

Shriram Transport Finance Company Limited

ICRA has withdrawn the rating of [ICRA]AA (pronounced ICRA double A) assigned to the Rs. 50 crore subordinated debt programme of Shriram Transport Finance Company Limited (STFC). There is no amount outstanding against the rated instrument as the company had never issued the instruments. ICRA also has rating of MAA+ (pronounced M double A plus) (Stable outlook) outstanding on the fixed deposit programme of STFC.

The rating, at the current level, takes into account STFC's dominant market position, long track record and its strong customer outreach and competitive position in the pre-owned CV financing market. The rating also factors in STFC's comfortable capitalization levels, its favorable liquidity profile, improvement in the company's delinquency profile and proven ability to maintain a favorable earning profile by managing asset quality across business cycles despite operating in the riskier small road transporter operator segment. These positives however get offset to an extent by the concentration of STFC's portfolio in the CV segment, which exposes it to industry specific risks, and the resultant lack of diversity in its revenue streams. ICRA also notes that STFC's incremental credit cost has increased because of deterioration in reported asset quality indicators, following the merger of Shriram Equipment Finance Company Limited (SEFC) and the migration to 150+dpd NPA recognition norms during Q4 FY2016. Going forward, the company's ability to maintain its asset quality, especially in the current operating environment post demonetization will remain a key rating monitorable.

During FY2016, STFC's managed book witnessed a growth of ~23% to Rs. 72,761 crore as on March 31, 2016 (Rs. 59,108 crore as on March 31, 2015) driven by a sharp growth in the new CV segment and the merger of SEFC with STFC during Q4 FY2016. AUM stood at Rs. 75,323 crore as on September 30, 2016. Used vehicles, nevertheless formed ~90% of the total assets under management (AUM) as on September 30, 2016. STFC's reported gross NPAs were relatively high at 6.18% as on March 31, 2016 (3.80%¹ as on March 31, 2015) on account of the high delinquencies in the equipment financing business and transition to 150+ dpd NPA recognition. Net NPA was reported at 1.91% as on March 31, 2016 (0.79% as on March 2015). Gross and Net NPA continued to remain elevated at 6.58% and 2.04% as on September 30, 2016. The company's earnings at an operating level remain comfortable with Net Interest Margins² (NIMs) improving during FY2016 to 6.86% from 5.64% during FY2015. The cost to income ratio witnessed slight increase to ~24% during FY2016 from ~23% during FY2015. Also, because of the deterioration in reported asset quality indicators during the year, the credit costs increased. Provisions and write-offs increased to 3.23% of ATA during FY2016 as compared to 2.37% of ATA during FY2015. With increase in credit costs outpacing operating profit growth, the profitability of the company deteriorated with RoA declining to 1.85% during FY2016 vis-à-vis 2.28% during FY2015. During H1 FY2017, the company reported a net profit of Rs. 762 crore on a total income of Rs. 5,401 crore. STFC remains comfortably capitalized for its current scale of operations and medium term growth plans with a capital adequacy ratio of 17.44% (Tier 1 ratio of 15.28%) as on September 30, 2016.

About the company

STFC was incorporated in 1979 and is a part of the Shriram group of companies. The company is a deposit accepting asset financing non-banking financial company. STFC provides financing for vehicles such as CVs (both pre-owned and new), tractors, and passenger vehicles and is the market leader in used-CV financing. It has a pan-India presence, with 853 branches and 803 rural centers as on March 31, 2016. STFC is also engaged in construction equipment financing business through its erstwhile wholly owned subsidiary, Shriram Equipment Finance Company that was merged with STFC with effect from 1st April 2015.

During FY2016, STFC reported a net profit of Rs. 1,178.20 crore on a total income base of Rs. 10,245.26 crore as compared to a net profit of Rs. 1,237.81 crore as a total income base of Rs. 8,644.72 crore during FY2015. During H1 FY2017, STFC reported a net profit of Rs. 762 crore on a total income base of Rs. 5,401 crore.

December 2016

¹ Excluding equipment financing book and based on 180+dpd NPA recognition norms

² As per ICRA's calculations



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