

# Shriram City Union Finance

Refer to important disclosures at the end of this report

## Upgrading estimates on strong growth outlook

- Shriram City Union Finance (SCUF) reported Q4 earnings of Rs3.03bn, broadly in line with our estimates. Coming off the festive season demand in Q3, two-wheeler disbursements declined qoq, while gold loan disbursements increased 15% qoq. NIMs declined 23bps qoq due to asset mix changes but were stable yoy. The cost-to-income ratio rose by 122bps qoq to 43.7% (Q3FY22: 42.5%), resulting in PPOP growth of 8% yoy. Asset quality improved, with GS3 and NS3 declining by 99bps/68bps qoq and credit costs declining 62bps qoq to 2.2%. Affordable housing subsidiary, Shriram Housing Finance Limited (SHFL), reported quarterly PAT of Rs0.22bn, up 56% yoy. AUM grew by 36% yoy/16%qoq to Rs53.6bn.
- SCUF is a play in retail financing across MSMEs, two-wheelers, gold, personal and auto, among others. With the merger on track (approved by stock exchanges and NCLT approached for an application), as well as its ability to leverage Shriram Capital's customer base and appraise the "cash" businesses, SCUF is set to accelerate growth in the post-pandemic era. SHFL, with access to the wider Shriram network, seeks to gain share in the fast-growing affordable housing finance segment.
- We retain our Buy rating on SCUF and raise our Mar'23 TP to Rs2,700 from Rs2,670, taking into account the revised growth outlook for the standalone business and SHFL. Considering the impending merger and the stock price movements since the merger announcement, we change our cost of equity estimate for SCUF from 13.1% to 13.5% to make it in line with SHTF. Our SOTP approach values 1) SCUF's core lending business at 1.4x Mar'24E BVPS, using the excess return on equity method (ERE) for FY23-24 RoE of 14.5%, and 2) SHFL at 2.6x Mar'24E BVPS, accounting for its strong growth potential. We apply a holdco discount of 20% to this unlisted business.

- SCUF Q4 result highlights:** Disbursements grew by 15% yoy but declined 1% qoq due to a high base in the seasonally strong Q3. MSME, gold loan and PL gained share in disbursements, while two wheelers declined. With an increased share of gold loans in the disbursement mix, AUM growth is expected to lag disbursement growth. Since SCUF has received an insurance broking license from IRDA, the fee income has started reflecting the inflow of commission from the sale of insurance products. SCUF has entered into agreements with Tata AIG, Care Healthcare, Shriram Life Insurance and Shriram General Insurance, among others, for the sale of their products. Incremental CoF was ~8.4% in Q4, with NIMs broadly stable yoy. The cost-to-income ratio increased to 43.7% (Q3FY22: 42.5%, FY21: 41.1%); management expects the ratio to remain in the 38-40% range in FY23. Asset quality improved, with GS3 & NS3 at 6.3% and 3.3%, respectively. Stage 3 PCR came in at 49.3% (Q3FY22: 47.4%). Annualized credit costs in Q4 were 2.2% (Q3: 2.8%), while full-year credit costs stood at 2.83%.

### Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	36,029	39,979	47,244	56,813	68,215
Net profit	10,109	10,862	13,261	16,152	19,619
EPS (Rs)	152.8	162.6	198.6	241.9	293.8
BV (Rs)	1,230.0	1,346.6	1,500.6	1,688.1	1,915.9
RoA (%)	3.1	2.9	3.0	3.1	3.2
RoE (%)	13.2	12.7	14.0	15.2	16.3
PE (x)	11.2	10.5	8.6	7.1	5.8
P/BV	1.4	1.3	1.1	1.0	0.9

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
Rs 1,710 as of (May 1, 2022)	Rs 2,700 (▲) 12 months
<b>Rating</b>	<b>Upside</b>
BUY (■)	57.9%

### Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	1.1
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	198.6	241.9
Consensus	210.8	246.7
Mean Consensus TP (12M)	Rs 2,301	

### Stock Details

Bloomberg Code	SCUF IN
Face Value (Rs)	10
Shares outstanding (mn)	67
52 Week H/L	2,602 / 1,400
M Cap (Rs bn/USD bn)	114 / 1.49
Daily Avg Volume (nos.)	44,729
Daily Avg Turnover (US\$ mn)	1.0

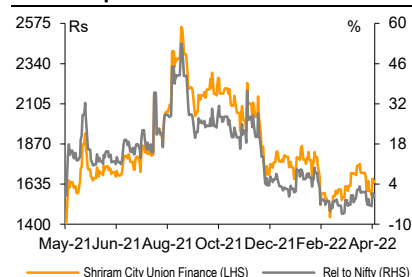
### Shareholding Pattern Mar '22

Promoters	34.6%
FIIs	28.2%
DIIIs	4.0%
Public and Others	33.2%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	6	(4)	(21)	18
<b>Rel. to Nifty</b>	7	(4)	(18)	3

### Relative price chart



Source: Bloomberg

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- SHFL Q4 result highlights:** SHFL continues to invest in its rapidly growing business in order to make a mark in the booming affordable housing space, the full effects of which will be visible from FY23. While AUM stood at Rs53.6bn in FY22, management expects AUM to reach Rs100bn by mid-FY24. SHFL currently operates out of 103 branches and has ~200 Griha Poorti branches in collaboration with SCUF and STFC in AP, Telangana and Gujarat. After the merger with SHTF, it will have access to the entire distribution network of ~3,000 branches of the merged entity across India. In Q4FY22, AUM growth was 36% yoy/16% qoq, with affordable home loans accounting for ~65% of the portfolio. In Q4, SHFL received approval for its first tranche of loan refinancing from NHB of Rs5bn. These resources have a blended cost of funds of ~4.5%. For FY23, SHFL expects more than twice the quantum of refinancing from NHB. The FY22 cost-to-income (CIR) ratio of 55% was impacted by a Rs0.16bn charge due to a one-off assignment income recognition methodology change. It was also impacted by an investment of Rs0.14bn in the Griha Poorti initiative project using SCUF and SHTF branches for disbursing SHFL products. Net of these one-off items, CIR in FY22 would have been ~47%. Management has guided for CIR to be in mid-40s in FY23. Management expects RoA to be 2.6%-2.9% in FY23.
- Change to estimates:** In the case of SCUF, we factor in increased disbursements in the gold loan portfolio. As per media reports, management has guided for the gold loan portfolio to increase from current Rs40.1bn to Rs150-200bn in the next five years. Currently gold loans are operational in 700 branches (600 South and 100 North), with the number expected to increase to 2,500 in 18 months. This is mainly via the utilization of the catchment areas of SHTF branches. Consequently, we expect the disbursements to increase at a CAGR of 24% over FY22-25E for the standalone entity. This translates into a 21% CAGR in AUM over the same period and earnings growth of 22%. While management expects FY23 credit costs to be in the 2.5-2.6% range, we continue to estimate FY23 credit costs at 2.8%, taking into account the historical trend in credit costs for the business and the elevated write-offs in FY22. In the case of SHFL, we factor in management's AUM growth guidance over the forecast period. We assume a disbursement CAGR of 37% over FY22-25E, resulting in FY24 AUM of Rs100bn. We estimate FY23-25 average RoA of 2.4% for the housing finance business, below the range given by management. This is taking into account our conservative estimate of the continued investments in building the network.
- We retain our Buy rating on SCUF and raise our Mar'23 TP to Rs2,700 from Rs2,670, taking into account the revised growth outlook for the standalone business and SHFL. Considering the impending merger and stock price movements since the merger announcement, we change our cost of equity estimate for SCUF from 13.1% to 13.5% to make it in line with SHTF. Our SOTP approach values 1) SCUF's core lending business at 1.4x Mar'24E BVPS, using the excess return on equity method (ERE) for FY23-24 RoE of 14.5%, and 2) SHFL at 2.6x Mar'24E BVPS, accounting for its strong growth potential. We apply a holdco discount of 20% to this unlisted business.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(Page 13\)](#)

**Exhibit 1: Quarterly Financials**

Rs mn	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	% yoy	% qoq	FY21	FY22	% yoy
Interest Income	14,140	14,539	15,147	15,891	16,566	17.2%	4.2%	55,718	62,142	11.5%
Interest Expenses	5,559	5,746	6,158	6,486	6,936	24.8%	6.9%	21,339	25,325	18.7%
<b>Net Interest Income</b>	<b>8,581</b>	<b>8,793</b>	<b>8,989</b>	<b>9,406</b>	<b>9,630</b>	<b>12.2%</b>	<b>2.4%</b>	<b>34,379</b>	<b>36,817</b>	<b>7.1%</b>
Other Income	716	417	696	1,124	942	31.5%	-16.2%	78	36	
<b>Total Income</b>	<b>9,297</b>	<b>9,210</b>	<b>9,685</b>	<b>10,530</b>	<b>10,571</b>	<b>13.7%</b>	<b>0.4%</b>	<b>36,029</b>	<b>39,979</b>	<b>11.0%</b>
Operating Expenses	3,772	3,512	3,889	4,471	4,618	22.4%	3.3%	13,626	16,490	21.0%
<b>Operating Profit</b>	<b>5,525</b>	<b>5,698</b>	<b>5,796</b>	<b>6,058</b>	<b>5,954</b>	<b>7.8%</b>	<b>-1.7%</b>	<b>22,402</b>	<b>23,489</b>	<b>4.8%</b>
Provisions	1,647	2,906	2,030	2,185	1,772	7.6%	-18.9%	8,509	8,877	4.3%
CoR (%)	2.3%	3.9%	2.7%	2.8%	2.2%			2.9%	2.8%	
<b>PBT</b>	<b>3,878</b>	<b>2,792</b>	<b>3,766</b>	<b>3,873</b>	<b>4,182</b>	<b>7.8%</b>	<b>8.0%</b>	<b>13,894</b>	<b>14,612</b>	<b>5.2%</b>
Tax	1,057	712	943	948	1,148	8.5%	21.1%	3,785	3,751	-0.9%
Tax rate (%)	27.3%	25.5%	25.0%	24.5%	27.4%			27.2%	25.7%	
<b>PAT</b>	<b>2,821</b>	<b>2,080</b>	<b>2,823</b>	<b>2,925</b>	<b>3,034</b>	<b>7.6%</b>	<b>3.7%</b>	<b>10,109</b>	<b>10,862</b>	<b>7.4%</b>
AUM	2,95,710	2,95,990	3,04,250	3,22,470	3,31,860	12.2%	2.9%	2,95,710	3,31,860	12.2%
Disbursements	65,700	45,600	64,230	76,300	75,270	14.6%	-1.3%	1,71,540	2,61,400	52.4%

Source: Company, Emkay Research

**Exhibit 2: Revision in earnings estimates**

Y/e Mar (Rs mn)	FY22			FY23E			FY24E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Disbursements	2,65,230	2,61,400	-1.4%	3,17,408	3,34,315	5.3%	3,76,247	4,10,364	9.1%
AUM	3,41,069	3,31,860	-2.7%	4,03,199	4,09,096	1.5%	4,73,874	4,87,787	2.9%
Net interest income	37,074	36,838	-0.6%	42,912	43,194	0.7%	49,554	51,861	4.7%
PPOP	23,708	23,489	-0.9%	28,184	28,301	0.4%	32,986	34,446	4.4%
PAT	10,642	10,862	2.1%	12,804	13,261	3.6%	14,967	16,152	7.9%
EPS (Rs)	160	163	1.6%	193	199	3.1%	225	242	7.4%
BV (Rs)	1,360	1,347	-1.0%	1,525	1,501	-1.6%	1,717	1,688	-1.7%

Source: Company, Emkay Research

**Exhibit 3: Actuals vs. Estimates**

Rs mn	Actual	Estimates (Emkay)	% variation (Emkay)	Comments
Disbursement	75,270	70,600	6.6%	Stronger than qoq growth in gold loan disbursements
AUM	3,31,860	3,32,579	-0.2%	
NII	9,630	9,726	-1.0%	
PPOP	5,954	6,147	-3.1%	Continued investment in business resulted in opex remaining elevated
PAT	3,034	3,084	-1.6%	

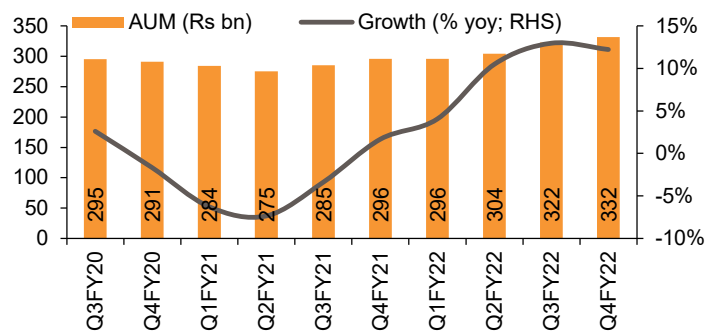
Source: Company, Emkay Research

**Exhibit 4: We arrive at a target price of Rs2,700 based on SOTP valuation method**

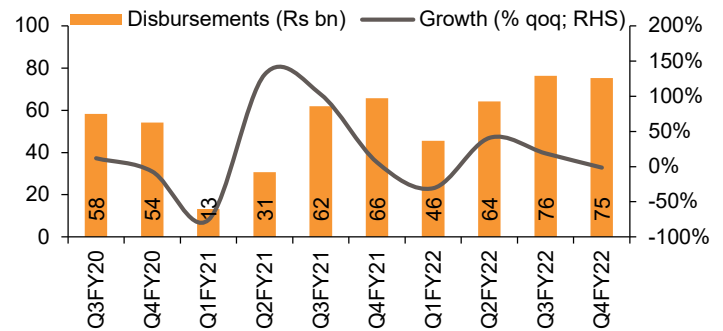
Particulars	Stake (%)	Value per share (Rs)	% of total	Valuation Rationale	Target Multiple
Core Business	100.0%	2,300	85.2%	1,54,582 Excess return on equity	1.4
Housing Business	85.0%	500	18.5%	39,033 Excess return on equity	2.6
Post: 20% holding discount		400	14.8%		
Target Value Post 20% Holding Company Discount		2,700	100.0%		

Source: Company, Emkay Research

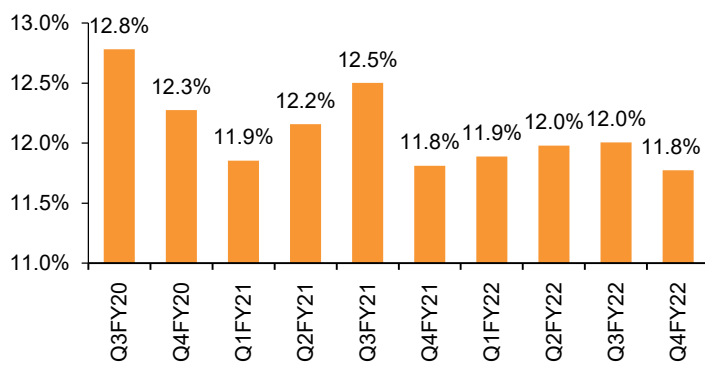
## Story in Charts

**Exhibit 5: AUM witnessed robust growth of 12% yoy**


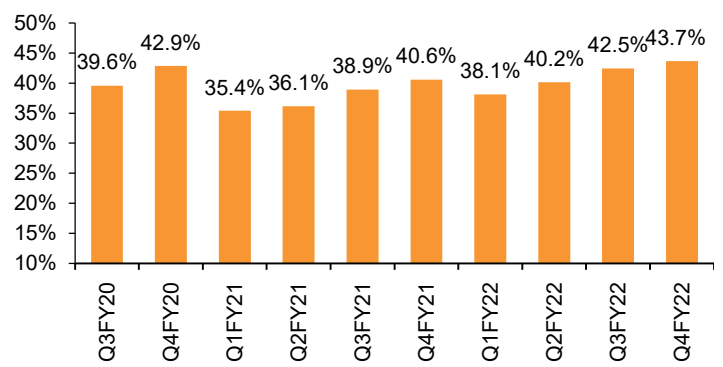
Source: Company, Emkay Research

**Exhibit 6: Q4 disbursements displayed usual seasonality qoq**


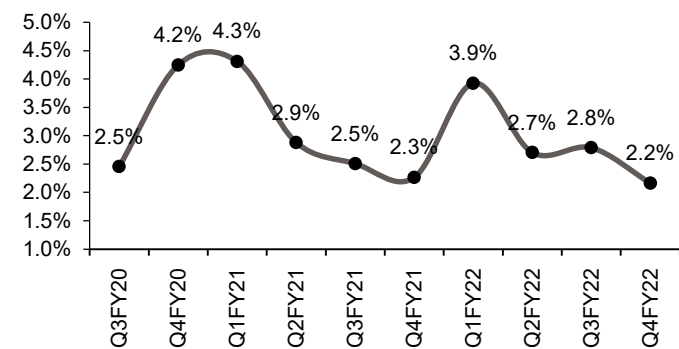
Source: Company, Emkay Research

**Exhibit 7: NIMs declined by ~23bps qoq on account of changes in asset mix**


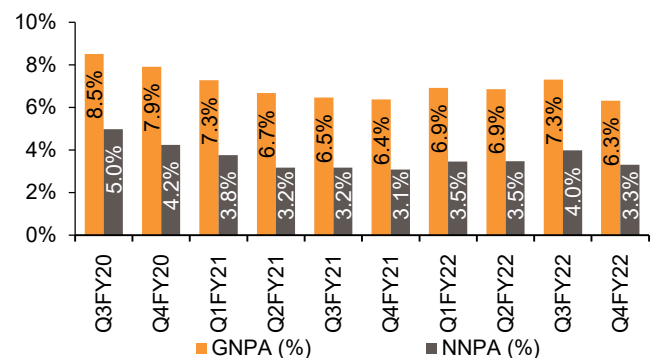
Source: Company, Emkay Research

**Exhibit 8: C:I ratio rose by 121bps qoq due to a higher opex and flat net income**


Source: Company, Emkay Research

**Exhibit 9: Credit costs declined by 62bps qoq/10bps yoy**


Source: Company, Emkay Research

**Exhibit 10: Asset quality improved sequentially with GS3 and NS3 declining 99bps and 68bps respectively**


Source: Company, Emkay Research

**Exhibit 11: Key assumptions for SCUF**

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Disbursement Growth	7.3%	-1.7%	1.7%	12.2%	23.3%	19.2%	20.4%
Loan Growth	-3.4%	-5.6%	-24.5%	52.4%	27.9%	22.7%	20.0%
Credit Cost	2.7%	3.0%	2.9%	2.8%	2.8%	2.8%	2.9%
GS3	8.9%	7.9%	6.4%	6.3%	5.8%	5.4%	5.2%
NS3	5.4%	4.4%	3.2%	3.3%	3.1%	2.9%	2.8%
PCR (S3)	43.6%	48.5%	53.2%	49.3%	49.0%	49.0%	49.0%
ECL % of loans	6.7%	7.1%	6.9%	6.3%	5.6%	5.1%	4.8%
Write-off rate	2.3%	2.6%	3.0%	2.9%	2.6%	2.6%	2.5%

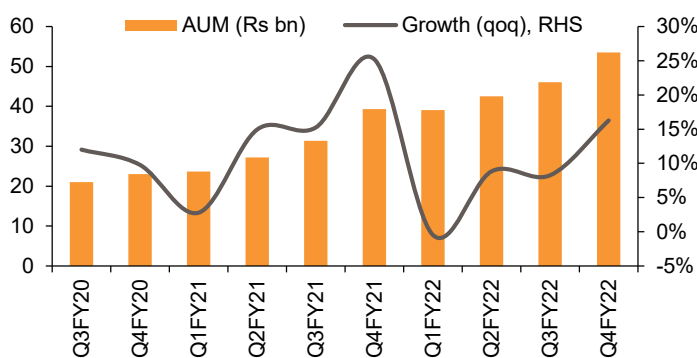
Source: Company, Emkay Research

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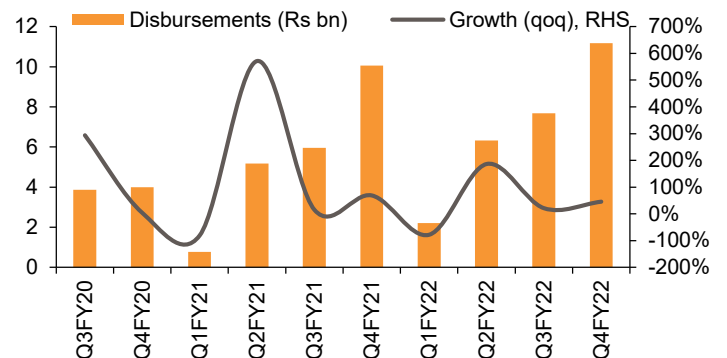
**Exhibit 12: RoE decomposition of SCUF**

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest income	19.9%	18.9%	17.1%	16.7%	16.8%	17.1%	17.4%
Interest expended	7.0%	7.1%	6.5%	6.8%	6.9%	7.1%	7.1%
Net Interest Income	12.9%	11.8%	10.5%	9.9%	9.9%	10.1%	10.2%
Securitization income	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Income (Treasury / others) / Avg. Assets	0.4%	0.6%	0.5%	0.8%	0.9%	1.0%	1.0%
Income Yield / Avg. Assets	13.4%	12.4%	11.1%	10.8%	10.8%	11.0%	11.2%
Op. Cost (Staff cost) / Avg Assets	3.0%	2.8%	2.3%	2.6%	2.5%	2.5%	2.5%
Op. Cost (Other costs) / Avg Assets	2.3%	2.2%	1.8%	1.8%	1.8%	1.8%	1.8%
Operating profit / Avg Assets	8.1%	7.4%	6.9%	6.3%	6.5%	6.7%	6.9%
Provisions / Avg. assets	2.8%	2.9%	2.6%	2.4%	2.4%	2.5%	2.5%
Exceptional items / Avg. assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pre-Tax ROA	5.4%	4.5%	4.3%	3.9%	4.1%	4.2%	4.3%
Tax Retention Rate	65.0%	73.8%	72.8%	74.3%	74.3%	74.3%	74.3%
Post Tax ROA	3.5%	3.3%	3.1%	2.9%	3.0%	3.1%	3.2%
Leverage = Avg. Assets / Avg. Equity	4.7	4.4	4.3	4.3	4.6	4.8	5.1
ROE (Leverage * ROA)	16.6%	14.7%	13.2%	12.7%	14.0%	15.2%	16.3%

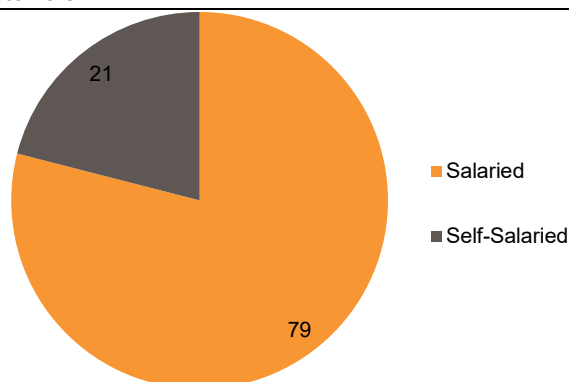
Source: Company, Emkay Research

**Exhibit 13: SHFL AUM witnessed strong growth at 16% qoq**

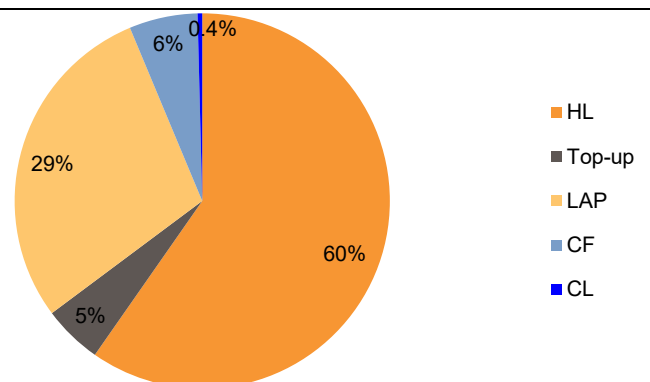
Source: Company, Emkay Research

**Exhibit 14: Disbursements growth picked up in Q4FY22 at 46% qoq**

Source: Company, Emkay Research

**Exhibit 15: SHFL AUM mix remained constant with >1/3<sup>rd</sup> being salaried customers**

Source: Company, Emkay Research

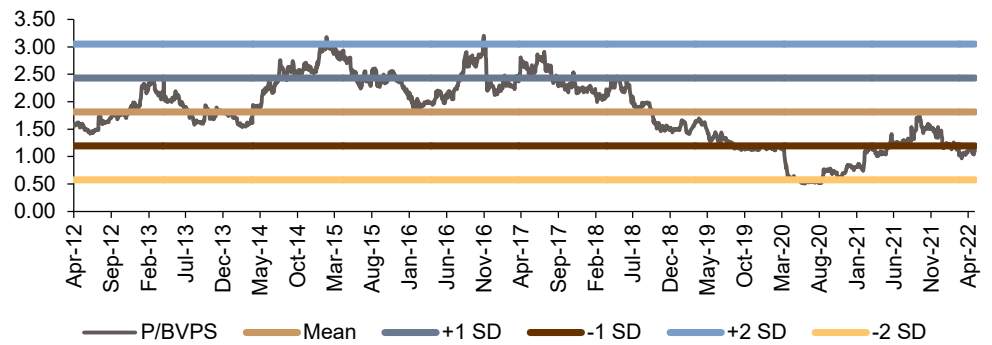
**Exhibit 16: Housing loans formed ~65% of the AUM mix in Q4FY22**

Source: Company, Emkay Research

**Exhibit 17: Key assumptions of SHFL**

	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Disbursement Growth	0.1%	48.5%	94.8%	24.8%	37.0%	37.0%	37.0%
Loan Growth	3.5%	24.7%	70.5%	36.3%	37.1%	37.0%	37.0%
Credit Cost	0.0%	0.0%	0.7%	0.3%	0.5%	0.4%	0.4%
GS3	2.8%	2.4%	1.9%	1.7%	1.6%	1.6%	1.5%
NS3	2.1%	1.9%	1.5%	1.3%	1.3%	1.2%	1.2%
PCR (S3)		21.7%	21.9%	23.4%	23.4%	23.4%	23.4%
ECL % of loans		1.3%	1.1%	1.1%	1.1%	1.1%	1.0%

Source: Company, Emkay Research

**Exhibit 18: SCUF currently trades at 1.1x one-year forward book value**

Source: Company, Emkay Research

## Exhibit 19: Shriram Finance Limited Financial Statements

(Rs mn)	SHTF			SCUF			Shriram Finance Limited			Shriram Housing		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Interest Income	1,86,463	2,06,719	2,29,374	62,142	73,521	88,154	2,48,605	2,80,241	3,17,528	4,643	6,255	8,440
Interest expenses	97,343	1,04,903	1,16,094	25,325	30,353	36,324	1,22,668	1,35,256	1,52,418	2,806	3,592	4,745
<b>Net interest income</b>	<b>89,120</b>	<b>1,01,816</b>	<b>1,13,280</b>	<b>36,817</b>	<b>43,169</b>	<b>51,831</b>	<b>1,25,937</b>	<b>1,44,985</b>	<b>1,65,111</b>	<b>1,837</b>	<b>2,664</b>	<b>3,695</b>
NIM(%)	7.5%	7.7%	7.7%	11.7%	11.7%	11.6%	8.3%	8.6%	8.6%	5.1%	5.4%	5.5%
Other income	6,280	6,571	7,462	3,162	4,076	4,982	9,441	10,647	12,444	849	1,207	1,654
<b>Net Operating income</b>	<b>95,399</b>	<b>1,08,387</b>	<b>1,20,742</b>	<b>39,979</b>	<b>47,244</b>	<b>56,813</b>	<b>1,35,378</b>	<b>1,55,631</b>	<b>1,77,554</b>	<b>2,686</b>	<b>3,870</b>	<b>5,349</b>
Operating expenses	21,298	27,347	27,925	16,490	18,944	22,367	37,788	49,290	51,292	1,486	1,779	2,331
<b>PPOP</b>	<b>74,101</b>	<b>81,040</b>	<b>92,817</b>	<b>23,489</b>	<b>28,301</b>	<b>34,446</b>	<b>97,590</b>	<b>1,06,341</b>	<b>1,26,263</b>	<b>1,199</b>	<b>2,091</b>	<b>3,018</b>
Provisions	38,609	27,572	31,585	8,877	10,453	12,707	47,485	38,025	44,292	108	247	375
<b>PBT</b>	<b>35,493</b>	<b>53,468</b>	<b>61,232</b>	<b>14,612</b>	<b>17,848</b>	<b>21,739</b>	<b>50,105</b>	<b>68,317</b>	<b>81,971</b>	<b>1,091</b>	<b>1,845</b>	<b>2,642</b>
Taxation	8,413	13,741	15,737	3,751	4,587	5,587	12,164	18,328	21,324	288	474	679
<b>PAT</b>	<b>27,079</b>	<b>39,727</b>	<b>45,495</b>	<b>10,862</b>	<b>13,261</b>	<b>16,152</b>	<b>37,941</b>	<b>49,988</b>	<b>60,648</b>	<b>803</b>	<b>1,371</b>	<b>1,963</b>
Branches	1,854	1,854	1,854	986	986	986		2840	2840	103	103	103
AUM	12,70,409	14,15,664	15,88,160	3,31,860	4,09,096	4,87,787	16,02,269	18,24,760	20,75,947	53,550	73,417	1,00,616
No. of Shares (mn)	270.52	270.52	270.52	66.63	66.63	66.63		372.92	372.92	325.27	325.27	325.27
BVPS	959	1,085	1,220	1347	1501	1688		1,055	1,187	36	40	46
EPS	100	147	168	163	199	242		134	163	2	4	6

Source: Company, Emkay Research

## Exhibit 20: Shriram Finance Limited RoE decomposition

RoE decomposition tree	SHTF			SCUF			Shriram Finance			Shriram Housing		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Interest income/Avg assets	13.7%	13.8%	13.8%	16.7%	16.8%	17.1%	-	14.5%	14.6%	10.3%	10.4%	10.4%
Interest expended/Avg assets	7.2%	7.0%	7.0%	6.8%	6.9%	7.1%	-	7.0%	7.0%	6.2%	6.0%	5.9%
<b>Net Interest Income / Avg. Assets</b>	<b>6.6%</b>	<b>6.8%</b>	<b>6.8%</b>	<b>9.9%</b>	<b>9.9%</b>	<b>10.1%</b>	-	<b>7.5%</b>	<b>7.6%</b>	<b>4.1%</b>	<b>4.4%</b>	<b>4.6%</b>
Securitisation income / Avg. Assets	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	-	0.1%	0.1%	1.2%	1.3%	1.3%
Other Income / Avg. Assets	0.3%	0.3%	0.3%	0.8%	0.9%	1.0%	-	0.4%	0.5%	0.7%	0.7%	0.7%
<b>Income Yield / Avg. Assets</b>	<b>7.0%</b>	<b>7.2%</b>	<b>7.3%</b>	<b>10.8%</b>	<b>10.8%</b>	<b>11.0%</b>	-	<b>8.0%</b>	<b>8.2%</b>	<b>6.0%</b>	<b>6.4%</b>	<b>6.6%</b>
Op. Cost (Staff cost) / Avg Assets	0.7%	0.7%	0.7%	2.6%	2.5%	2.5%	-	1.1%	1.2%	1.9%	1.9%	1.9%
Op. Cost (Other costs) / Avg Assets	0.8%	1.1%	1.0%	1.8%	1.8%	1.8%	-	1.4%	1.2%	1.4%	1.0%	1.0%
<b>Operating profit / Avg Assets</b>	<b>5.5%</b>	<b>5.4%</b>	<b>5.6%</b>	<b>6.3%</b>	<b>6.5%</b>	<b>6.7%</b>	-	<b>5.5%</b>	<b>5.8%</b>	<b>2.7%</b>	<b>3.5%</b>	<b>3.7%</b>
Total provisions / Avg. assets	2.8%	1.8%	1.9%	2.4%	2.4%	2.5%	-	2.0%	2.0%	0.2%	0.4%	0.5%
<b>Pre-Tax ROA</b>	<b>2.6%</b>	<b>3.6%</b>	<b>3.7%</b>	<b>3.9%</b>	<b>4.1%</b>	<b>4.2%</b>	-	<b>3.5%</b>	<b>3.8%</b>	<b>2.4%</b>	<b>3.1%</b>	<b>3.3%</b>
Tax Retention Rate	76.3%	74.3%	74.3%	74.3%	74.3%	74.3%	-	73.2%	74.0%	73.6%	74.3%	74.3%
<b>Post Tax ROA</b>	<b>2.0%</b>	<b>2.7%</b>	<b>2.7%</b>	<b>2.9%</b>	<b>3.0%</b>	<b>3.1%</b>	-	<b>2.6%</b>	<b>2.8%</b>	<b>1.8%</b>	<b>2.3%</b>	<b>2.4%</b>
Leverage = Avg. Assets / Avg. Equity	5.7	5.4	5.3	4.3	4.6	4.8	-	5.2	5.2	5.2	4.9	5.8
<b>ROE (Leverage * ROA)</b>	<b>11.4%</b>	<b>14.4%</b>	<b>14.6%</b>	<b>12.7%</b>	<b>14.0%</b>	<b>15.2%</b>	-	<b>13.5%</b>	<b>14.5%</b>	<b>9.3%</b>	<b>11.2%</b>	<b>14.1%</b>

Source: Company, Emkay Research

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**Exhibit 21: Valuation of Shriram Finance Limited**

Entity name	FY24E BVPS	No. of Shares (mn)	Target Multiple	Holdco Discount	M-Cap Estimate
SHTF (Standalone) A	1,220	270.5	1.2	0%	4,03,075
SCUF (Standalone) B	1,688	66.6	1.4	0%	1,54,582
Shriram Finance (Standalone) C =A+B	1,187	372.9	1.3	0%	5,57,656
Shriram Housing (Standalone) D	46	325.3	2.6	20%	31,226
Shriram Finance Valuation (Rs mn) = C+D					5,88,882
Shriram Finance value per share					1,580

Source: Company, Emkay Research

## Concall highlights

- SCUF has not availed the option given by the RBI to defer the adoption of revised IRACP norms laid out in a circular dated 12<sup>th</sup> November, 2021.
- Introduced gold loans to 70 branches in the north; Express two-wheeler loans continued to perform well.
- The Rs37.9bn funds raised during Q4FY22 had an incremental CoF of ~8.4%. The reason for carrying high liquidity is to observe Covid-related developments and to keep high liquidity ahead of the merger that is expected to conclude at the end of the calendar year.
- Cross pollination of staff and senior executives has begun in 40 branches on a pilot basis. This has been going on for the past 45-50 days. These branches have been cross-selling SCUF and SHTF products. In the next two weeks, the aim is to expand the pilot program to another 100 branches. The primary goal is that when the merger is legally completed, teams in both companies shall be familiar with each other's products to sell them. The integration of HR systems is nearly done.
- There is a good opportunity to expand the gold loans network. One year after the merger, it should be present in most STFC locations. From the current 700 branches (~600 in south and ~100 in north) that offer gold loans, it can move to 2500 in the next 18 months. It will continue to focus on SME as well.
- The personal loan new book is doing very well and the old book is running down. Asset quality has improved qoq and it is organic, not dependent on write-offs. This trend is expected to continue in the coming 4-6 quarters. The company may get into the prime segment in future.
- By the end of the next year, SCUF's cost-to-income ratio should be 39-40%. For a couple of years, the business was low and now it's picking up with higher variable pays.
- SHFL has leveraged SCUF branches in Andhra Pradesh (AP) and Telangana (TL) and SHTF branches in Gujarat. The focus this year is on AP, TL, Gujarat, Maharashtra, and Rajasthan. Once the merger happens, SHFL will have 3000 SCUF and SHTF branches to leverage over five years. Right now it operates in 103 live branches and 200 Griha Poorti branches i.e. 178 SCUF branches in AP, TL and 22 SHTF branches in Gujarat.
- SHFL has guided for 35-40% disbursement growth in FY23 and slightly higher AUM growth. The yield guidance is 12.2-12.3%, resulting in 2.7-2.9% RoA in FY23. It expects Rs100bn AUM by mid-FY24. AP and TL Griha Poorti programs contribute 8-10% to its home loan disbursements. It expects that to continue to grow and ease into the 3,000 combined branches over the next 3-4 years. It aims to reach 150 own branches by the CY-end.
- SHFL is fine tuning its digital initiatives and have launched an app where consumers can digitally seek loan approvals, an end-to-end digital process. This year's cost-to-income was a bit >50% due to Griha Poorti and other expansion investments in the last 6 months of FY22. Cross-selling and leveraging past investments will bring down the cost-to-income ratio to mid-40s by FY23 and 39-40% by FY24 or mid-FY25.
- Reversals in SHFL income were due to a change in the methodology; earlier it was on the contractual basis. Whatever assignment was done earlier, income was booked upfront on the full contract; now it is changed to behavioral. HL 8 years and LAP loans run off 8-10 years. On amending the policy, reversal of last 2 years' income also has happened (Rs0.16bn).

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- Fee income grew for SCUF as it has obtained a corporate broking license from IRDAI and has started cross-selling insurance policy from Tata AIG, Care Healthcare, Shriram Life Insurance, Shriram General Insurance, etc. So this insurance cross-selling commission is driving fee income. The target is 10% of PAT from fee income.
- Lower qoq AUM growth is mainly due to gold loans running down.
- For SHFL, the securitization income has been volatile. The cost-to-loan book has been dropping, from 4.3% in FY21 to 3.5% in FY22. The difference was 0.4% that was the cost went into launching Griha Poorti in AP, TL and Gujarat. Excluding that cost and one-time change in accounting policy to reflect DA income, RoA, currently at 2.1%, would have been closer to 2.6% (the highest in last four years).
- SHFL NIMs would settle at 7.5-7.6% and the cost-to-AUM will settle at 3.3-3.5% for this year and under 3% next year. The credit cost will settle at 0.4-0.5%, hence RoA could be 2.7-2.9% in FY23 and over 3% in FY24. Overall RoA has been ~2.1% because CoFs had been higher till last year. In Dec'21-Jan'22, it got a Rs5bn approval from NHB, which came in at 4.5%, and got a Rs1bn approval from NHB in Mar'22, not availed till now. It has reduced CoF by over 100bps and expects a big boost from this in FY23.
- Yields on gold loans are steady; always been around the 16-17% range.
- Expects credit cost for SCUF to be 2.5-2.6% in FY23.
- For SCUF no borrowings are linked to the repo rate. For SHFL, 2-3 loans are linked to MCLR that is re-priced annually. Any rate hike will affect 12 months down the line.
- SHFL sees steady NIMs of 7.5%. Even in case of an immediate rate hike, it can manage NIMs for 2-3 or more quarters as CoFs will be impacted only down the line. NHB has assured even more refinance than FY22. If it needs to pass on some costs, SHFL will do it.
- For SHFL, housing will always be over 60% of the overall book and with top-up at around ~65%. Construction finance won't go over 7% and Construction Finance + LAP will be around 30-32% of the book at any point in time and not more. There is not much change in the risk profile going forward.
- SHFL has no immediate listing plans.
- ATS of two-wheeler loans has increased as the cost of vehicles has gone up.

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net interest income</b>	<b>34,360</b>	<b>36,838</b>	<b>43,194</b>	<b>51,861</b>	<b>62,301</b>
<b>Other income</b>	<b>1,669</b>	<b>3,141</b>	<b>4,051</b>	<b>4,952</b>	<b>5,914</b>
Net income	36,029	39,979	47,244	56,813	68,215
<b>Operating expenses</b>	<b>13,626</b>	<b>16,490</b>	<b>18,944</b>	<b>22,367</b>	<b>26,432</b>
Pre provision profit	22,402	23,489	28,301	34,446	41,784
<b>PPP excl treasury</b>	<b>22,402</b>	<b>23,489</b>	<b>28,301</b>	<b>34,446</b>	<b>41,784</b>
<b>Provisions</b>	<b>8,509</b>	<b>8,877</b>	<b>10,453</b>	<b>12,707</b>	<b>15,378</b>
Profit before tax	13,894	14,612	17,848	21,739	26,405
<b>Tax</b>	<b>3,785</b>	<b>3,751</b>	<b>4,587</b>	<b>5,587</b>	<b>6,786</b>
Tax rate	27	26	26	26	26
Profit after tax	10,109	10,862	13,261	16,152	19,619

**Balance Sheet**

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	660	666	666	666	666
Reserves	80,525	89,059	99,317	1,11,811	1,26,988
<b>Net worth</b>	<b>81,185</b>	<b>89,725</b>	<b>99,983</b>	<b>1,12,478</b>	<b>1,27,654</b>
Other liabilities and provisions	5,261	4,634	5,070	5,551	6,079
Borrowings	2,55,653	3,06,318	3,68,186	4,39,009	5,28,713
<b>Total liabilities</b>	<b>3,42,100</b>	<b>4,00,677</b>	<b>4,73,240</b>	<b>5,57,037</b>	<b>6,62,446</b>
Cash and bank	52,144	66,128	69,198	74,186	80,221
Investments	10,173	18,363	12,887	15,365	18,505
Loans	2,74,201	3,10,239	3,84,986	4,61,084	5,57,074
Others	5,582	5,947	6,169	6,401	6,646
<b>Total assets</b>	<b>3,42,100</b>	<b>4,00,677</b>	<b>4,73,240</b>	<b>5,57,037</b>	<b>6,62,446</b>

**Key Ratios (%)**

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	11.7	11.7	11.7	11.6	11.6
RoA	3.1	2.9	3.0	3.1	3.2
RoAE	13.2	12.7	14.0	15.2	16.3
GNPA (%)	6.4	6.3	5.8	5.4	5.2
NNPA (%)	3.2	3.3	3.1	2.9	2.8

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	152.8	162.6	198.6	241.9	293.8
BVPS	1,230.0	1,346.6	1,500.6	1,688.1	1,915.9
DPS	33.0	37.0	45.1	54.9	66.7

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	11.2	10.5	8.6	7.1	5.8
P/BV	1.4	1.3	1.1	1.0	0.9
Dividend Yield (%)	1.9	2.2	2.6	3.2	3.9

Source: Company, Emkay Research

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	(4.0)	7.2	17.3	20.1	20.1
PPOP	0.1	4.8	20.5	21.7	21.3
PAT	1.0	7.4	22.1	21.8	21.5
Loans	3.0	13.1	24.1	19.8	20.8

Quarterly (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
NII	8,581	8,793	8,989	9,406	9,630
NIM(%)	11.8	11.9	12.0	12.0	11.8
PPOP	5,525	5,698	5,796	6,058	5,954
PAT	2,821	2,080	2,823	2,925	3,034
EPS (Rs)	42.73	31.51	42.73	44.10	45.54

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	34.6	34.6	34.6	34.5	34.6
FIIIs	28.5	28.3	28.8	28.2	28.2
DIIIs	3.5	3.8	3.8	4.1	4.0
Public and Others	33.4	33.3	32.8	33.3	33.2

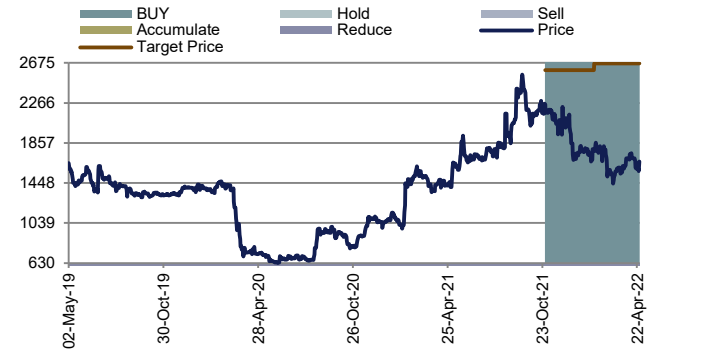
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
30-Jan-22	1,788	2,670	12m	Buy	Manjith Nair
28-Oct-21	2,253	2,600	12m	Buy	Manjith Nair

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-NBFCs



**Analyst: Manjith Nair**

### Contact Details

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### Sector

Non-bank financial companies (NBFC)

### Analyst bio

Manjith R Nair holds a B.E, MBA (ISB). He has total 13 years of research experience covering financials. Prior to that, he was in Europe managing client account relations for an IT major.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
<b>BFSI-NBFCs</b>	<b>6.56</b>	<b>6.56</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>	
Bajaj Finance	1.75	1.76	0%	0	26.80	0
Cholamandalam Investment	0.29	0.29	0%	0	4.37	0
Edelweiss Financial Services	0.00	0.00	NA	0	0.00	0
HDFC	3.95	3.97	0%	2	60.57	0
L&T Finance Holdings	0.07	0.07	0%	0	1.05	0
LIC Housing Finance	0.11	0.11	0%	0	1.74	0
Mahindra Finance	0.11	0.00	-100%	-11	0.00	0
Nippon Life India Asset Management	0.05	0.05	-8%	0	0.71	0
Ponawalla Finco*	0.00	0.06	NA	6	0.93	0
Shriram City Union Finance	0.00	0.03	NA	3	0.39	0
Shriram Transport Finance	0.22	0.23	0%	0	3.44	0
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>	<b>0</b>

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	28-Apr-21	28-Oct-21	28-Jan-22	28-Mar-22	28-Apr-22
EAP - BFSI-NBFCs	100.0	138.6	163.9	145.7	137.2	134.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	130.1	153.9	136.3	128.6	126.3

\*Performance measurement base date 1<sup>st</sup> April 2019

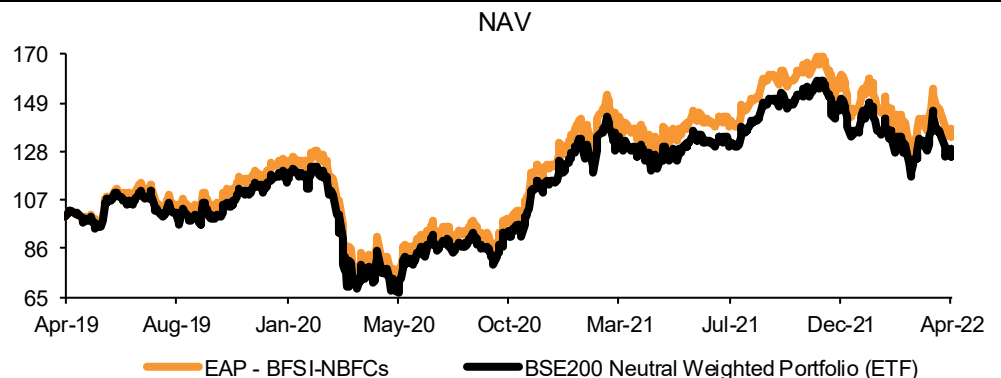
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	-1.8%	-7.5%	-17.8%	-2.8%
BSE200 Neutral Weighted Portfolio (ETF)	-1.8%	-7.4%	-17.9%	-2.9%

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 02 May 2022 01:49:20 (SGT)

Dissemination Date: 02 May 2022 01:50:20 (SGT)

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