

NCD Issue Note
Shriram Transport Finance Company Ltd

Issuer	Shriram Transport Finance Company Ltd
Issue	Public Issue of NCDs aggregating to Rs.500 crs with an option to retain oversubscription upto Rs.500 crs for issuance of additional NCDs.
Recommendation	SUBSCRIBE
Acceptance	ON FIRST COME FIRST SERVE BASIS
Issue Date	27 th June 2011 – 9 th July 2011
Book Running Lead Manager	JM Financial, ICICI Securities
Co Lead Managers	RR Investors Capital Services, Karvy
Registrar	Integrated Enterprises Ltd
Stock exchange proposed for listing	NSE
Trading lot	1 NCD
Depositories	NSDL and CDSL
Rating	AA/Stable by CRISIL and CARE AA+ by CARE
Sector	NBFC

Details of the issue

NCD Options	I	II
Tenor (in months)	60	36
Put/Call option (in months)	48	N/A
Interest payment	Annual	Annual
Minimum Application	Rs 10,000	Rs 10,000
In Multiples of	Rs 1,000	Rs 1,000
Face Value of NCDs (Rs/NCD)	Rs 1,000	Rs 1,000
Individuals with application upto Rs 5 lakhs (40% of issue size)		
Coupon	11.60%	11.35%
Effective yield	11.60%	11.35%
Individuals with application above Rs 5 lakhs (40% of issue size)		
Coupon	11.35%	11.10%
Effective yield	11.35%	11.10%
Others- Corporate and QIBs (20% of issue size)		
Coupon	11.10%	11.00%
Effective yield	11.10%	11.00%

Company data, Nirmal Bang Research

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Background

Shriram Transport Finance Company Ltd (STFC) is one of the largest asset financing NBFCs in India incorporated in 1979. Primarily engaged in financing Commercial Vehicles purchases of small truck owners and first time users, STFC commands 8–10% market share in new CV finance and ~25% share in the pre-owned CV space. STFC is a part of the "SHRIRAM" conglomerate which has significant presence in financial services like commercial vehicle financing business, consumer finance, life and general insurance, distribution of financial products such as life and general insurance products and units of mutual funds. In addition to this, the STFC is also present in non-financial services business such as property development, engineering projects and information technology.

As on March 31, 2011 STFC has 488 branches and 16,919 employees. The assets under management have grown at a CAGR of 31.5% from Rs. 12,092.8 crs in FY07 to Rs. 36182.6 crs in FY11. The company enjoys one of the best NIMs (10.6% in FY11) in the financial services space due to its presence in less-penetrated and therefore higher-yielding segments. With robust credit appraisal mechanisms and effective monitoring of collections, STFC has historically maintained its loan loss below 2% of its asset base. Consequently, ROE has been maintained at 25–30%.

Objects of the Issue

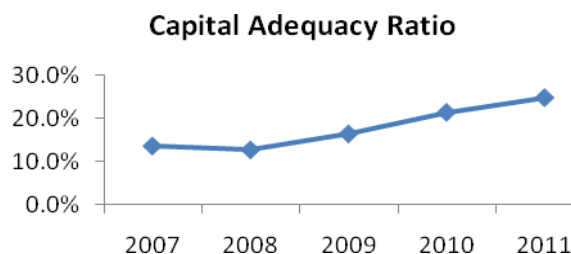
The funds raised will be used for various financing activities including lending and investments, to repay existing loans and for business operations and working capital requirement.

✓ **CARE and CRISIL Rating**

The long term debt instruments of the company enjoy ratings of CARE AA+ from CARE, AA/Stable from CRISIL and AA from Fitch. Short term debt instruments have ratings of F1+ from FITCH and P1+ from CRISIL. The proposed NCD issues have been rated AA/Stable by CRISIL which indicates high safety for timely payment of interest and principal on the NCDs. CARE has given rating of AA+ which indicates high safety for timely servicing of debt obligations.

✓ **Capital Adequacy**

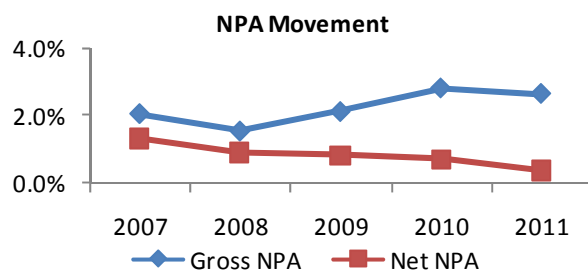
The capital adequacy ratio of STFC in FY11 is 24.85% as compared to RBI requirements of 12% indicating a healthy liquidity position. Tier I ratio stood at 16.65% in FY11.



Company data, Nirmal Bang Research

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✓ Asset quality

STFC has maintained robust asset quality across several business cycles, marked by average credit losses of less than 2%. Gross NPAs stood at 2.4% and Net NPAs stood at 0.4% in FY11.



Company data, Nirmal Bang Research

✓ Debt to equity ratio

The debt-equity ratio prior to this Issue is 4.16 times which is based on a total outstanding consolidated debt of Rs 20181.7 crs and consolidated shareholder funds amounting to Rs 4856.41 crs as on March 31, 2011. The debt equity ratio post the Issue, (assuming subscription of NCDs aggregating to Rs 1000 crs) would be 4.36 times.

Recommendation:

We believe that the NCD from Shriram Transport Finance Company Limited (STFC), which is one of the largest NBFCs in India, is a good investment opportunity for investors as the returns are higher as compared to bank fixed deposits. The interest rate of 11%-11.6%, offered by this issue is higher than the rates offered by the commercial banks on their fixed deposits. The CARE AA+ rated issue along with the creditworthiness of the issue and liquidity provided are some of the advantages which come with the issue. Moreover, as compared to the recently listed NCDs of SBI Capital and Tata Capital Yield to Maturity (YTM) on STFC NCDs is much higher.

	SBI	Tata Cap	Shriram Transport
Rating	AAA/ Stable by CRISIL and CARE AAA by CARE	AA+ by CARE and LAA+ by ICRA	AA/Stable by CRISIL and CARE AA+ by CARE
Coupon Rate	9.75%	12.00%	11.60%
Principle amount /Face Value	10,000	1,000	1,000
Maturity	10 years	5 years	5 years
Redemption date	March 2021	March 2014	July 2016
Current price	10440	1080	N/A
Yield	9.43%	9.99%	11.60%

Company data, Nirmal Bang Research

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Key Concerns

- Change in interest rates**
 Increasing rates of interest, resulting from higher inflation are likely to have a negative effect on the price of the NCDs.
- Change in regulatory environment**
 As per RBI, buying the securitized portfolio from NBFCs will not be considered as priority sector lending. This will have a negative impact on the NBFCs to the extent to which they derive income from securitization.
- Lack of liquidity**
 Though NCDs are listed on the stock exchange, there is a problem of liquidity in the markets.

Rs. In crs.	FY 2007A	FY 2008A	FY 2009A	FY 2010A	FY 2011A
Interest income	1,403	2,452	3,658	4,399	5,230
Interest expended	738	1,297	1,978	2,247	2,272
Net interest income	665	1155	1680	2152	2958
Other income	18	56	72	97	200
Total income	683	1211	1752	2249	3158
Total operating expenses	221	360	527	518	754
Profit before provisioning	462	851	1225	1731	2404
Provisions and contingencies	173	245	305	407	555
Profit before tax	289	606	921	1325	1849
Tax	99	216	308	451	619
Profit after tax	190	390	612	873	1230

(Source: Company & Nirmal Bang Research)

Rs. In crs.	FY 2007A	FY 2008A	FY 2009A	FY 2010A	FY 2011A
Fixed and intangible assets	167	143	134	46	38
Investments	225	1,385	655	1,856	3,651
Deferred tax assets (net)	0	0	26	75	154
Current assets, loans and advances	10,239	16,562	23,789	22,567	23,549
Other loans and advances	205	177	394	2,392	4,180
Total assets	10,835	18,267	24,998	26,936	31,571
Secured Loans	6,300	11,545	16,775	15,172	14,869
Unsecured Loans	2,395	3,228	3,347	3,287	5,012
Deferred tax liabilities	87	36	0	0	0
Current liabilities and provisions	967	1,642	2,560	4,670	6,822
Net worth	1,086	1,816	2,317	3,805	4,867
Total liabilities and equity	10,835	18,267	24,998	26,936	31,571

Source: Company & Nirmal Bang Research

NOTE

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