

# Shareholder Wealth Analysis- A Case Study of Shri Ram Transport Finance Company Theme: Event based Shareholders wealth

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## I. Company Background

We are a part of the "SHRIRAM" conglomerate which has significant presence in financial services viz., commercial vehicle financing business, consumer finance, life and general insurance, stock broking, chit funds and distribution of financial products such as life and general insurance products and units of mutual funds. Our Company was incorporated in the year 1979 and is registered as a Deposit taking NBFC with Reserve Bank of India under section 45IA of the Reserve Bank of India Act, 1934. STFC decided to finance the much neglected Small Truck Owner. Shriram understood the power of 'Aspiration' much before marketing based on 'Aspiration' became fashionable. Shriram started lending to the Small Truck Owner to buy new trucks. But we found a mismatch between the Aspiration and Ability. The Truck Operator was honest but the Equity at his command was not sufficient to support the credit levels required to buy a new truck. We did not have the heart to send the Truck Operator back empty handed; we decided to fund Pre-owned Trucks. This was the most momentous decision that we made. What followed was sheer magic.

From Driver to Owner, even if only of a Pre-owned Truck and from Pre-owned Truck to the New Truck, we have been with him in his journey of Prosperity as he has been our partner in our road to success and leadership. For us at Shriram, credit-worthiness of the Small Truck Owner has always been an article of faith. This faith has guided our journey from our pioneering days in financing Small Truck Owners to the present day leadership. Today we are not only the leader in Truck Finance; we are also India's largest Asset Based Non-Banking Finance Company. The inability of the economists to capture data relating to the economic activity of the informal sector has resulted in its neglect at the policy-making levels in the government. The distribution of Truck Ownership being scattered among a large number of individuals has resulted in this very important group being missed by the institutional radar. It is estimated that 80% of trucks in the country are in the hands of .

## II. Objectives of the Study:

- To review the growth of Commercial and Passenger Vehicle Industry.
- To find out whether to buy or sell the stock in the near future.

### Research Methodology:

Case Study Method is adapted to portrait the shareholder wealth model and to strongly advocate prudent investment decision. Exploratory model is adopted to explore the financial events and their reaction.

By the end of financial year 2018, it had assets under management (AUMs) of Rs.95306 crore, witnessing a growth of 21 % year on year on the back of significant surge in rural growth. The Company has a Pan-India network of 1213 branches catering to about 1.86 million customers. Earlier this month, the stock of STFC fell nearly 18% in Intraday trade after its annual report mentioned a Rs.870 crore corporate guarantee which the firm had provided to its unlisted entity SVL Ltd. The guarantee was with respect to non-convertible debentures issued by SVL Limited. SVL had issued Zero coupon NCDs of Rs.650 Crore in June 2015 (11.25% IRR), maturing in June 2019.

### Commercial & Passenger Vehicle Industry Overview

The domestic commercial vehicle (CV) industry, led by truck segment, has been on a recovery phase since Q2FY18. According to the society of Indian Automobile Manufacturers, the overall CV segment sales registered a growth of 19.94 per cent between April 2017 and March 2018 as compared to the same period last

year. The M&H CVs grew by 12.48 per cent and the light commercial vehicles (LCVs) grew by 25.42 per cent during April 2017 - March 2018 over the same period last year.

The sales of passenger vehicles (PVs) grew by 7.89 per cent in April 2017 - March 2018 over the same period last year. Within the PV segment, passenger cars, utility vehicles and vans grew by 3.33 per cent, 20.97 per cent and 5.78 per cent, respectively, during April 2017-March 2018 over the same period last year.

### Robust growth in AUMs

STFC reported 49 per cent YoY growth in rural AUMs to ₹ 310 billion. The company opened about 217 branches in rural areas in FY18. New CVs loan book jumped 37 per cent YoY, while used CVs reported marginally lower growth. The demand for new CVs in higher tonnage segment is increasing at a good pace, therefore, the growth opportunity in new CV financing is higher. However, company's management guided not to grow much in this segment due to lower profitability and will continue to maintain old CVs proportion over 84 per cent of AUMs. Other loans, which primarily comprise of business loans to existing customers and contribute about 5 per cent to AUMs, also grew at a robust pace. The company's business loans are gaining traction. It started with business loans from Tamil Nadu, but it is now expanding and extending these loans in Karnataka and Andhra Pradesh.

Going forward, the company's focus would continue to be on used trucks that are 5 years to 10 years old. The management has guided at reaching an AUM of about ₹ 1,10,000 crore by March 2019 from ₹ 95,000 crore now, with an expected growth of 16 per cent YoY in AUMs. We expect AUM growth momentum to continue due to macroeconomic revival.

### Stabilizing asset quality

STFC recognised NPAs on 180 DPD basis till Q3 FY16, but it has gradually moved to 90 DPD in Q4 FY18. This has led to increase in GNPA, which increased from 3.8 per cent in FY15 to 9.15 per cent in FY18. The credit cost also increased from 2.4 per cent in FY15 to 3.8 per cent in FY18. Over FY09 to FY15, the credit cost has been in the range of 1.4 to 2.4 per cent. Due to regulatory requirement, it reached 3.8 per cent in Q4 FY18. We expect credit cost to fall over the next two years, which would drive RoA expansion.

### Financials

On the Financial front, STFC reported a healthy growth in revenue and AUMs, while its net profit de-grew marginally due to higher provisions in its Q4 FY18 financial results. The company posted a 19.79 per cent hike in its net sales to ₹ 3,248.70 crore in the fourth quarter of FY18 as compared to ₹ 2711.92 crore in the same quarter of the previous year. The company's PBDT decreased by 14.86 per cent to ₹ 203.45 crore in the fourth quarter of FY18 on a year-on-year basis. The net profit of the company declined by 3.36 per cent to ₹ 144.6 crore in the fourth quarter of FY18 as compared to ₹ 149.63 crore in the same quarter of the previous fiscal. However, the net interest income during the quarter rose by 30 per cent to ₹ 1,486.92 crore, as against ₹ 1,143.97 crore during the same period previous year.

On the annual front, the company posted a 12.68 per cent increase in its net sales to ₹ 12,201.66 crore in FY18 as compared to ₹ 10,828.75 crore in FY17. The PBDT of the company also increased by about 23 per cent to ₹ 2407.96 crore in FY18 as against ₹ 1957.83 crore in the previous fiscal. The company posted an increase of 24.71 per cent in its net profit to ₹ 1568.02 crore in FY18 on a year-on-year basis.

STFC sold its controlling stake in the wholly-owned subsidiary Shriram Automall India Ltd (SAMIL) during 2017-18 for ₹ 156.38 crore to MXC Solutions India Pvt Ltd. The profit on the sale of SAMIL shares was ₹ 139.75 crore. On the valuation front, the company has a return on equity (ROE) of 12.38 per cent and return of capital employed (ROCE) of 34.11 per cent. Further, the stock is trading at a PE of 19.22x as against its peers M&M Finance (28.48x) and Cholamandalam Investment & Finance.

**Table showing Peer Comparison**

Stocks	Market Cap (Rs in Crore)	P/E	Returns (%)				Rank
			YTD	1 Year	3 Years	5 Years	
Shriram Transport Finance	28689	18.53	-15.31	22.24	10.67	12.91	3
M&M Finance	29161	28.48	0.33	28.82	19.53	12.35	2
Cholamandalam invest & Finance	24156	24.77	21.37	35.2	30.96	45.06	1

Interpretation:

Shriram Transport Finance stands in the top three in terms of returns. 3<sup>rd</sup> year and 5<sup>th</sup> year shows only moderate returns.

**Table showing the Potentiality of Shriram Transport Finance Company Limited**

Shriram Transport Finance Company Limited	
Particulars	Amount
BSE Code:511218	CMP(July 18): Rs.1264.50
Net Sales	12213.66
% Change	12.79%
Operating Profit	7640.56
% Change	6.93%
Net Profit	1568.02
% Change	24.71
Equity	226.91
EPS	69.11
FV	10.00
Year Average P/E	28.41
Dividend Yield (%)	0.71
Book Value(Rs)	554.13

**Interpretation:**

From this table, it is quite evident that EPS Rs.69.11 but P/E Multiple is 28.41 times. Intrinsic price (EPS X Year Average P/E) works out to Rs.1963.42. But Actual Price (July 18) is just Rs.1264.50. This stock has got potential and it is likely to increase by around Rs.700.

**III. Conclusion**

We believe that the event with respect to SVL could be a one-off event and one should not be too worried about credit issues with names such as STFC. Post the recent correction (about 22 per cent in three months) and even factoring the potential adverse impact of STFC honouring the NCD payments of SVL Ltd, we see the company attractively priced and also considering the stronger CVs volume, macroeconomic recovery, improving rural market and lower credit cost, Actual price level is much lower than intrinsic price level; therefore it is recommended our reader-investors to **BUY** the stock.

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