

Shriram City Union Finance

Estimate change

TP change

Rating change



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Bloomberg	SCUF IN
Equity Shares (m)	66
M.Cap.(INRb)/(USD)	45.2 / 0.6
52-Week Range (INR)	1748 / 617
1, 6, 12 Rel. Per (%)	-10/-34/-39
12M Avg Val (INR M)	22

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
NII	35.6	34.8	35.3
PPP	22.4	21.8	21.8
PAT	10.0	6.6	7.5
EPS (INR)	152	99	114
EPS Gr. (%)	1	-34	14
BVPS (INR)	1,092	1,185	1,286

Ratios

NIM (%)	12.1	12.1	12.4
C/I ratio (%)	40.3	40.5	41.6
RoA (%)	3.3	2.1	2.4
RoE (%)	14.7	8.7	9.2
Payout (%)	4.8	7.2	10.6

Valuations

P/E (x)	4.4	6.7	5.9
P/BV (x)	0.6	0.6	0.5
Div. Yield (%)	0.9	0.9	1.5

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	33.9	33.9	33.7
DII	6.0	5.9	6.6
FII	27.4	27.4	25.6
Others	32.8	32.8	34.1

FII Includes depository receipts

CMP: INR667
TP: INR850 (+27%)
Buy

Growth remains muted; Asset quality improves

Interest reversal drives PPOP miss; Higher provisions drive PAT miss

- SCUF reported 4QFY20 PAT at INR1.5b (42% miss). The miss was largely on account of NII miss and higher-than-expected credit cost. NII declined 5% YoY to INR8.5b (4% miss) due to interest reversal of INR310m. Total credit costs were INR3.1b (52% higher than estimate).

Disbursements sluggish; AUM declines modestly

- Disbursements declined 18% YoY to INR54b. While there was a strong pickup in auto disbursements (+140% YoY to INR4.9b) due to the introduction of used 2W financing, MSME / personal loan disbursements declined 37%/94% YoY to INR19b/INR430m.
- For the past eight quarters, AUM has been range-bound at INR290–300b.** Over the past one year, the share of MSME financing has declined ~275bp to 57.3%, offset by similar gains in 2W to 20.9%.

Cost of funds stable; Asset quality improves

- The share of securitization in the total borrowings increased from 5% to 16% over the past three quarters.** Cost of funds has stabilized at 9.7–9.8% in the past few quarters.
- During the quarter, SCUF raised INR36.4b, INR11b of which was from NCDs. **The company raised INR3.5b from SIDBI (a special GoI scheme) in June.**
- The GNPL ratio improved ~60bp/100bp QoQ/YoY to 7.9%. This was driven by a 50–80bp improvement in 2W and MSME lending
- Liquidity stood at ~INR21b in March and was at similar levels in May.
- In FY20, SCUF delivered 3.3%/15% RoA/RoE.

Performance of HFC subsidiary continues to improve

- The loan book grew 25% YoY to INR23b. The GNPL ratio improved 30bp QoQ to 2.4%. RoA/RoE improved 6bp/97bp YoY to 1.9%/9.2% in 4QFY20.**

Key concall highlights

- The company disbursed 50k new 2W loans (INR2.7b) and INR2.2b worth of gold loans in May. It would begin MSME loan disbursements in July.
- Collections were at INR5.6b in April (all non-gold, of the total billing of INR16.4b); INR6.89b was reported in non-gold collections + INR3b in gold collections in May (of a billing of INR16.08b).

Valuation and view

Since the IL&FS crisis, the company has faced issues on the liability front, which has led to muted disbursements and loan book growth. The company has increased its securitization program to improve funding. Given the current crisis, we expect the tough situation to continue – we model 40% YoY decline in disbursements. While asset quality has been improving over the past few quarters, the outlook remains uncertain given the vulnerable nature of its customers. **We increase our FY21/FY22 credit costs to 4.5%/4.1%. Hence, our EPS estimates are downgraded by ~25%.** Given the undemanding valuations, we maintain Buy, with TP of INR850 (0.7x FY22E BVPS).

Quarterly Performance												INR m
Y/E MARCH	FY19				FY20				FY19	FY20	4QFY20E	Act v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	13,893	14,721	14,197	13,980	14,503	14,312	14,174	13,988	56,791	56,972	13,865	0.9
Interest expenses	4,640	4,952	5,270	5,012	5,316	5,384	5,296	5,463	19,874	21,402	5,009	9.1
Net Interest Income	9,253	9,769	8,927	8,968	9,187	8,928	8,877	8,524	36,917	35,570	8,856	-3.7
Y-o-Y Growth (%)	12.4	13.1	-2.4	7.3	-0.7	-8.6	-0.6	-4.9	9.6	-3.6	-2.0	
Fees and Other Income	109	437	319	399	441	590	525	514	1,265	1,901	479	7.2
Net Operating Income	9,362	10,206	9,246	9,368	9,628	9,518	9,402	9,038	38,181	37,471	9,336	-3.2
Y-o-Y Growth (%)	13.5	16.6	-3.1	9.0	2.8	-6.7	1.7	-3.5	11.2	-1.9	-0.5	
Operating Expenses	3,677	3,963	3,647	3,628	3,853	3,774	3,675	3,895	14,915	15,084	3,778	3.1
Operating Profit	5,685	6,243	5,599	5,739	5,774	5,744	5,727	5,143	23,267	22,387	5,557	-7.4
Y-o-Y Growth (%)	12.8	17.4	-1.1	8.3	1.6	-8.0	2.3	-10.4	12.3	-3.8	-3.2	
Provisions	2,154	2,506	1,574	1,830	1,933	1,969	1,822	3,114	8,063	8,837	2,046	52.2
Profit before Tax	3,532	3,737	4,025	3,909	3,841	3,775	3,905	2,029	15,203	13,550	3,511	-42.2
Tax Provisions	1,236	1,244	1,438	1,396	1,309	800	937	498	5,314	3,545	862	-42.2
Net Profit	2,296	2,493	2,588	2,513	2,532	2,975	2,968	1,531	9,889	10,005	2,649	-42.2
Y-o-Y Growth (%)	14.8	6.1	1.9	1,041.1	10.3	19.3	14.7	-39.1	48.8	1.2	5.4	
Key Operating Parameters (%)												
Yield on loans (calc., %)	19.6	20.1	19.5	19.2	19.4	19.1	19.1	19.1	20.2	19.7		
Cost of funds (calc., %)	8.6	8.9	9.4	8.9	9.5	9.9	9.8	9.7	9.0	9.4		
Spreads (%)	11.0	11.2	10.2	10.3	9.9	9.2	9.4	9.4	11.2	10.4		
Cost to Income Ratio (%)	39.3	38.8	39.4	38.7	40.0	39.7	39.1	43.1	39.3	40.3		
Credit cost (calc., %)	3.0	3.4	2.2	2.5	2.6	2.6	2.5	4.2	2.7	3.0		
Tax Rate (%)	35.0	33.3	35.7	35.7	34.1	21.2	24.0	24.6	35.0	26.2		
Balance Sheet Parameters												
Disbursements (INR b)	64.1	64.7	45.8	66.1	62.8	52.0	58.2	54.2	240.7	227.1		
Growth (%)	10.5	5.4	-27.9	-0.3	-2.1	-19.6	27.0	-18.1	-3.4	-5.7		
AUM (INR b)	290.4	295.9	286.5	295.8	303.5	297.2	295.5	290.9	295.8	290.9		
Growth (%)	19.9	17.8	9.9	7.3	4.5	0.5	3.1	-1.7	7.3	-1.7		
Repayments (INR b)	49.5	59.2	55.3	56.7	55.1	58.3	60.0	58.8	220.7	232.1		
Rep. rate (annualized, %)	71.8	81.6	74.7	79.2	74.4	76.8	80.7	79.6	80.0	78.5		
Borrowings/AUM ratio (%)	74.6	76.7	78.2	76.3	73.2	72.0	74.6	79.6	76.3	79.6		
Asset Quality Parameters (%)												
Gross Stage 3 (INR b)	28.7	28.0	25.7	25.8	26.5	25.2	24.6	22.6	25.8	22.6		
Gross Stage 3 ratio (%)	9.8	9.5	9.1	8.9	8.9	8.7	8.5	7.9	8.9	7.0		
Net Stage 3 (INR b)	13.5	15.3	14.0	14.5	15.0	14.2	13.9	11.7	14.5	11.7		
Net Stage 3 ratio (%)	5.0	5.6	5.3	5.4	5.4	5.3	5.1	4.4	5.4	4.4		
ECL Stage 3 (INR b)	15.2	12.7	11.7	11.2	11.5	10.9	10.7	11.0	11.2	11.0		
PCR (%)	52.9	45.3	45.5	43.6	43.4	43.5	43.6	48.5	43.6	48.5		
Segmental GS3 ratio (%)												
SME loans	10.1	10.3	9.7	9.2	9.3	9.0	8.9	8.3				
2-wheeler	10.5	10.4	9.7	9.6	9.4	9.1	8.9	8.1				
Gold loans	1.7	2.0	2.3	2.3	2.3	2.8	3.4	4.4				
Personal Loans	11.5	11.4	10.9	11.0	11.3	10.9	11.0	11.1				
Auto loans	11.4	11.7	11.6	11.6	11.8	12.1	9.1	5.42				
Return ratios (Cumulative, Rep. %)												
RoA	3.3	3.4	3.5	3.4	3.4	3.8	4.0	2.0	3.5	3.3		
RoE	16.2	16.7	17.2	16.6	15.4	16.7	17.1	8.6	16.6	14.7		
Others												
CRAR (%)	21.0	20.8	23.0	23.1	22.6	24.4	25.3	27.69				
Shriram HFC AUM (INR b)	18.5	19.4	17.2	18.5	19.3	18.8	21.0	23.0				



Highlights from management commentary

Business updates

- **The company disbursed 50k new 2W loans (INR2.7b) and INR2.2b worth of gold loans in May. It would begin MSME loan disbursements in July.**
- Some customers continue to pay part installments, while some have availed moratorium despite being capable of paying just to save cash for their businesses.
- **Most of SCUF's MSME customers are proprietorships; hence, they would not be eligible for the INR3t MSME emergency credit line scheme.**
- Most of the customers the management has personally interacted with have said they are not getting money from other financiers.
- According to management, it would take another six months for businesses to reach 80–90% of pre-COVID-19 volumes.
- SCUF is open to offering top-up loans to MSME customers.
- Shriram HFC has shifted from DSA-led sourcing to a mix of DSA and direct sourcing.
- **Expect INR6.5–7b worth of monthly disbursements in June and July.**
- Delinquency in pre-owned 2W loans is better than in other segments.

Asset quality / Moratorium

- **Moratorium stood at 75% for SME and 50% for 2W as of May.**
- The bulk of March collections happened over 7–15th March.
- **34%/52% collection efficiency was witnessed in April/May. Collections thus far in June are 60% better than those in May. Nevertheless, 15th is the due date for most customers. Run-rate collection efficiency of 90%+ is targeted by end-Sep.**
- **Collections were at INR5.6b in April (all non-gold, of the total billing of INR16.4b); INR6.89b was reported in non-gold collections + INR3b in gold collections in May (of a billing of INR16.08b).**
- 240k more customers paid in May v/s April.
- The INR4.3b COVID-19 provisioning covers only Morat 1.0.
- Write-offs as a percentage of AUM should not move much above the historical range of 2.5–3%.
- The company applied for moratorium, which it availed from three banks (HSBC, Union Bank, and Indian Bank).

Funding

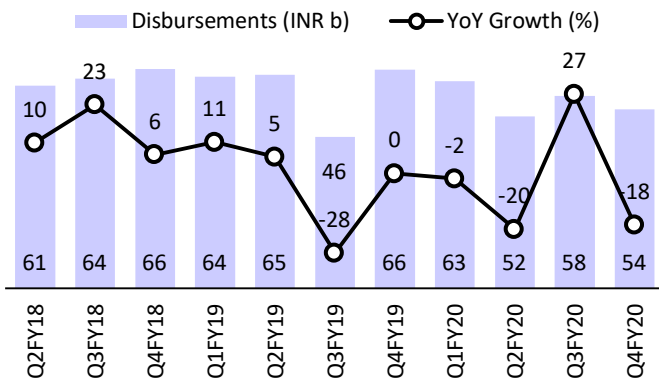
- **The company has not raised money in April and May. In June, it has raised INR3.5b from SIDBI under the government scheme. Expect some inflows from the new PCG scheme. Comfortable with liquidity at the moment.**
- It paid INR16b as borrowing commitments in April and May (including outflows of INR2.3b for deposits).
- **As of date, the liquidity balance is at INR20b (similar to 31st Mar).**
- It has received net flows in public deposits over the past two months (INR1b). Cost of deposits is 8.25–8.5%.

Others

- **Typically, INR3.8–4b worth of cash collections happen per month. In April, since the company was unable to make physical collections, INR2.5b was collected digitally.**
- Compared with an average of 30k customer transactions witnessed per month, 400k customers transacted via the digital channel in April.
- Gold loan LTV as of current price stands at 60%.
- Some stores selling non-discretionary items such as clothes and jewelry are not seeing enough footfall.
- 80% of MSME is collateralized at 50–60% LTV.
- Over the past year, personal loans have been disbursed only to existing customers; 40% of customers on the book are new.
- **Currently, the company supplies gold loans in five states only. It plans to expand the loans to all 900+ branches by the end of the year. 60% of gold loan customers re-pledge their loans.**
- The company has 6000 collection executives.

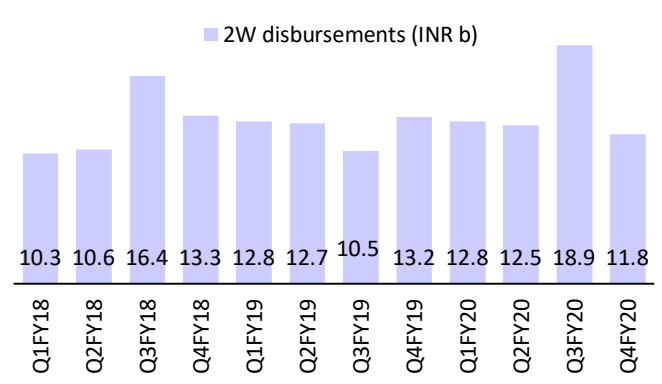
Key exhibits

Exhibit 1: Disbursements remain subdued



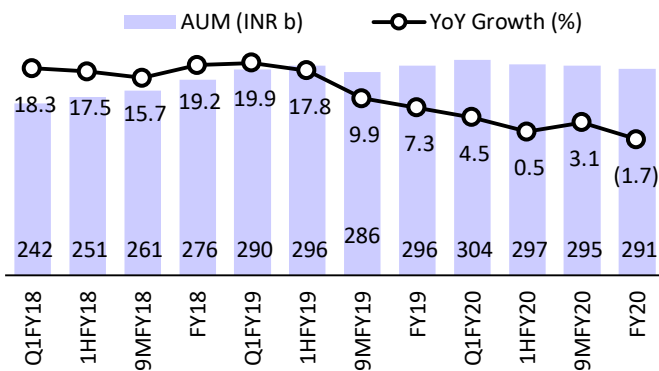
Source: MOFSL, Company

Exhibit 2: 2W disbursements modest due to lockdown impact



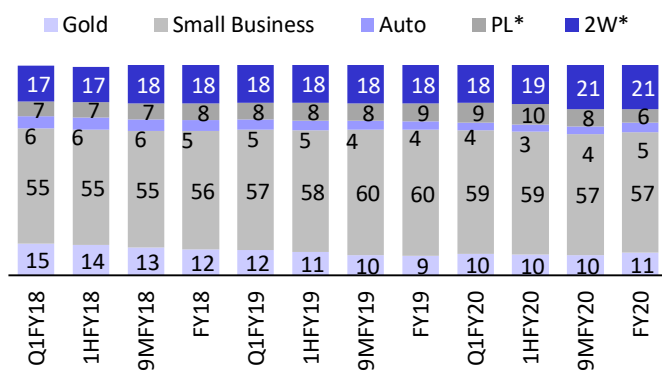
Source: MOFSL, Company

Exhibit 3: AUM range-bound at ~INR300b



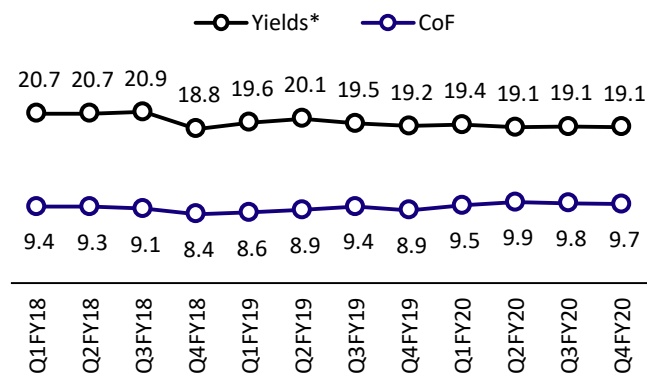
Source: MOFSL, Company

Exhibit 4: AUM mix sequentially stable (%)



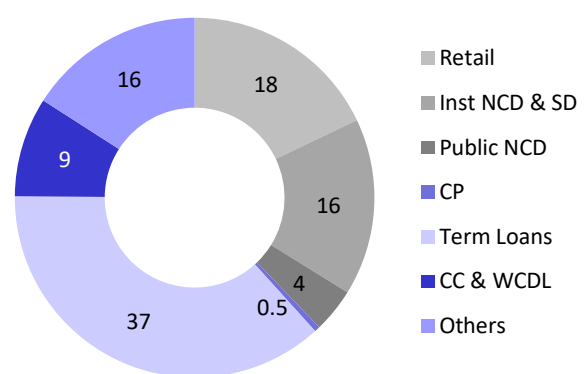
Source: MOFSL, Company, PL : Personal loan, 2W two wheeler

Exhibit 5: Yield and CoF stable (%)



Source: MOFSL, Company,*on AUM

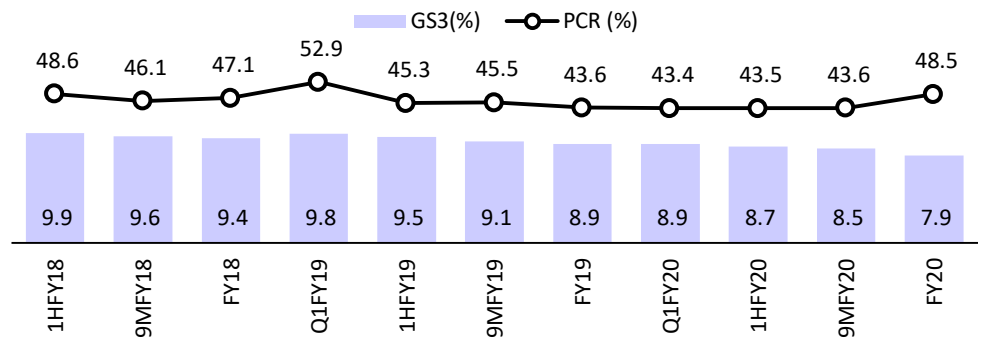
Exhibit 6: Borrowing mix (%)



Source: MOFSL, Company

GS3 improved 60bp QoQ to 7.9%

Exhibit 7: Improving asset quality



Source: MOFSL, Company

Exhibit 8: Improvement in SME/2W asset quality (%)

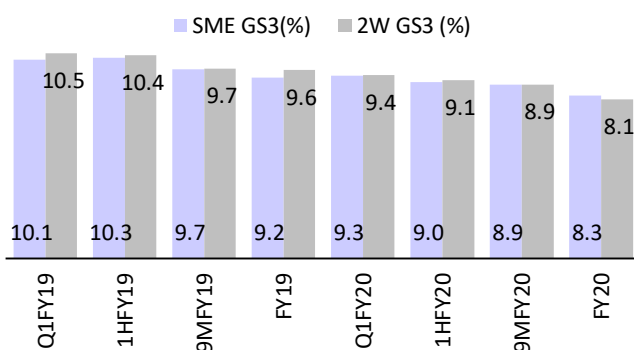


Exhibit 9: Credit cost jump due to COVID-19 provisions (%)

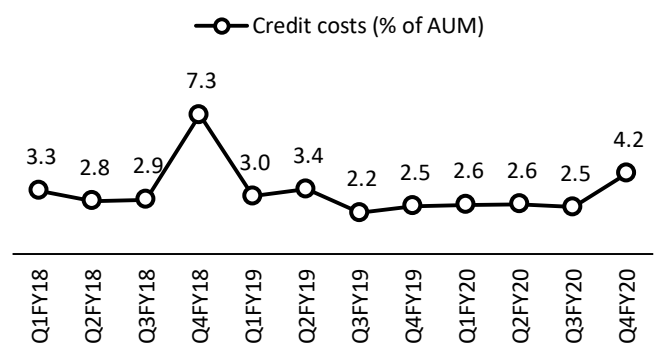
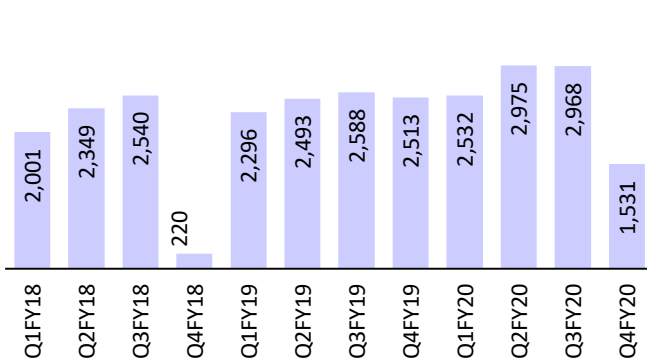
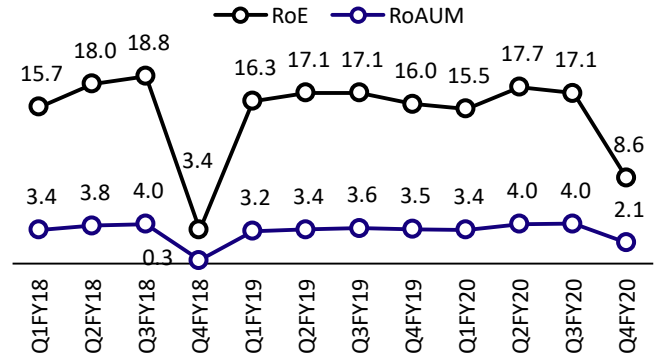


Exhibit 10: Trend in PAT (INR m)



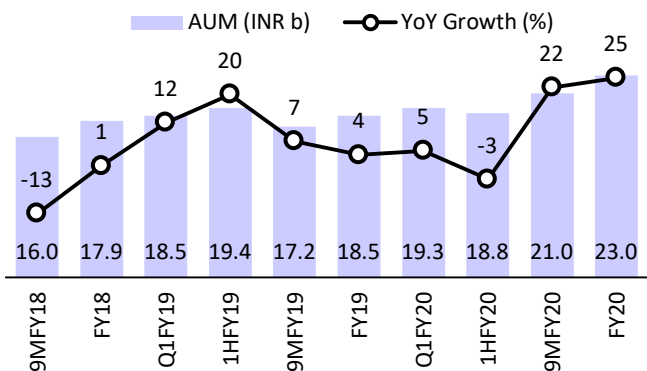
Source: MOFSL, Company

Exhibit 11: Profitability down due to COVID-19 provisions (%)



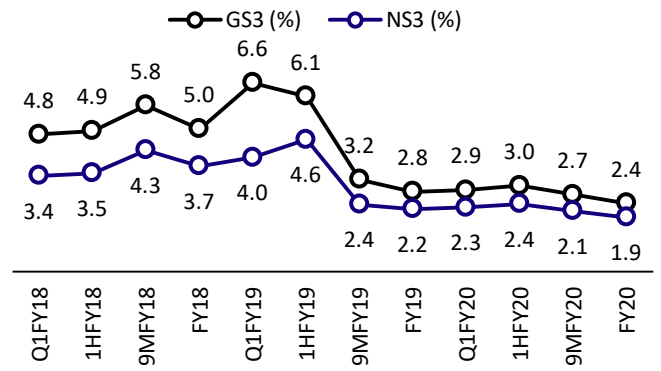
Source: MOFSL, Company

Exhibit 12: HFC subsidiary AUM growth picks up



Source: MOFSL, Company

Exhibit 13: Asset quality in the HFC subsidiary improves



Source: MOFSL, Company

Valuation and view

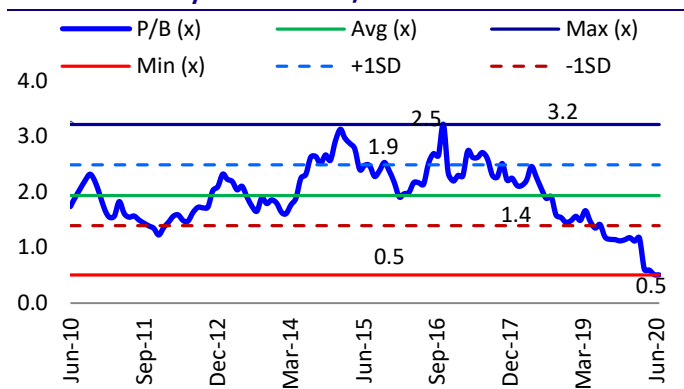
- SCUF is a niche play in the retail NBFC space, with a focus on MSME and 2W lending. Its business model offers high growth potential with strong profitability.
- Over the past two years, SCUF has overhauled its MSME underwriting model. It has standardized its sourcing and underwriting process across regions. This has started to reflect in modestly improving asset quality trends.
- However, since the IL&FS crisis, the company has faced issues on the liability front. It has increased its securitization program to improve funding and also kept more liquidity on the balance sheet.
- Tightness in liquidity has also led to muted disbursements and loan book growth. Total AUM has been range-bound at ~INR300b for the past seven to eight quarters.
- Given the current crisis, we expect the tough situation to continue – **we model 40% YoY decline in disbursements in FY21, with a sharp pickup in FY22. This would lead to flat AUM over the next two years.**
- While asset quality has been improving over the past few quarters, the outlook remains uncertain given the vulnerable nature of its customers. **We increase our FY21/FY22 credit costs to 4.5%/4.1%.**
- Hence, we cut our EPS estimates by ~25%. Given the undemanding valuations, we maintain Buy, with TP of INR850 (0.7x FY22E BVPS).

Exhibit 14: Cut EPS estimates by ~25% to factor lower growth and higher credit costs

INR b	Old Est.		New Est.		% Change	
	FY21	FY22	FY21	FY22	FY21	FY22
NII	35.4	37.4	34.8	35.3	-1.6	-5.4
Other Income	2.2	2.5	1.7	1.9	-23.6	-23.6
Total Income	37.6	39.9	36.6	37.3	-2.9	-6.5
Operating Expenses	15.9	17.0	14.8	15.5	-6.6	-8.6
Operating Profits	21.8	22.9	21.8	21.8	-0.1	-5.0
Provisions	10.0	9.4	13.0	11.7	30.3	24.2
PBT	11.8	13.5	8.8	10.0	-25.8	-25.5
Tax	3.0	3.4	2.2	2.5	-25.8	-25.5
PAT	8.8	10.1	6.6	7.5	-25.8	-25.5
Loans	263	279	257	258	-2.1	-7.8
Borrowings	208	215	232	232		
Margins	12.1	12.3	12.1	12.4		
Credit Cost	3.4	3.1	4.5	4.1		
RoA	3.0	3.4	2.1	2.4		
RoE	11.4	11.8	8.8	9.4		

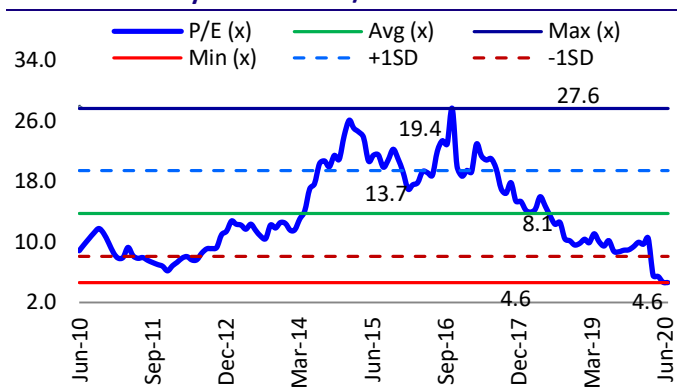
Source: MOFSL, Company

Exhibit 15: One-year forward P/B



Source: MOFSL, Company

Exhibit 16: One-year forward P/E



Source: MOFSL, Company

Valuation Matrix

	Rating	CMP (INR)	Mcap (USD b)	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HFCs											
HDFC*	Buy	1,793	40.6	17.1	13.0	1.8	1.4	1.6	1.5	11.2	11.0
LICHF	Buy	281	1.8	6.2	5.2	0.7	0.6	1.0	1.1	12.0	13.0
PNBHF	Neutral	221	0.5	4.3	3.3	0.4	0.4	1.1	1.4	9.6	11.5
REPCO	Buy	100	0.1	2.2	2.1	0.3	0.3	2.3	2.4	14.4	13.6
Vehicle fin.											
SHTF	Buy	685	1.9	10.3	5.8	0.8	0.7	1.4	2.4	8.1	13.0
MMFS	Buy	164	1.3	20.6	11.4	0.9	0.8	0.7	1.2	4.2	7.2
CIFC	Buy	160	1.6	16.8	12.4	1.5	1.4	1.2	1.6	9.4	11.6
Diversified											
BAF	Neutral	2,449	17.8	36.6	23.9	4.1	3.5	2.4	3.4	11.8	15.9
SCUF	Buy	667	0.6	5.3	4.9	0.6	0.5	2.8	3.1	10.9	10.8
LTFH	Buy	63	1.6	7.4	5.4	0.8	0.7	1.6	2.1	11.3	13.8
MUTH	Neutral	980	5.1	12.2	10.9	2.9	2.4	7.1	7.2	25.8	24.4
MAS	Buy	679	0.5	22.0	18.4	3.3	2.9	3.7	4.0	16.0	16.9

Financials and valuations

Income Statement								(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Interest Income	37,065	43,344	50,112	54,457	54,692	54,578	54,342	57,828
Interest Expense	13,834	15,344	16,677	19,862	21,402	22,132	21,573	22,210
Net Financing income	23,231	28,000	33,435	34,595	33,290	32,446	32,769	35,618
Change (%)	18.1	20.5	19.4	3.5	-3.8	-2.5	1.0	8.7
Income from securitization	658	452	246	2,107	2,279	2,400	2,575	2,742
Fee & Other Income	250	549	658	1,249	1,901	1,711	1,917	2,146
Total Income	24,139	29,001	34,339	37,951	37,471	36,556	37,260	40,506
Change (%)	12.6	20.1	18.4	10.5	-1.3	-2.4	1.9	8.7
Employee Cost	5,132	5,503	7,035	8,379	8,477	8,138	8,545	9,399
Other Operating Exp.	5,362	5,857	6,588	6,548	6,607	6,665	6,957	7,571
Operating Income	13,645	17,642	20,715	23,024	22,387	21,754	21,759	23,537
Change (%)	9.2	29.3	17.4	11.1	-2.8	-2.8	0.0	8.2
Total Provisions	5,577	9,105	10,537	7,821	8,837	12,979	11,731	8,377
% to operating income	40.9	51.6	50.9	34.0	39.5	59.7	53.9	35.6
PBT	8,068	8,536	10,178	15,203	13,550	8,775	10,028	15,160
Tax	2,771	2,976	3,531	5,314	3,545	2,211	2,527	3,820
Tax Rate (%)	34.3	34.9	34.7	35.0	26.2	25.2	25.2	25.2
PAT	5,298	5,561	6,647	9,889	10,005	6,564	7,501	11,339
Change (%)	-5.1	5.0	19.5	48.8	1.2	-34.4	14.3	51.2
Proposed Dividend	989	989	1,187	1,188	396	396	660	660

E: MOSL Estimates

Balance Sheet								(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Capital	659	659	660	660	660	660	660	660
Reserves & Surplus	44,457	49,029	54,887	63,253	71,420	77,508	84,216	94,762
Net Worth	45,136	49,688	55,563	63,930	72,096	78,184	84,892	95,439
Borrowings	144,084	180,397	214,011	225,707	231,659	231,847	232,094	256,041
Change (%)	16.2	25.2	18.6	5.5	2.6	0.1	0.1	10.3
Total Liabilities	189,220	230,085	269,574	289,637	303,754	310,032	316,986	351,480
Investments	7,923	7,131	7,355	8,662	7,341	8,076	8,883	9,771
Change (%)	-19.3	-10.0	3.1	17.8	-15.2	10.0	10.0	10.0
Loans	191,406	216,487	257,873	269,891	266,125	257,384	257,635	290,684
Change (%)	19.4	13.1	19.1	4.7	-1.4	-3.3	0.1	12.8
Net Fixed Assets	849	782	789	808	2,292	494	172	-149
Net Current Assets	-10,958	6,945	6,074	13,326	31,131	44,078	50,295	51,174
Total Assets	189,220	231,345	272,091	292,687	306,890	310,032	316,986	351,480

E: MOSL Estimates

Financials and valuations

Ratios	(%)							
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Spreads Analysis (%)								
Yield on loans	20.7	21.0	20.9	20.2	19.7	20.1	20.3	20.3
Cost of funds	10.3	9.5	8.5	9.0	9.4	9.6	9.3	9.1
Interest Spread	10.4	11.5	12.5	11.2	10.4	10.6	11.0	11.2
NIMs on AUM	13.2	13.3	13.3	12.8	12.1	12.1	12.4	12.6
Profitability Ratios (%)								
RoE	12.3	11.7	12.6	16.6	14.7	8.7	9.2	12.6
RoA	3.0	2.6	2.6	3.5	3.3	2.1	2.4	3.4
Int. Expended/Int.Earned	37.3	35.4	33.3	36.5	39.1	40.6	39.7	38.4
Other Inc. / Net Income	3.8	3.5	2.6	8.8	11.2	11.2	12.1	12.1
Efficiency Ratios (%)								
Op. Exps./Net Income	43.5	39.2	39.7	39.3	40.3	40.5	41.6	41.9
Empl. Cost/Op. Exps.	48.9	48.4	51.6	56.1	56.2	55.0	55.1	55.4
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	132.8	120.0	120.5	119.6	114.9	111.0	111.0	113.5
Leverage	4.2	4.7	4.9	4.6	4.3	4.0	3.7	3.7
Average leverage	4.1	4.4	4.8	4.7	4.4	4.1	3.8	3.7
Valuations								
Book Value (INR)	685	754	842	969	1,092	1,185	1,286	1,446
BV Growth (%)	10.0	10.1	11.7	15.0	12.8	8.4	8.6	12.4
Price-BV (x)					0.6	0.6	0.5	0.5
EPS (INR)	80	84	101	150	152	99	114	172
EPS Growth (%)	-5.1	5.0	19.5	48.7	1.2	-34.4	14.3	51.2
Price-Earnings (x)					4.4	6.7	5.9	3.9
DPS (INR)	15.0	15.0	18.0	18.0	6.0	6.0	10.0	10.0
Dividend Yield (%)					0.9	0.9	1.5	1.5

E: MOSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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