic and global) and is unlikely before Q4FY21. TCI Express remains our top pick.

[Click here for the full report.](#)
TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	910

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.68	1bps	(3bps)	(112bps)
India 10Y yield (%)	6.03	0bps	8bps	(70bps)
USD/INR	73.65	(0.2)	1.7	(2.6)
Brent Crude (US\$/bbl)	40.53	2.3	(9.5)	(37.2)
Dow	27,996	0	0.2	3.3
Shanghai	3,296	0.5	(1.9)	10.7
Sensex	39,044	0.7	3.1	7.0
India FII (US\$ mn)	14 Sep	MTD	CYTD	FYTD
FII-D	31.2	198.9	(14,891.1)	(5,131.6)
FII-E	81.8	261.1	5,068.4	11,671.4

Source: Bank of Baroda Economics Research

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BUY

TP: Rs 1,000 | ▲ 52%

**SHRIRAM TRANSPORT
FINANCE**

| NBFC

| 16 September 2020

Limited pandemic headwinds – initiate with BUY

Over the last four decades, Shriram Transport Finance (SHTF) has built a pan-India network in a fragmented used-CV market (~16% CV market share). After a phase of weak growth since FY19, we expect business to rebound in H2FY22 led by firming up of used CV prices – we bake in a 7% AUM CAGR for FY20-FY23, with stable spreads (~6%). We expect restructuring post-pandemic to be limited to <10% of AUM, with average credit cost of ~300bps through to FY23. ROA/ROE are forecast to recover in FY22 to 2.4%/12.9%. Initiate with BUY; Sep'21 TP Rs 1,000.

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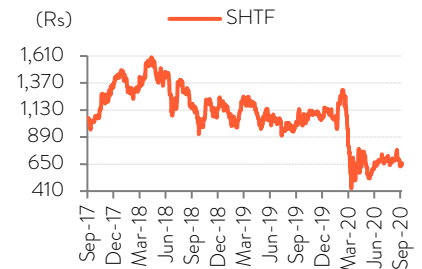
Business to rebound in H2FY22; expect stable spreads: We expect SHTF to post a 7% CAGR in AUM and 8% in disbursements during FY20-FY23, aided by a greater rural thrust and progressive unlocking of the economy in the wake of Covid-19. With bond markets thawing in recent months and banks offering repo rate cut translation, borrowing costs should hold at 8.8-9% over FY21-FY23. We draw comfort from a well-matched ALM in the under one-year bucket and high liquidity buffers, which should keep spreads stable at ~6.3% over our forecast period.

Opex control, limited restructuring to aid profitability: Given management's prudent, volume-based branch expansion strategy and strong focus on cost control, we bake in flat opex and a 7% CAGR in operating profit through to FY23. Given that loans are for income-generating assets, AUM restructuring due to the pandemic is likely to be limited to <10% by value. We thus expect average credit cost of ~300bps for FY21-FY23. PAT is projected to clock a 12% CAGR during FY20-FY23, aiding a bounce back in return ratios next year.

Initiate with BUY: We use a residual income model to value the company, assuming a risk-free rate of 7.75%, cost of equity of 14.0% and terminal growth of 5%. This yields a Sep'21 TP of Rs 1,000, which implies 1x Sep'22E BV.

Ticker/Price	SHTF IN/Rs 658
Market cap	US\$ 2.3bn
Shares o/s	253mn
3M ADV	US\$ 42.7mn
52wk high/low	Rs 1,340/Rs 431
Promoter/FPI/DII	26%/64%/2%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	78,244	79,972	81,077	86,208	93,803
NII growth (%)	14.6	2.2	1.4	6.3	8.8
Adj. net profit (Rs mn)	25,640	25,018	19,151	29,164	35,312
EPS (Rs)	113.0	110.3	75.7	115.2	139.5
P/E (x)	5.8	6.0	8.7	5.7	4.7
P/BV (x)	1.0	0.8	0.8	0.7	0.6
ROA (%)	2.5	2.3	1.6	2.4	2.6
ROE (%)	17.6	14.9	9.8	12.9	13.9

Source: Company, BOBCAPS Research



Limping back to normalcy

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Decline in major port cargo eases: Cargo at major ports declined at a slightly slower rate of 10% YoY in Aug'20 (+0.4% MoM) vs. a 13% drop in Jul'20. Apart from Vizag (+12% YoY) and Mormugao (+10%), all other major ports reported YoY volume decreases. Chennai (–22% YoY), Cochin (–18%), JNPT (–17%), and Mumbai (–17.5%) posted the steepest declines. Among commodities, iron ore (+38% YoY) and fertiliser (+30%) volumes did well, but coking coal (–30%) and POL (–22%) plummeted. Container volumes declined 13% YoY in TEU terms, the sixth consecutive month of double-digit decline.

EXIM container rail traffic continues double-digit slide: Container cargo carried by the Indian Railways (IR) fell by a slower 8% YoY in August vis-à-vis a 13% decline in July. Domestic volumes grew 6% YoY whereas EXIM continued its double-digit slide, falling 11% YoY (–12% in July). The MoM uptick in EXIM container rail volume (+3%) was, however, higher than container traffic growth at major ports (flat MoM on tonnage), indicating market share gains for rail sequentially. NTKM contracted 14% YoY (–16% in July) as a 7% dip in lead distance compounded the impact of declining volumes.

Rail freight volumes up YoY: After contracting for five months, total freight carried by IR grew 4% YoY in Aug'20 (–1% MoM). This was driven by a sharp jump in food grains (+98% YoY), fertilisers (+29%), and pig iron and finished steel (+16%) volumes. Freight loading by IR posted healthy 13% YoY growth in the month of September as well (till 15 Sep), indicating a sustained recovery.

E-way bills plateau; core EXIM declines again: Total e-way bills generated declined at a slower 3% YoY (–7% in July) to 49.4mn in Aug'20, stabilising at 90-95% of pre-Covid levels. Total merchandise EXIM dropped 21% YoY (exports/imports down 13%/26%), but non-oil, non-gold EXIM declined at a steeper 19% YoY vs. 16% YoY in July.

RECOMMENDATION SNAPSHOT

Ticker	Rating
AGLL IN	ADD
CCRI IN	SELL
MAHLOG IN	BUY
TCIEXP IN	BUY
TRPC IN	BUY
VRLL IN	BUY



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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