

# Shriram City Union Finance

Refer to important disclosures at the end of this report

## Comfortable liquidity to aid growth; upgrade to Buy

- We upgrade SCUF to Buy from Hold as the Q4FY21 performance justifies that its struggle for liquidity is finally over. Diversification in the lending profile (SME, PL, 2W, gold loans, Housing and LAP) and improving asset quality profile indicate likely earnings surprises in future.
- Recent lockdowns pose uncertainty over growth and asset quality in the near term due to SCUF's retail-centric lending and its exposure to a low-income customer base. However, its historic track record of collection efficiency, increasing share of secured portfolio and management overlay of Rs7bn (~2.4% of AUM) provide comfort.
- Disbursements during the quarter witnessed steady growth at ~21.3% yoy (+6% qoq) to Rs65.7bn, mainly aided by SME and personal loans (mainly cross-sell). The company also introduced LAP products during the quarter. Incremental borrowing during the quarter amounted to Rs.51.2bn with a weighted average tenure of 38 months.
- We raise our earnings and Adj BV (adjusting for slippage estimates) for FY23E by 11.8% and 16.3%, respectively, and introduce FY24 estimates. Accordingly, we increase our TP to Rs1,950 (Rs1,165 earlier), corresponding to ~1.4x P/ABV FY23E (~1.0x earlier) with RoE of ~14% for FY23E. We upgrade to Buy (OW in EAP) on favorable risk-reward.

**Improving trends in liquidity and normalization of business activity drive disbursement growth:** SCUF has been witnessing weak growth trends for the past few quarters amid tight liquidity conditions and rising competition, especially from small finance banks (SFBs). However, the company has witnessed a consistent improvement in liquidity position with increasing ability to raise money from banks/retail as well as capital markets. Incremental borrowing in the quarter amounted to Rs51.2bn with a weighted average tenure of 38 months, including issuances of market-linked debentures. Disbursements witnessed steady growth at ~21.3% yoy (+6% qoq) to Rs65.7bn, mainly aided by SME loans (+74.2% qoq). The company also introduced LAP products for customers.

**Outlook and valuation:** SCUF delivered a steady performance with improvement in asset quality and strong demand revival. We upgrade SCUF to Buy from Hold as the Q4FY21 performance justifies that SCUF's struggle for liquidity is already over. We raise our earnings and Adj BV (adjusting for slippage estimates) for FY23E by 11.8% and 16.3%, respectively, and introduce FY24 estimates. Accordingly, we increase our TP to Rs1,950 (Rs1,165 earlier), corresponding to ~1.4x P/ABV FY23E (~1.0x earlier) with RoE of ~14% for FY23E. We upgrade to Buy (OW in EAP), considering favorable risk-reward.

**The key risks** to our call include a weaker-than-expected recovery in rural demand and probable shortage of liquidity. The potential stake sale by Piramal Enterprises in the company remains an overhang on the stock.

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

### Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	37,471	36,046	37,905	44,548	53,319
Net profit	10,005	10,109	10,871	13,280	16,163
EPS (Rs)	151.6	153.2	164.7	201.2	244.9
ABV (Rs)	959.6	1,130.4	1,256.0	1,423.8	1,645.1
RoA (%)	3.3	3.1	3.3	3.7	3.9
RoE (%)	14.7	13.2	12.7	13.9	15.0
PE (x)	10.1	9.9	9.3	7.6	6.2
P/ABV	1.6	1.3	1.2	1.1	0.9

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
Rs 1,524 as of (May 4, 2021)	Rs 1,950 (▲) 12 months
<b>Rating</b>	<b>Upside</b>
BUY (▲)	28.0 %

### Change in Estimates

EPS Chg FY22E/FY23E (%)	(0.8)/11.8
Target Price change (%)	67.4
Target Period (Months)	12
Previous Reco	HOLD

### Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	164.7	201.2
Consensus	177.7	207.0
Mean Consensus TP (12M)	Rs 1,653	

### Stock Details

Bloomberg Code	SCUF IN
Face Value (Rs)	10
Shares outstanding (mn)	66
52 Week H/L	1,729 / 617
M Cap (Rs bn/USD bn)	101 / 1.36
Daily Avg Volume (nos.)	57,381
Daily Avg Turnover (US\$ mn)	1.1

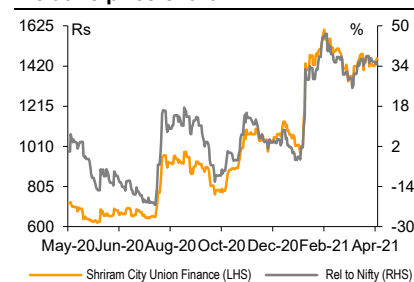
### Shareholding Pattern Mar '21

Promoters	34.6%
FIIs	28.5%
DIIIs	3.5%
Public and Others	33.4%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	7	6	77	108
<b>Rel. to Nifty</b>	8	7	44	32

### Relative price chart



Source: Bloomberg

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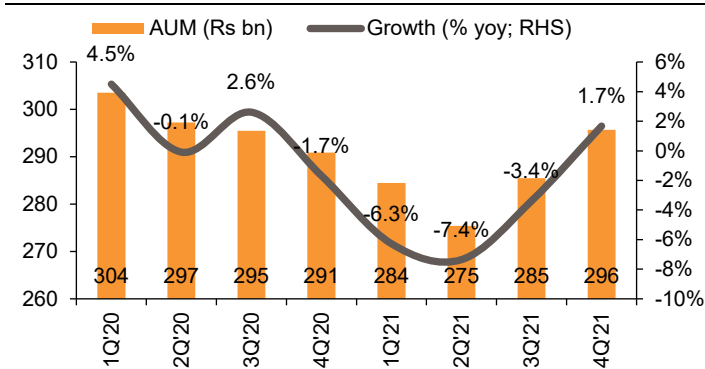
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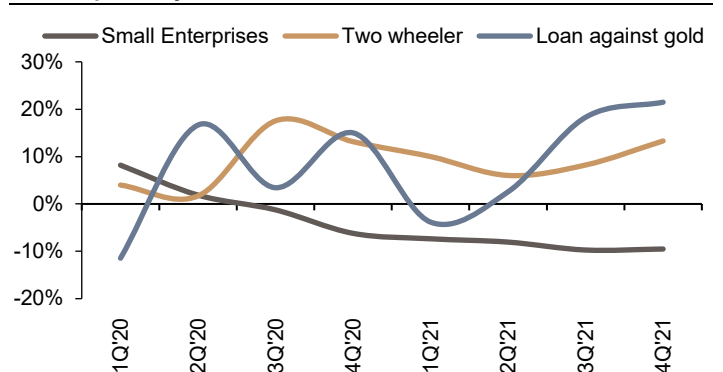
## Story in Charts

**Exhibit 1: AUM growth improve by ~4% sequentially**



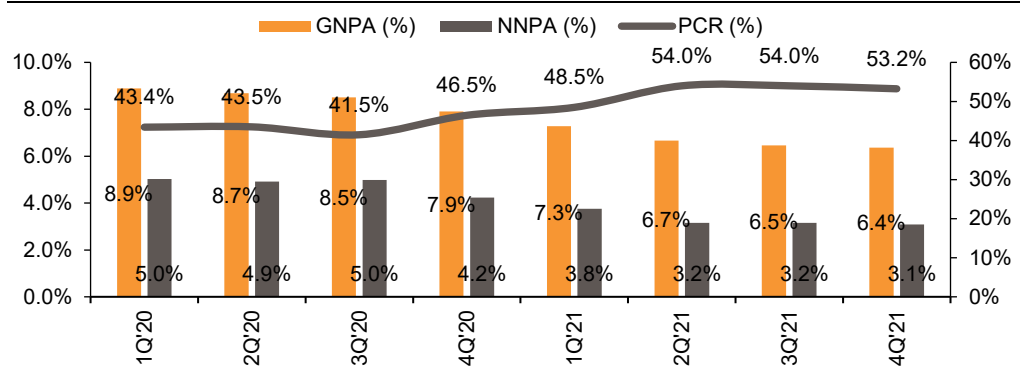
Source: Company, Emkay Research

**Exhibit 2: Loan against gold and 2W post yoy growth of 21% and 13% respectively**



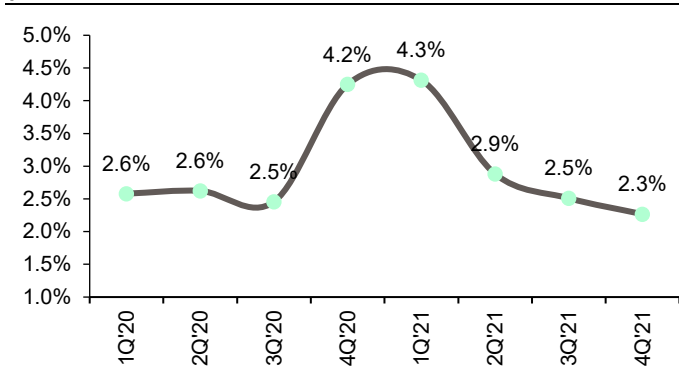
Source: Company, Emkay Research

**Exhibit 3: GNPA and NNPA stabilize at 6.4% & 3.1%, respectively; PCR declines by ~80bps qoq**



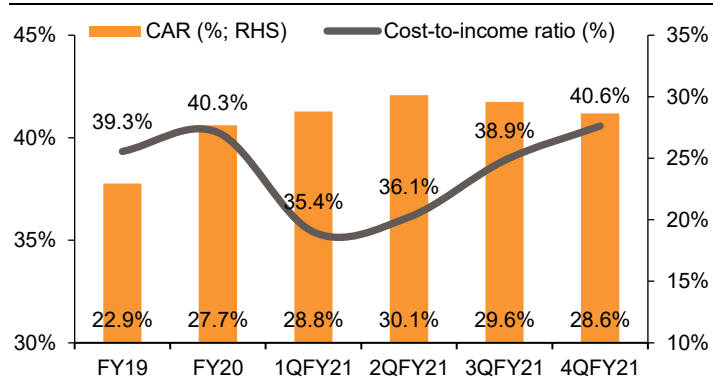
Source: Company, Emkay Research

**Exhibit 4: Credit costs improve consistently at 2.3% - better than pre-Covid levels**



Source: Company, Emkay Research

**Exhibit 5: CAR strong at 28.6%; cost-to-income rises to 40.6%**



Source: Company, Emkay Research

## Exhibit 6: Actual vs. Estimates for Q4FY21

Rs mn	Actual	Estimates (Emkay)	Consensus estimates (Bloomberg)	% variation		Comments
				Emkay	Consensus	
Net income	9,297	9,331	9,222	-0.4%	0.8%	In line with estimates
PPOP	5,525	5,606	-	-1.4%	-	In line with estimates
PAT	2,821	2,871	2,813	-1.7%	0.3%	In line with estimates

Source: Company, Emkay Research

## Exhibit 7: Quarterly financials

Rs mn	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	% yoy	% qoq	FY20	FY21	% yoy
<b>Operating Income</b>	<b>14,495</b>	<b>14,117</b>	<b>13,972</b>	<b>14,377</b>	<b>14,842</b>	<b>2.4%</b>	<b>3.2%</b>	<b>59,012</b>	<b>57,307</b>	<b>-2.9%</b>
Interest Expenses	5,499	5,375	5,190	5,215	5,559	1.1%	6.6%	21,421	21,339	-0.4%
<b>Net Operating Income</b>	<b>8,996</b>	<b>8,742</b>	<b>8,782</b>	<b>9,162</b>	<b>9,283</b>	<b>3.2%</b>	<b>1.3%</b>	<b>37,591</b>	<b>35,968</b>	<b>-4.3%</b>
Other Income	6	29	19	15	14			34	78	131.6%
<b>Total Income</b>	<b>9,002</b>	<b>8,771</b>	<b>8,801</b>	<b>9,177</b>	<b>9,297</b>	<b>3.3%</b>	<b>1.3%</b>	<b>37,471</b>	<b>36,046</b>	<b>-3.8%</b>
Operating Expenses	3,859	3,105	3,180	3,570	3,772	-2.2%	5.7%	15,084	13,626	-9.7%
<b>Operating Profit</b>	<b>5,143</b>	<b>5,666</b>	<b>5,621</b>	<b>5,607</b>	<b>5,525</b>	<b>7.4%</b>	<b>-1.5%</b>	<b>22,387</b>	<b>22,419</b>	<b>0.1%</b>
Provisions	3,114	3,102	2,017	1,760	1,647	-47.1%	-6.4%	8,837	8,525	-3.5%
% of operating profit	60.5%	54.7%	35.9%	31.4%	29.8%			39.5%	38.0%	
PBT	2,029	2,564	3,604	3,847	3,878	91.1%	0.8%	13,550	13,894	2.5%
Tax	498	642	1,035	1,050	1,057	112.1%	0.6%	3,545	3,785	6.8%
Tax rate (%)	24.6%	25.0%	28.7%	27.3%	27.3%			26.2%	27.2%	
<b>Reported PAT</b>	<b>1,531</b>	<b>1,923</b>	<b>2,569</b>	<b>2,797</b>	<b>2,821</b>	<b>84.3%</b>	<b>0.9%</b>	<b>10,005</b>	<b>10,109</b>	<b>1.0%</b>
<b>AUM</b>	<b>2,90,850</b>	<b>2,84,460</b>	<b>2,75,370</b>	<b>2,85,460</b>	<b>2,95,710</b>	<b>1.7%</b>	<b>3.6%</b>	<b>2,90,850</b>	<b>2,95,710</b>	<b>1.7%</b>
Disbursements	54,160	13,260	30,610	61,970	65,700	21.3%	6.0%	2,27,116	1,71,540	-24.5%

Source: Company, Emkay Research

## Exhibit 8: Revision in earnings estimates

Y/e Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net interest income	38,076	36,674	-3.7%	41,428	43,218	4.3%	51,856
PPOP	23,582	22,983	-2.5%	25,003	28,018	12.1%	34,882
PAT	10,947	10,871	-0.7%	11,880	13,280	11.8%	16,163
EPS (Rs)	166	165	-0.8%	180	201	11.8%	245
ABV (Rs)	1,106	1,256	13.5%	1,224	1,424	16.3%	1,645
BV (Rs)	1,345	1,370	1.9%	1,489	1,531	2.8%	1,727

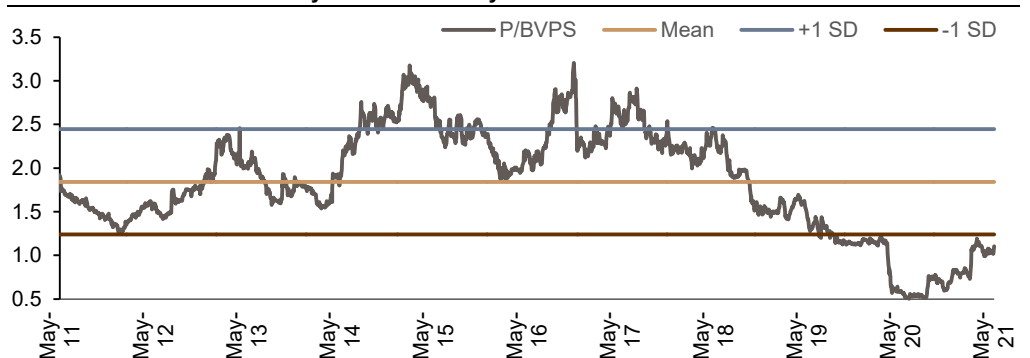
Source: Company, Emkay Research

## Exhibit 9: Key assumptions

(%)	FY21	FY22E	FY23E	FY24E
AUM growth	1.7%	5.4%	24.4%	18.4%
Borrowings growth	10.4%	-10.1%	22.7%	15.4%
Yield on average loans	20.8%	20.5%	20.0%	19.5%
Cost of average int. liabilities	8.8%	8.5%	8.2%	8.0%
GNPA (Stage 3)	6.4%	7.1%	5.8%	4.7%

Source: Emkay Research

## Exhibit 10: The stock currently trades at 1.1x 1 year forward P/B



Source: Company, Emkay Research

## Con-Call highlights

- In Q4FY21, disbursements were higher 21.3% YoY and 6% sequentially. SME loans grew 74.2% sequentially. New 2W disbursements were higher 30.2% YoY. SCUF will take a conservative view in disbursements in May'21 amid the second wave of Covid-19.
- Top-up loans in Q4 were around 4-5% of SME disbursements and loans to existing customers were 30-35% of total disbursements.
- Management is expecting a quarterly disbursement run rate of Rs7-8bn in PL (100% from existing customers- which has a hit rate of 6-8% of current eligible customers) and 18-20% qoq growth in SME from Jun'21 onwards.
- Collection efficiency was better for the first three weeks of Apr'21 but started falling since the last week of Apr'21 and may remain low for 2-3 weeks of May'21.
- Management will revisit growth assumptions (earlier assumption was 17-19% for FY22), liquidity buffer and budget estimates after Q1FY22. Management has guided that C:I ratio will be 40% in FY22.
- The profile of customers who were under moratorium is similar to the profile of normal customers, and GNPA's are at similar levels for both.
- AUM mix is 58% from the South region with AP/Telangana and TN are major contributors. AP/Telangana and TN are contributing 15% each in 2W. In SME, AP/Telangana are contributing 25-30% and TN is contributing 18-20%.
- SME ticket size: Rs1-5lac of ticket size considered under micro, Rs5-25lac under medium and Rs25+ lac under large.
- Moat for SCUF: Management mentioned that they have 600+ points of presence in AP/Tel and TN with 30 years of on-ground presence. Semi urban and rural area are key customers for SCUF.
- Management mentioned that they were getting a lot of requests from existing customers for long-tenure products so they have introduced LAP as a new product in Q4 after the successful completion of the pilot project. 10% overlap between SME and LAP customers. Yield from LAP is around 16-18% and only given for income generation purpose. Max tenure capped at 84 months compared to 36-40 months of SME loans.
- Management is confident that NPLs in PL will be better now compared to previous years as 100% loan are in-house generated and given to existing customers where credit history is known.
- Liability profile: Retail deposits have grown from 18% of total borrowing in FY20 to 22% in FY21. Management mentioned that dependence on banks has declined, and that the company was able to raise money from pension funds, market and NABARD.
- SHFL: Management mentioned that they have improved collection mechanism in housing loans, built a strong management team, brainstormed, revised distribution networks and now focused on 6 key states – AP, Telangana, TN, MH, GJ, RJ. SCUF is now predominantly catering to self-employed borrowers/informal salaried customers in Tier-II/ Tier-III towns and focusing on the middle-income segment; average ticket size of Rs20.2 lakhs.
- SHFL: Before the second Covid-19 wave, management was expecting AUM to reach Rs5bn by FY22 (from Rs3.9bn in FY21) and then 45% yoy growth in FY23. Management will revisit these assumptions after Q1.
- SHFL: Management mentioned cost to disbursement has improved in last few years and will further improve from here. Cost of funds will further reduce in FY22 due to funds from SCUF (Rs5bn equity infusion by parent in next 2 years of which Rs2bn to come in the next Q) and NABARD; NIM will improve. The company is targeting RoA of 2.7-3%, RoE of 15-18% and credit cost of 0.6% in FY22.
- SHFL: Other income – Income from direct assignment – was stable in FY20 & FY21; Income other than direct assignment grew 46% YoY. Income from direct assignment was around Rs2.9bn in FY20 and Rs3.04bn in FY21, and will remain in the range of Rs3-3.5bn per year going forward.

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

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net interest income</b>	<b>35,954</b>	<b>34,862</b>	<b>36,674</b>	<b>43,218</b>	<b>51,856</b>
<b>Other income</b>	<b>1,516</b>	<b>1,183</b>	<b>1,231</b>	<b>1,329</b>	<b>1,462</b>
<b>Net income</b>	<b>37,471</b>	<b>36,046</b>	<b>37,905</b>	<b>44,548</b>	<b>53,319</b>
Operating expenses	15,084	13,626	14,922	16,530	18,437
<b>Pre provision profit</b>	<b>22,387</b>	<b>22,419</b>	<b>22,983</b>	<b>28,018</b>	<b>34,882</b>
<b>PPP excl treasury</b>	<b>22,387</b>	<b>22,419</b>	<b>22,983</b>	<b>28,018</b>	<b>34,882</b>
Provisions	8,837	8,525	8,352	10,144	13,128
<b>Profit before tax</b>	<b>13,550</b>	<b>13,894</b>	<b>14,631</b>	<b>17,874</b>	<b>21,754</b>
Tax	3,545	3,785	3,760	4,594	5,591
Tax rate	26	27	26	26	26
<b>Profit after tax</b>	<b>10,005</b>	<b>10,109</b>	<b>10,871</b>	<b>13,280</b>	<b>16,163</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	660	660	660	660	660
Reserves	71,420	80,525	89,765	100,389	113,319
<b>Net worth</b>	<b>72,080</b>	<b>81,185</b>	<b>90,425</b>	<b>101,049</b>	<b>113,979</b>
Borrowings	231,658	255,653	229,765	281,891	325,227
<b>Total liabilities</b>	<b>309,743</b>	<b>342,100</b>	<b>325,952</b>	<b>389,252</b>	<b>446,122</b>
Cash and bank	30,624	52,144	28,237	16,076	5,361
Investments	7,341	10,173	8,042	9,866	11,383
Loans	266,761	274,201	283,661	356,825	422,373
Others	2,725	3,356	3,563	3,791	4,042
<b>Total assets</b>	<b>309,742</b>	<b>342,100</b>	<b>325,952</b>	<b>389,252</b>	<b>446,122</b>

**Key Ratios (%)**

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	12.8	12.3	12.5	12.7	12.6
RoA	3.3	3.1	3.3	3.7	3.9
RoAE	14.7	13.2	12.7	13.9	15.0
GNPA (%)	7.9	6.4	7.1	5.8	4.7
NNPA (%)	4.2	3.1	3.5	2.6	1.7

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	151.6	153.2	164.7	201.2	244.9
BVPS	1,092.1	1,230.1	1,370.1	1,531.0	1,726.9
ABVPS	959.6	1,130.4	1,256.0	1,423.8	1,645.1
DPS	10.0	13.0	24.7	40.2	49.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	10.1	9.9	9.3	7.6	6.2
P/BV	1.6	1.3	1.2	1.1	0.9
P/ABV	1.6	1.3	1.2	1.1	0.9
Dividend Yield (%)	0.7	0.9	1.6	2.6	3.2

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	(3.2)	(3.0)	5.2	17.8	20.0
PPOP	(2.8)	0.1	2.5	21.9	24.5
PAT	1.2	1.0	7.5	22.2	21.7
Loans	(1.3)	2.8	3.4	25.8	18.4

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NII	8,996	8,742	8,782	9,162	9,283
NIM (%)	12.3	12.2	12.5	13.1	12.8
PPOP	5,143	5,666	5,621	5,607	5,525
PAT	1,531	1,923	2,569	2,797	2,821
EPS (Rs)	23.19	29.15	38.94	42.40	42.73

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	33.9	33.9	34.6	34.6	34.6
FIIIs	27.4	26.8	27.1	28.0	28.5
DIIIs	6.0	5.6	15.4	3.9	3.5
Public and Others	32.8	33.7	23.0	33.5	33.4

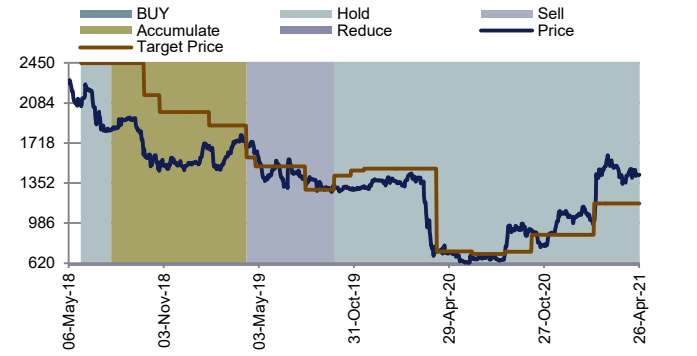
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
19-Feb-21	1,505	1,165	12m	Hold	Jignesh Sial
30-Jan-21	1,012	1,165	12m	Hold	Jignesh Sial
03-Oct-20	919	878	12m	Hold	Jignesh Sial
16-Sep-20	982	724	12m	Hold	Jignesh Sial
13-Aug-20	704	724	12m	Hold	Jignesh Sial
16-Jun-20	666	705	12m	Hold	Jignesh Sial
12-Jun-20	656	705	12m	Hold	Jignesh Sial
14-May-20	689	728	12m	Hold	Jignesh Sial
05-May-20	707	728	12m	Hold	Jignesh Sial
19-Apr-20	759	728	12m	Hold	Jignesh Sial
11-Apr-20	726	728	12m	Hold	Jignesh Sial
05-Apr-20	725	728	12m	Hold	Jignesh Sial
08-Mar-20	1,349	1,484	12m	Hold	Jignesh Sial
19-Nov-19	1,309	1,484	12m	Hold	Jignesh Sial
25-Oct-19	1,291	1,465	12m	Hold	Jignesh Sial
23-Sep-19	1,331	1,420	12m	Hold	Jignesh Sial
28-Aug-19	1,349	1,292	12m	Sell	Jignesh Sial
30-Jul-19	1,369	1,292	12m	Sell	Jignesh Sial
25-May-19	1,422	1,505	12m	Sell	Jignesh Sial
26-Apr-19	1,641	1,505	12m	Sell	Jignesh Sial
09-Apr-19	1,672	1,587	12m	Sell	Jignesh Sial
15-Feb-19	1,480	1,879	12m	Accumulate	Jignesh Sial
28-Jan-19	1,695	1,879	12m	Accumulate	Jignesh Sial
26-Oct-18	1,509	2,002	12m	Accumulate	Jignesh Sial
26-Sep-18	1,663	2,156	12m	Accumulate	Jignesh Sial
24-Sep-18	1,664	2,448	12m	Accumulate	Jignesh Sial
26-Jul-18	1,837	2,448	12m	Accumulate	Jignesh Sial
29-May-18	2,055	2,449	12m	Hold	Jignesh Sial

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-NBFCs



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#### Sector

NBFCs/AFCs

#### Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-NBFCs</b>	<b>7.98</b>	<b>7.98</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>
Bajaj Finance	1.74	1.74	0%	0	21.84
Cholamandalam Investment	0.27	0.28	3%	1	3.50
Edelweiss Financial Services	0.00	0.00	NA	0	0.00
HDFC	5.26	5.27	0%	1	65.95
L&T Finance Holdings	0.08	0.08	0%	0	1.04
LIC Housing Finance	0.15	0.16	8%	1	2.00
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.12	0.07	-37%	-4	0.91
Nippon Life	0.06	0.06	0%	0	0.76
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.30	0.32	5%	2	4.00
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

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

### Sector portfolio NAV

	Base						Latest
	01-Apr-19	30-Apr-20	30-Oct-20	29-Jan-21	01-Apr-21	30-Apr-21	
EAP - BFSI-NBFCs	100.0	90.9	97.1	126.1	137.4	133.3	
BSE200 Neutral Weighted Portfolio (ETF)	100.0	85.2	91.2	118.4	129.2	125.2	

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

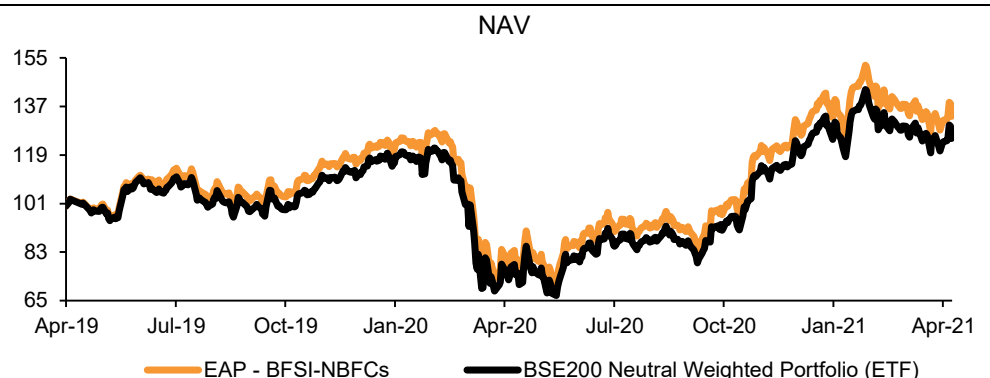
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	-3.0%	5.8%	37.3%	46.7%
BSE200 Neutral Weighted Portfolio (ETF)	-3.1%	5.7%	37.2%	47.0%

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: 04 May 2021 04:52:55 (SGT)

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