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Shriram City Union Finance Ltd

BUY

Sector: NBFC /Small-Cap | Earnings Update – 4QFY19

29 April 2019

Background: Shriram City Union Finance (SCUF), the retail finance arm of the Shriram Group, offers diversified loan products ranging from low risk (loan against gold) to high risk segments (small business loans and two-wheeler financing). Strong group parentage (three decades expertise in the finance services space) is among the key positives. The company benefits from Shriram Chits' branch infrastructure and existing customers, deriving more than 85% of its business from Shriram Chits' network. Shriram City operates through a wide distribution network of ~969 branches, 600 of them are owned by Shriram City and the rest are shared with group companies.

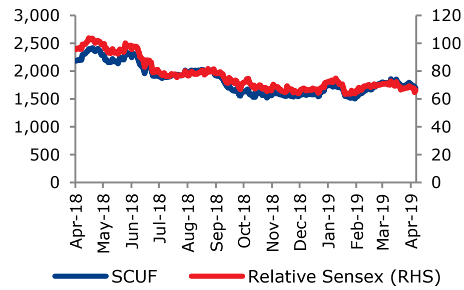
Sensex	39,067
Nifty	11,755
Price	INR 1,725
Target Price	INR 2,000
Recommendation	BUY
52 Week High/Low	INR 2,454/1,634
Bloomberg / Reuters	SCUF IN / SHCU.BO
Equity (shares in mn)	65.99
Mkt. Cap in bn	INR 110.48/ $ 1.58
Avg. Daily Vol. ('000)	19.61
Avg. Daily Vol. (mn)	INR 32.83 /$ 0.47

Shareholding	Mar 18	Dec 18	Mar 19
Promoters (%)	33.76	33.75	33.74
FII (%)	25.36	24.74	25.57
DII (%)	6.01	7.00	6.56
Others (%)	34.87	34.51	34.13
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2019	2020E	2021E
Net Interest Inc	38.0	46.6	55.2
Other Inc	0.0	1.3	1.5
Pre Prov Profit	23.0	29.6	32.7
PAT	9.9	12.4	13.8
EPS	149.6	187.6	208.4
EPS growth (%)	43.6	25.4	11.1
PE	11.5	9.2	8.3
P /ABV	1.8	1.6	1.3
Div Yield (%)	1.3	0.8	0.9
ROA (%)	3.5	3.5	3.5
ROE (%)	16.6	17.1	16.9
CAR (%)	23.1	22.6	22.1

Performance %	1M	3M	12M
SCUF	-4.8	-3.7	-28.1
Sensex	2.4	7.5	12.3



Flat disbursements; credit costs continue to improve

- SCUF's, AUM grew by 7.7% YoY to INR 296bn in 4QFY19 predominantly led by growth in SME (14.8%YoY), 2Ws segment (6.9%YoY), and Other Non-gold loans (4.3%YoY). Consequently the loan mix was noted at SME segment (60%), Two Wheeler (18.2%), Loan against gold (9.2%) and Others (12.6%).
- Overall disbursements remained flat YoY (up 44.3% QoQ) in 4QFY19 at INR 66.1bn, given the higher base in 4QFY18. During the quarter, disbursements were largely seen in SME and in 2W segment, constituting 45% and 20% respectively of the overall disbursements.
- Total Borrowings of the company stood at INR 225.7bn as at 4QFY19, growing at 10.5% YoY. Currently, bank borrowings constitute 59% of the overall borrowings and ~24% comprises of market borrowings. In 4QFY19 the average cost of funds spiked by 57bps YoY to 9.01%.
- The company has INR 10.38bn worth of liquid assets, in the form of FD, current accounts balances and mutual fund investments and INR 16.86bn worth of undrawn credit lines (as on 31st March 2019). Also, the company raised INR 6.97bn through an NCD issue in April 2019.
- Average yield on assets also spiked by 59bps YoY to 19.75%, resulting in a 10bps YoY improvement in overall NIMs. Going ahead, NIMs are expected to remain range bound at the same levels given the stabilization of spike in cost of funds on account of improved liquidity.
- Asset quality improved sequentially, with the Gross Stage-3 (GS-3), equivalent of erstwhile GNPA, down by 22bps QoQ (down 50bps YoY) to 8.91%. In absolute numbers, GS-3 advances remained flat (+0.4%QoQ) and stood at INR 25bn during the quarter. Provisions this quarter were up by 36% QoQ. However, the coverage ratio for GS-3 assets fell to 43.61% from 45.54% in 3QFY19.
- Despite flat growth in disbursements, Net Interest income grew by 9.2% YoY to INR 9.4bn, led by spike in yields. Opex rose by 10.9% YoY, and hence operating profits grew by only 8.1% YoY. Cost to Income ratio also, inched up by 50bps YoY to 38.9%.
- PAT for the quarter stood at INR 2.51bn vs. INR 220mn in 4QFY18, led by decline in provisioning costs (down by 63%YoY).
- Shriram Housing Finance ltd (Subsidiary) saw a 21% YoY de-growth in disbursements, which stood at INR 2.65bn for 4QFY19. Overall AUM was up by 4% YoY and is currently at INR 18.48bn. GNPAs as per Ind-AS fell by 250bps YoY to 2.5%.
- The board recommended a final dividend of INR 16/ share which coupled with the interim dividend of INR 6/share (paid in November 2018), yields 1.3% at CMP.
- Recent news reports speculate that Ajay Piramal of Piramal group holding 20% in Shriram Capital (unlisted) and 10% each in Shriram City Union Finance and Shriram Transport Finance valued at INR 90bn, was in talks with Anand Mahindra and other private equity firms for a stake sale.

Valuation: We expect the return ratios to improve going forward with credit quality expected to be maintained at current levels (aided by uniform underwriting practices) and cut down in opex by employee reduction. However, due to increase in cost of funds, near term pressures remain on NIMs and disbursement growth. The stock is currently trading at 1.3X P/ABV of FY21E. We give the stock a BUY rating with a target price of INR 2,000, assigning a P/ABV of 1.5X on FY21E. **Risks:** Slower ramp up in loan book and any stress in the SME segment might impact earnings.

Results Summary 4QFY19

Y/E March (INR mn)	4QFY19	4QFY18	YoY Growth	3QFY19	QoQ Growth
Net Interest Income	9,380.0	8,590.0	9.2%	9,095.6	3.1%
Other Income	10.0	10.1	-1.0%	4.4	127.3%
Pre Provisioning Profit	5,740.0	5,310.1	8.1%	5,360.0	7.1%
PAT	2,510.0	220.1	1040.4%	2,590.0	-3.1%
Cost / Income (%)	38.9	38.4		40.0	
GS-3 (%)	8.9	9.4		9.1	
Net GS-3 (%)	5.0	5.0		5.0	
Coverage GS-3 (%)	43.6	47.2		45.5	
CAR (%)	23.1	21.4		23.0	

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