Revival of fortunes for Shriram Transport

The company's efforts to increase rural presence and creation of one-stop destinations such as auto malls will fuel growth

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Analysts are hoping for a revival of fortunes for Chennai-based commercial vehicles (CV) lender, Shriram Transport Finance Corporation (STFC).

"With new initiatives such as rural focus, new products and new channels, we believe STFC will continue to deliver above market expectation growth/earnings, allaying market concerns," Veekesh Gandhi, research analyst at Bank of America Merrill Lynch told *Business Standard*.

Over the past one year, STFC has outperformed the Sensex despite concerns of slowing loan growth, shrinking margins and stricter regulatory norms.

But analysts now feel that the company's efforts to increase rural presence and the creation of one-stop destinations such as auto malls will fuel growth.

STFC is likely to gain from two main drivers in the near term. One, the company is a key candidate for banking license and that could be a significant catalyst for the stock. Two, likely pick-up in CV sales consequent to lower lending rates will boost its prospects. Notably, despite the recent run-up, the stock trades at 1.9 times FY14 estimated book value, much lower than its historical average one-year forward price/book ratio of 2.3 times.

Most analysts remain positive on the stock. Gandhi has a price target of ₹850 on the stock.

Poised for growth

After a dismal performance on top-line as well as bottom-line in four straight quarters, STFC witnessed some rebound in growth in the September 2012 quarter. The company has now identified new growth avenues as it looks at increased rural penetration. STFC has opened about 15 auto malls (for buying/selling of used trucks) so far and plans to add another eight by March 2013 and aims to take it to 40 by FY14 end. Further, its equipment financing business is growing well and analysts expect this segment to contribute about 15-20 per cent to the company's loan growth in FY14.

The used CV segment (79 per cent of STFC's assets under management) is expected to witness good traction due to higher re-sale value of used vehicles and increasing preference for used CVs due to higher prices of new CVs. The auto mall channel is also likely to contribute meaningfully to loan growth, going forward.

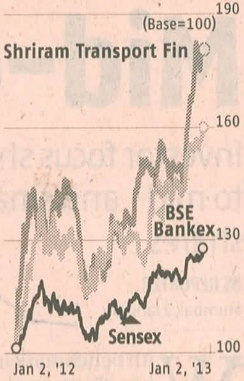
Higher securitisation (via the pass-through certificates), and favourable funding structure (30 per cent of STFC's liabilities are on floating rate basis while loans are at fixed rates) are likely to reflect in improved net interest margins (NIMs) for the company.

"We now have better visibility on revenue growth and margin trends and believe STFC will maintain a sustainable return on equity of more than 20 per cent with steady growth, higher NIM and stable asset quality (gross NPA at 2.9 per cent)," believes Praveen Agarwal of Axis Capital.

Limited impact of new norms

In order to align NBFCs with banks, RBI recently proposed to reduce the period of classifying non-performing assets from 180 days to 120 days in FY14 and to 90 days by FY15. This means, STFC will have to make higher provisioning for doubtful debts, which in turn will hit its bottom line. However, this will be largely offset by the option of writing back of provisions (at the end of the loan tenure) as the company's actual credit loss stands at a meagre two per cent.

STRONG PROSPECTS



Data compiled by BS Research Bureau

STABLE GROWTH

In ₹ crore	FY12	FY13E	FY14E
Net interest income	3,392	3,793	4,258
Operating profit	2,399	2,787	3,173
Adj. net profit	1,308	1,539	1,839
NIM (%)	11.01	10.85	10.32
P/BV (x)	2.85	2.33	1.91

E: Estimates Source: BofA Merrill Lynch