

# Shriram City Union Finance

Refer to important disclosures at the end of this report

## In-line performance with improving asset quality

| CMP                             | Target Price              |
|---------------------------------|---------------------------|
| Rs 1,406<br>as of (May 1, 2021) | Rs 1,165 (■)<br>12 months |
| Rating                          | Upside                    |
| HOLD (■)                        | (17.1) %                  |

- SCUF has reported in-line PAT of Rs2.8bn (+84.3% yoy, +0.5% qoq) in Q4FY21 on the back of an improving growth trajectory along with low provision charges.
- Disbursements witnessed steady growth at ~21.3% yoy (+6% qoq) to Rs65.7bn, mainly aided by SME loans (up ~74.2% qoq). The company recorded highest ever Personal loans disbursements of Rs8.1bn (+30% qoq). It has also introduced a news product in the quarter – LAP, registering disbursement of Rs1.9bn.
- AUM grew by 3.6% sequentially and 1.7% yoy to Rs295.7bn amid the normalization of repayments.
- Margins dipped to ~12.7% vs. ~13.1% in Q3FY21 on account of increased cost of funds (+30bps qoq) as the company carried larger liquidity. SCUF has witnessed a gradual improvement in the liability franchise.
- SCUF 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 Rs51.19bn with weighted average tenure of 38 months.
- The company asset quality improved, with Gross Stage 3 down to 6.39% (-153bps yoy, -9bps qoq) and Net Stage 3 down to 3.08% (-115bps yoy, -8bps qoq). The provision coverage ratio for the quarter further improved to 53.24% vs. 52.71% in the last quarter.
- The provisions for the quarter declined by ~643bps to Rs1.64bn. Credit costs improved to ~227bps vs. ~251bps last quarter. The company maintains Covid-19-related provisioning of Rs7.1bn as on Mar'21.
- These are decent numbers; however, we would await more clarity over the present scenario, considering a fresh round of lockdowns amid the second wave of Covid-19.
- Post results conference call is scheduled on 3<sup>rd</sup> May, 2021 at 11am at +91 22 6280 1144. We currently have a Hold rating on the stock with a TP of Rs1,165.

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

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**Exhibit 1: Quarterly earnings summary**

| Rs mn                       | 4QFY20          | 1QFY21          | 2QFY21          | 3QFY21          | 4QFY21          | % yoy        | % qoq        | FY20            | FY21            | % yoy        |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|--------------|-----------------|-----------------|--------------|
| Operating Income            | 14,495          | 14,117          | 13,972          | 14,377          | 14,842          | 2.4%         | 3.2%         | 59,012          | 57,307          | -2.9%        |
| 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%       |
| Total Income                | 9,002           | 8,771           | 8,801           | 9,177           | 9,297           | 3.3%         | 1.3%         | 37,471          | 36,046          | -3.8%        |
| 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%           |              |
| <b>PBT</b>                  | <b>2,029</b>    | <b>2,564</b>    | <b>3,604</b>    | <b>3,847</b>    | <b>3,878</b>    | <b>91.1%</b> | <b>0.8%</b>  | <b>13,550</b>   | <b>13,894</b>   | <b>2.5%</b>  |
| 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

## Emkay Rating Distribution

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

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