Shriram City Union Finance

BUY

INDUSTRY	NBFCs
CMP *(as on 26 Jul 2018)*	Rs 1,919
Target Price	Rs 2,254
Nifty	11,167
Sensex	36,985
KEY STOCK DATA	
Bloomberg	SCUF IN
No. of Shares (mn)	66
MCap (Rs bn) / ($ mn)	126/1,832
6m avg traded value (Rs mn)	63

STOCK PERFORMANCE (%)

52 Week high / low: Rs 2,454/1,801

	3M	6M	12M
Absolute (%)	(20.6)	(6.7)	(16.2)
Relative (%)	(27.2)	(9.3)	(30.5)

SHAREHOLDING PATTERN (%)

Promoters	33.76
FIs & Local MFs	5.82
FPIs	31.06
Public & Others	29.34

Source : BSE

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Steady quarter

As expected, SCUF delivered a steady set of numbers with sustained business momentum (AUM up ~21% YoY), a bounce back in NIMs (13.2%, +110bps QoQ) and a dip in provisions (-48% QoQ). Further, SCUF persisted with a higher PCR (~62%), an added positive. Though new disclosures under the ECL model (probability of default and loss given default) restrict our interpretation, asset quality was largely stable and G/NNPAs grew ~5% sequentially.

We believe SCUF is in a sweet spot with a sizeable skew towards SME lending given the governments focus on this segment. Geographical expansion (~68% of branches in south) and deeper penetration will provide a further fillip to growth. We expect RoAA to improve 56bps over FY18-20E (3.04%) as efficiencies kick in. We factor in elevated provision (373bps over FY18-20E) and refrain from reinstating our previous multiple of 2.5x given the ambiguity around the SVL exposure (Rs 4.5bn). Maintain BUY with TP of Rs 2,254 (2.25x Mar-20E ABV of Rs 1,102).

Highlights of the quarter

- Asset quality was stable with GNPAs at (Rs 25.8bn; 8.9%) and NNPAs at Rs 9.8bn i.e. 3.4%. As expected, PCR was maintained at ~62%. GNPAs in SME, 2W and gold loans saw a sequential drop. The mgt clarified that the exposure to SVL remains as a standard asset in SCUF's books. While the management expects some moderation over FY19, we have conservatively factored in GNPAs of ~8.7/8.1% over FY19/20E.
- Robust AUM growth (~20/5% YoY/QoQ) continued largely driven by a ramp up in PL (+37% YoY), and 2W (+27%). SME loans (57.1% of AUM) also grew ~26% YoY. Gold loans continue to shed share (11.8% vs. 12.3% QoQ). The mgt expects to meet their AUM growth target of 18-20% for FY19 as opportunities in SME open up and PL cross-sell gains traction. We have factored in an AUM growth of 20% over FY18-20E.
- **Near term outlook:** While the earnings were in line we believe the street will look for greater clarity on asset quality under the Ind AS regime.

FINANCIAL SUMMARY

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18*	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Interest Income	9,377	8,234	*13.9*	8,118	*15.5*	27,479	32,961	37,768	43,860
PPOP	5,685	5,041	*12.8*	4,877	*16.6*	17,643	20,715	24,876	29,279
PAT (Incl. OCI)	2,283	2,005	*13.8*	470	*385.4*	5,562	6,647	8,890	11,412
EPS (Rs)	34.6	30.4	*13.8*	7.1	*385.4*	84.4	100.8	134.8	173.0
ROAE (%)						11.6	12.5	15.0	16.8
ROAA (%)						2.45	2.48	2.80	3.04
Adj. BVPS (Rs)						700	702	845	1,002
P/ABV (x)						2.74	2.74	2.27	1.92
P/E (x)						22.8	19.0	14.2	11.1

Source: Company, HDFC sec Inst Research; Note 4QFY18 is as per IGAAP

- Disbursements (Rs 64bn) grew ~11% YoY (albeit down ~3% QoQ). However, ex-gold loan, overall disbursals grew ~23% YoY. SME, PL and 2W registered strong growth of ~21%, ~45% and 24% YoY while auto loans disbursals dipped 9/14% YoY/QoQ. **While gold loan disbursals may stabilize at these levels, the SME and PL businesses will be key growth drivers going forward.**

- As the uptrend in macros continues, SCUF will be a key beneficiary given its skew to the SME segment and implementation of new systems to enhance productivity. **We have factored in a ~19% AUM CAGR over FY18-20E**

- Calc. NIMs bounced back to ~13.2% (+110bps) as yields jumped ~120bps to ~19.7% (down 100bps YoY). The jump in NIMs can partially be attributed to lower interest reversals as SCUF shifted to tighter recognition norms (from 120 to 90DPD) in 4Q. While the management expects a slight compression in yields over FY19 (50-60bps), any major fall will be cushioned my adjusting yields in certain geographies and products. With intensifying competition, declining yields and uptick in CoF (47% of borrowings at semi-variable rates), we expect NIMs to compress. We have factored in NIMs of 12.4% over FY18-20E.

- Opex growth of ~16/14% YoY/QoQ was primarily driven by the spike in staff costs (+29/12% YoY/QoQ) and 19% rise in other opex. Despite shedding 550 employees (from the additional bench strength of 1500 created in previous quarters), employee costs saw a spike owing to year-end bonuses and pay hikes. However the mgt is confident of rationalizing these costs as overall efficiency improves. **We have factored in a C-I ratio of 37.5/36.9% over in FY19/20E.**

- After the spike in 4Q (owing to the shift to 90DPD), overall provisioning dipped ~48% sequentially. Actual provisions were significantly lower (~15%) than our estimates as we had factored in additional provisioning on the exposure to SVL. However, the mgt stated that SVL was currently a standard asset and did not attract higher provisions. While the mgt stands by their credit cost guidance of 275-300bps for FY19, they expect some variability due to the ECL model. **We have factored in credit costs of 373bps over FY18-20E**

Five Quarters At A Glance

(Rs mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY Growth	QoQ Growth
Net Interest Income	8,234	8,725	9,157	8,118	9,377	13.9%	15.5%
Non-interest Income	16	4	152	10	17	8.2%	70.3%
Operating Income	8,250	8,728	9,308	8,128	9,394	13.9%	15.6%
Operating Expenses	3,209	3,316	3,859	3,251	3,709	15.6%	14.1%
Pre-provision Profits	5,041	5,412	5,449	4,877	5,685	12.8%	16.6%
Provisions And Contingencies	1,968	2,372	2,046	4,122	2,154	9.5%	-47.7%
PBT	3,073	3,041	3,404	756	3,532	14.9%	367.4%
Provision for Tax	1,072	1,058	1,148	285	1,236	15.2%	333.1%
PAT	2,001	1,983	2,255	470	2,296	14.8%	388.3%
OCI	4	-	-	-	(13)	-402.3%	NA
PAT Incl. OCI	2,005	1,983	2,255	470	2,283	13.8%	385.4%
Balance Sheet items							
AUM (Rs bn)	242.3	249.0	260.8	277.3	291.9	20.5%	5.3%
Two Wheeler (%)	*17.2*	*16.8*	*18.3*	*18.3*	*18.1*	*94 bps*	*-18 bps*
Auto Loans (%)	*6.0*	*5.8*	*5.5*	*5.3*	*5.0*	*-108 bps*	*-36 bps*
Personal Loans (%)	*7.0*	*7.3*	*7.5*	*7.9*	*8.0*	*98 bps*	*17 bps*
Small Enterprises Finance (%)	*54.6*	*55.4*	*55.4*	*56.3*	*57.1*	*251 bps*	*75 bps*
Loan Against Gold (%)	*15.2*	*14.6*	*13.3*	*12.2*	*11.8*	*-336 bps*	*-38 bps*
Disbursements (Rs bn)	58.0	61.4	63.5	66.3	64.1	10.5%	-3.4%
Two Wheeler (%)	*17.8*	*17.3*	*25.8*	*20.0*	*20.0*	*225 bps*	*3 bps*
Auto Loans (%)	*3.7*	*3.5*	*3.4*	*3.4*	*3.0*	*-64 bps*	*-39 bps*
Personal Loans (%)	*7.2*	*7.5*	*7.6*	*8.5*	*9.4*	*225 bps*	*91 bps*
Small Enterprises Finance (%)	*40.2*	*41.0*	*37.9*	*46.6*	*44.2*	*398 bps*	*-248 bps*
Loan Against Gold (%)	*31.2*	*30.8*	*25.3*	*21.4*	*23.3*	*-786 bps*	*190 bps*
CRAR (%)	23.4	23.2	22.8	21.4	21.0	-239 bps	-39 bps
Tier-I (%)	21.9	21.9	21.6	20.6	20.3	-158 bps	-27 bps
Profitability							
Yield on Advances (%)	20.7	20.9	21.0	18.5	19.7	-103 bps	122 bps
Cost of Funds (%)	9.4	9.3	9.1	8.7	8.8	-54 bps	11 bps
Spreads	11.4	11.7	11.9	9.8	10.9	-49 bps	111 bps
NIM (%)	13.9	14.2	14.4	12.1	13.2	-73 bps	111 bps
Cost-Income ratio (%)	38.9	38.0	41.5	40.0	39.5	58 bps	-52 bps
Tax rate (%)	34.9	34.8	33.7	37.8	35.0	10 bps	-277 bps
Asset quality							
Gross NPA (Rs mn)	16,054	17,060	17,565	24,637	24,637	25,982	61.8%
Net NPA (Rs mn)	4,213	4,507	4,571	9,379	9,379	9,926	135.6%
Gross NPAs (%)	6.76	6.91	6.77	9.00	8.90	214 bps	-10 bps
Net NPAs (%)	1.80	1.85	1.76	3.43	3.40	160 bps	-3 bps
Coverage Ratio (%)	73.76	73.58	73.98	61.93	61.93	61.80	-1196 bps

Note 2QFY18, 3QFY18 and 4QFY18 is as per IGAAP

In line with estimates driven by robust AUM growth of ~20/5% YoY/QoQ and a sequential NIM improvement

Spike in opex was led by employee cost, up 29/12% YoY/QoQ.

Provisions dived ~48% QoQ owing as 4Q included additional provisioning for the shift to 90DPD; SCUF now provides on the basis of the expected credit loss model under IND AS

Strong growth in core segments i.e. SME (+26/7% YoY/QoQ) and PL (Rs +37/8% YoY/QoQ). Gold loans (+2% QoQ) and Auto Loans (-2% QoQ) were muted sequentially.

Except PL (+7%) and gold loans (+5%), disbursal growth was hit sequentially. Auto loans (-14%), SME (-6%) and 2W (-3%) were all down sequentially

Though CoF jumped 11bps sequentially, NIMs improved 111bps QoQ owing to the spike (122bps QoQ) in yields

Stable asset quality, with a decline in SME GNPAs (9.7%,-20bps) and Gold Loans (1.7%, -85bps). GNPA in PL jumped ~20bps QoQ to 10.8%.

AUM grew ~21/5% YoY/QoQ led by healthy growth in SME (+26/7% YoY/QoQ) and PL (+37/8% YoY/QoQ)

Auto loans dipped ~2% QoQ

Sequentially, share of 2W, auto loans and gold loans dipped by ~18/36/38bps respectively. PL and SME share jumped 17/75bps sequentially.

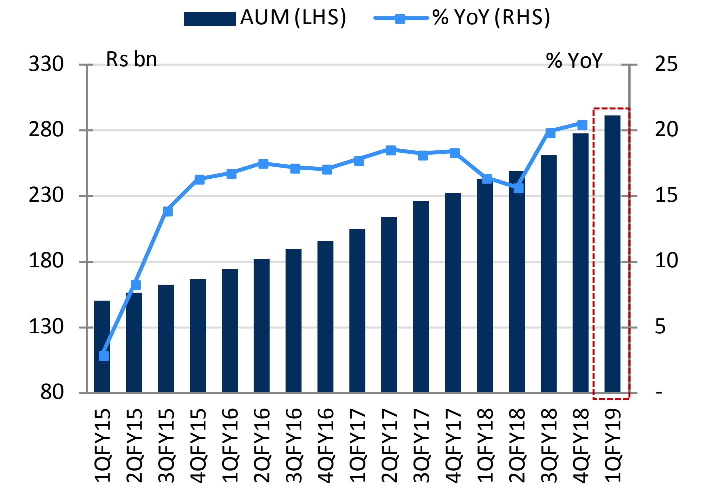
The mgt has maintained their guidance of AUM growth of 18-20% for FY18-20E

Disbursements were muted sequentially, with drop in auto (-14%), SME (-9%) and 2W (-3%)

PL and gold loan disbursals jumped 7/5% sequentially.

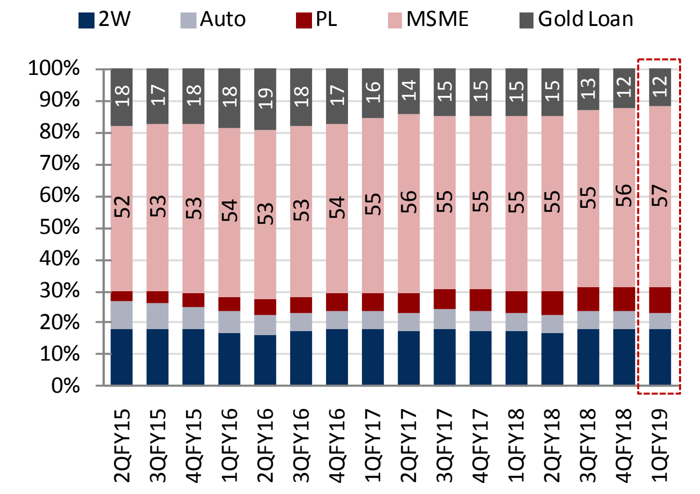
We have factored in disbursements growth of 14% CAGR over FY18-20E

AUM: Growth at 21/5% YoY/QoQ



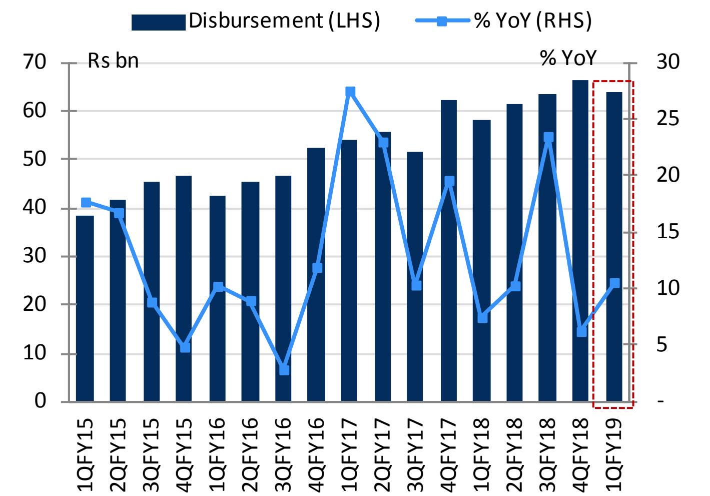
Source: Company

AUM Mix: Reduction In 2W, Auto and Gold Share



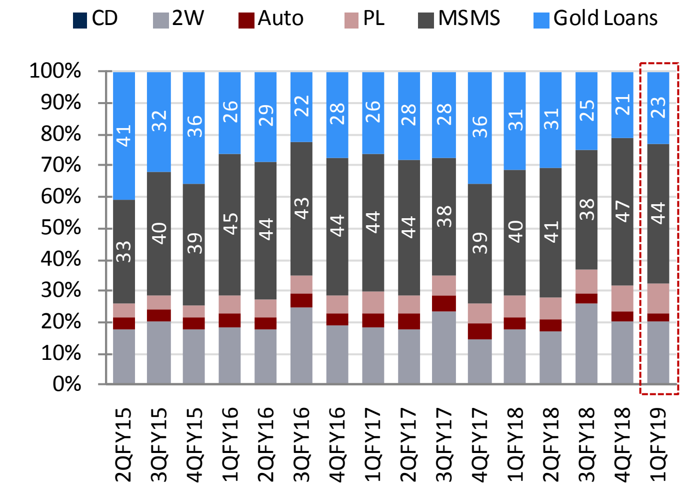
Source: Company

Disbursement Growth Muted At ~-3% QoQ



Source: Company

Disbursement Mix: SME Share Dipped to ~44%



Source: Company

The share of AUM in the south continued to srop and now stands at ~67%

NIMs jumped 111bps to ~13.2% as yields improved ~122bps QoQ

The mgt foresees a NIM compression of 50-60bps for FY19

We have moderated NIM our estimates to ~12.4% over FY18-20E, given the spike in CoF and some pressure on yields

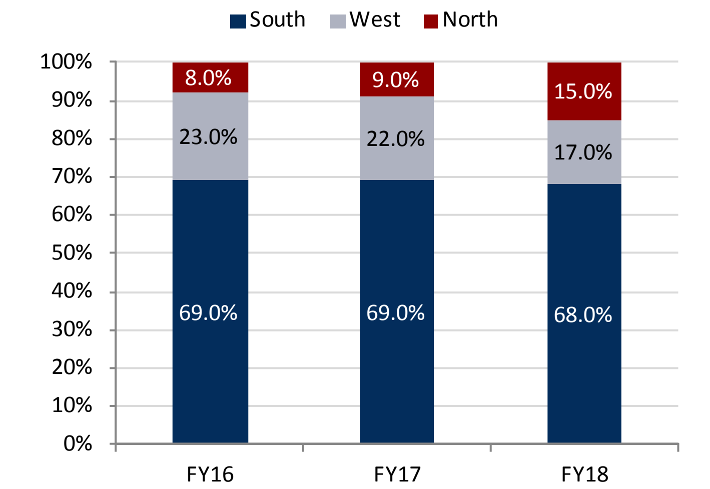
The sequential jump in staff costs was largely owing to year-end bonus and salary hikes

From additional bench strength of 1500, SCUF shed 550 employees

The mgt has stated that SCUF will not open any new branches this year and focus on improving productivity

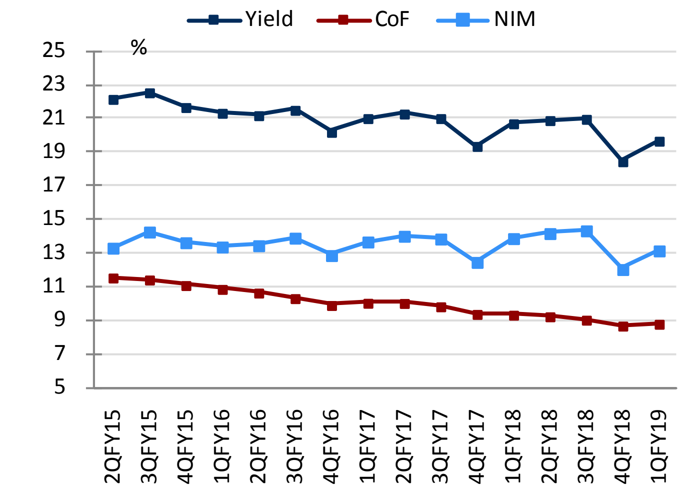
The C-I ratio dipped 50bps sequentially to ~39.5%

Region Wise AUM Mix



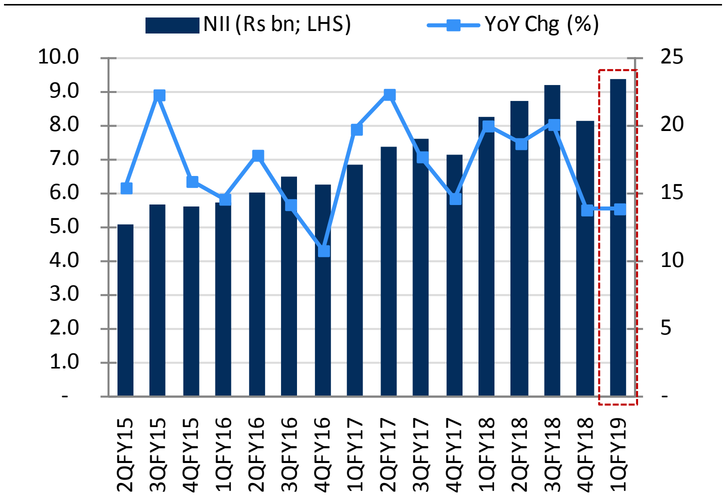
Source: Company

NIM Jumped 111bps QoQ



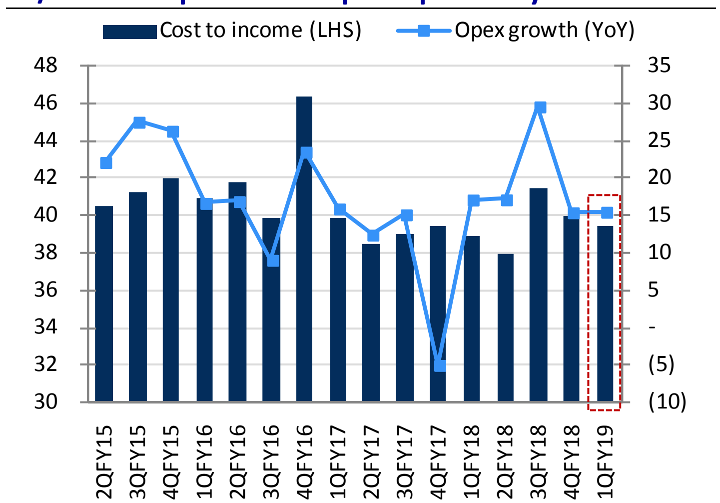
Source: Company

NII Growth In Line With Estimates



Source : Company

C/I Ratio Improves ~50bps Sequentially



Source : Company

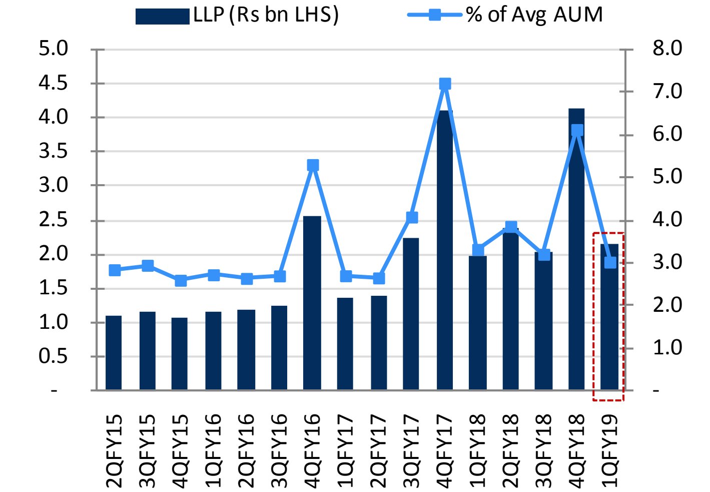
SCUF has shifted to reporting under the ECL(expected credit loss) model as peer IND AS

Asset quality was largely stable with a decline in SME GNPAs (9.7%,-20bps) and Gold Loans (1.7%, -85bps).

GNPA in PL jumped ~20bps QoQ to 10.8%.

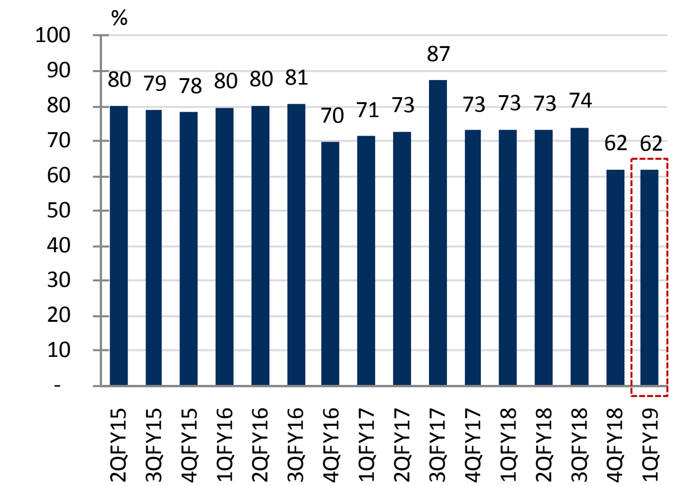
The mgt maintains their credit cost guidance of 275-300bps for FY19

LLP Jumped QoQ To 6.2% vs. 3.2% QoQ



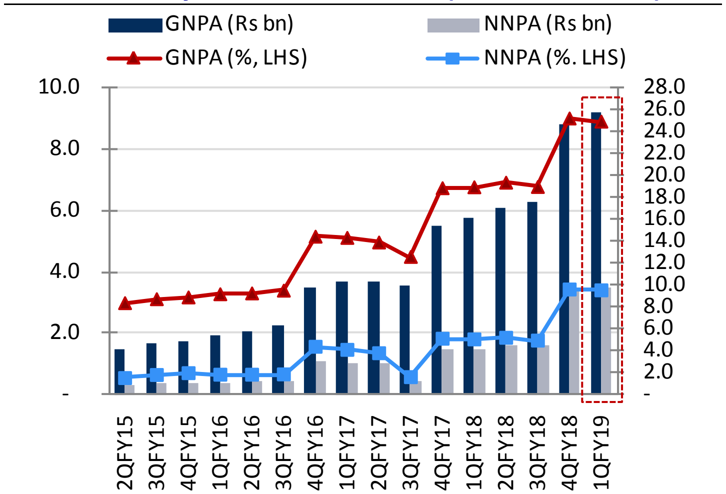
Source : Company

PCR Decreased Significantly To 61.9%



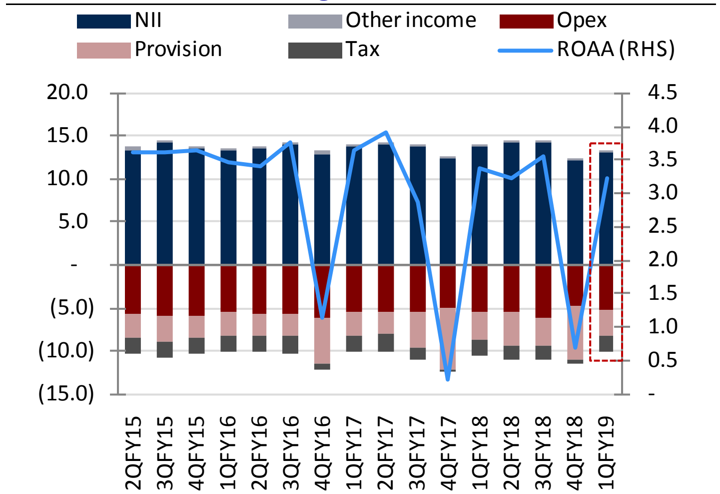
Source : Company

Asset Quality Deteriorates QoQ (Shift To 90DPD)



Source : Company

RoAA Down Due To Higher Provisions



Source : Company, calculated on avg. AUM

Change In Estimates

Rs mn	FY19E			FY20E		
	Old	New	*Change*	Old	New	*Change*
NII	38,140	37,768	*-1.0%*	44,276	43,860	*-0.9%*
PPOP	24,947	24,876	*-0.3%*	29,344	29,279	*-0.2%*
PAT	8,802	8,890	*1.0%*	11,314	11,412	*0.9%*
Adj. BVPS (Rs)	849	845	*-0.5%*	1,011	1,001.9	*-0.9%*

Source: HDFC sec Inst Research

Asset Quality: Key Assumptions Under IND AS

	Probability of Default			Loss Given Default			Expected Credit Loss (Rs mn)		
	1QFY18	4QFY18	1QFY19	1QFY18	4QFY18	1QFY19	1QFY18	4QFY18	1QFY19
SME	2.84%	4.03%	4.03%	57.15%	51.34%	49.29%	10,130	12,550	13,510
Two Wheelers	4.69%	5.92%	5.92%	46.49%	50.55%	46.28%	2,820	4,530	4,220
Auto Loans	4.95%	5.92%	5.92%	49.91%	52.37%	51.84%	1,440	1,480	1,440
Personal Loans	5.66%	6.48%	6.48%	57.06%	51.58%	46.13%	1,810	2,170	2,100
Loan against Gold	2.43%	2.45%	2.45%	3.51%	8.12%	3.61%	130	140	50
TOTAL	**3.42%**	**4.46%**	**4.46%**	**46.66%**	**46.02%**	**43.39%**	**16,330**	**20,870**	**21,320**

Source: Company, HDFC sec Inst Research

Peer Set Comparison

NBFC	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
SHTF	320	1,410	BUY	1,679	460	556	672	20.4	13.6	11.2	3.06	2.54	2.10	13.1	17.3	18.3	1.93	2.48	2.60
MMFS #	315	513	BUY	590	119	142	163	34.1	21.0	17.8	4.14	3.48	3.03	11.3	14.8	15.7	1.78	2.45	2.44
LICHF	265	525	BUY	636	237	275	318	13.3	11.2	9.4	2.21	1.91	1.65	16.7	17.4	17.8	1.23	1.29	1.33
CIFC	241	1,539	BUY	1,767	284	353	442	24.7	19.4	15.8	5.42	4.36	3.48	20.6	21.8	22.1	2.77	2.85	2.92
SCUF	**127**	**1,919**	**BUY**	**2,254**	**702**	**845**	**1,002**	**19.0**	**14.2**	**11.1**	**2.74**	**2.27**	**1.92**	**12.5**	**15.0**	**16.8**	**2.48**	**2.80**	**3.04**
REPCO	39	623	BUY	683	192	232	273	18.9	15.7	13.6	3.24	2.69	2.28	16.7	17.3	17.0	2.17	2.30	2.25

Source: Company, HDFC sec Inst Research; # Adjusted for Subsidiaries

Income Statement

(Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Interest Earned	21.77	21.22	19.95	14.58	16.13
Interest Expended	36,504	42,823	49,638	58,644	69,235
Net Interest Income	13,835	15,344	16,677	20,877	25,375
Other Income	**22,669**	**27,479**	**32,961**	**37,768**	**43,860**
Total Income	2,057	1,524	1,378	2,002	2,556
Total Operating Exp	**24,726**	**29,003**	**34,339**	**39,770**	**46,416**
PPOP	10,494	11,359	13,624	14,894	17,137
Provisions	**14,232**	**17,643**	**20,715**	**24,876**	**29,279**
PBT	6,163	9,105	10,537	11,345	11,910
Provisions For Tax	**8,068**	**8,538**	**10,178**	**13,531**	**17,369**
PAT	**2,771**	**2,976**	**3,531**	**4,641**	**5,958**

Source: Bank, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	659	659	660	660	660
Reserves And Surplus	45,254	49,625	55,004	62,503	72,129
Shareholders' Funds	**45,914**	**50,284**	**55,664**	**63,162**	**72,788**
Total Borrowings	149,957	179,392	214,179	261,820	310,513
Other Liabilities & Prov.	12,674	15,689	19,843	20,762	21,094
Total Liabilities	**208,544**	**245,365**	**289,686**	**345,745**	**404,395**
APPLICATION OF FUNDS					
Advances	191,406	229,614	274,869	332,842	392,129
Investments	7,923	7,145	7,280	7,410	7,410
Fixed Assets	849	782	789	828	870
Other Assets	8,366	7,824	6,746	4,665	3,987
Total Assets	**208,544**	**245,365**	**289,684**	**345,745**	**404,395**

Source: Bank, HDFC sec Inst Research

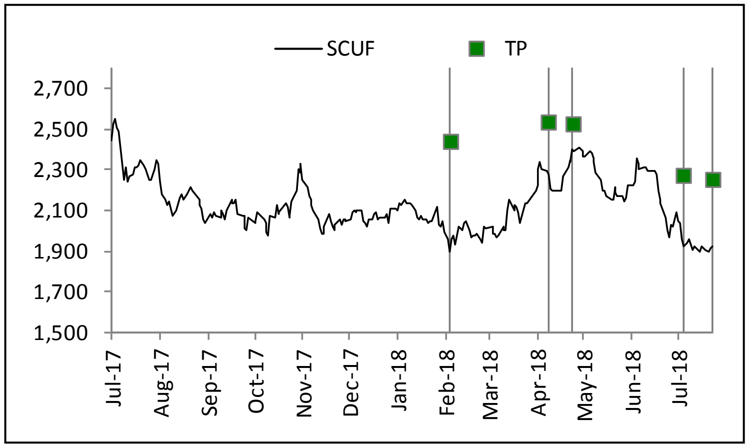
Key Ratios

	FY16	FY17	FY18P	FY19E	FY20E
VALUATION RATIOS					
EPS (Rs)	80.4	84.4	100.8	134.8	173.0
Earnings Growth (%)	(5.1)	5.0	19.5	33.7	28.4
BVPS (Rs)	696.4	762.6	843.8	957.4	1,103.4
Adj. BVPS (100% cover) (Rs)	651.4	700.4	701.6	845.1	1,001.9
ROAA (%)	2.7	2.5	2.5	2.8	3.04
ROAE (%)	12.2	11.6	12.5	15.0	16.8
P/E (x)	23.9	22.8	19.0	14.2	11.1
P/ABV (x)	2.95	2.74	2.74	2.27	1.92
P/PPOP (x)	8.9	7.2	6.1	5.1	4.3
Dividend Yield (%)	0.4	0.7	0.9	1.1	1.4
PROFITABILITY					
Yield On AUM (%)	20.84	20.34	19.68	19.30	19.10
Cost Of Funds (%)	10.08	9.76	8.90	9.20	9.30
Core Spread (%)	10.76	10.58	10.78	10.10	9.80
NIM (%)	12.85	13.11	13.14	12.48	12.15
OPERATING EFFICIENCY					
Cost/Avg. Asset Ratio (%)	5.4	5.0	5.1	4.7	4.6
Cost-Income Ratio (%)	42.4	39.2	39.7	37.5	36.9
BALANCE SHEET STRUCTURE RATIOS					
AUM Growth (%)	20.45	19.96	19.71	21.09	17.81
Borrowings Growth (%)	14.89	19.63	19.39	22.24	18.60
Equity/Assets (%)	22.0	20.5	19.2	18.3	18.0
Equity/Loans (%)	24.0	21.9	20.3	19.0	18.6
Total CAR (%)	26.1	23.9	22.0	20.7	20.3
Tier I (%)	23.4	22.3	20.3	19.0	18.6

	FY16	FY17	FY18P	FY19E	FY20E
ASSET QUALITY					
Gross NPLs (Rs mn)	9,801	15,367	24,637	26,905	30,153
Net NPLs (Rs mn)	2,970	4,099	9,379	7,413	6,691
Gross NPLs (%)	5.15	7.34	9.81	8.89	8.36
Net NPLs (%)	1.56	1.92	3.71	2.44	1.85
Coverage Ratio (%)	69.7	73.3	61.9	72.4	77.8
Provision/Avg. Loans (%)	3.52	4.33	4.18	3.73	3.29
RoAA TREE (%)					
Net Interest Income	11.66%	12.11%	12.32%	11.89%	11.69%
Non Interest Income	1.06%	0.67%	0.52%	0.63%	0.68%
Operating Cost	5.40%	5.01%	5.09%	4.69%	4.57%
Provisions	3.17%	4.01%	3.94%	3.57%	3.18%
Tax	1.42%	1.31%	1.32%	1.46%	1.59%
ROAA	2.72%	2.45%	2.48%	2.80%	3.04%
Leverage (x)	4.5	4.7	5.1	5.3	5.5
ROAE	12.19%	11.56%	12.55%	14.96%	16.79%

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
6-Feb-18	1,890	BUY	2,441
10-Apr-18	2,275	BUY	2,536
28-Apr-18	2,395	BUY	2,527
6-Jul-18	1,940	BUY	2,274
27-Jul-18	1,919	BUY	2,254

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:
We, **Darpin Shah, MBA, Pranav Gupta, ACA, & Kaushik Utpat, ACA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.
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