

Shriram City Union Finance

Rs453
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs22.3bn; US\$466m

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Result: Q4FY10

Comment: Strong performance

Key valuation metrics

Year to 31 March	NII (Rs m)	yoy chg (%)	Net profit (Rs m)	yoy chg (%)	EPS (Rs)	Adj.Bk (Rs)	P/ Adj.Bk (x)	PE (x)	RoAE (%)
FY07	2,019	104.0	516	63	13.2	86	5.3	34.3	22.3
FY08	3,557	76.1	877	70	21.3	106	4.3	21.3	22.0
FY09	4,888	37.4	1,170	33	25.5	152	3.0	17.8	20.2
FY10	6,090	24.6	1,943	66	39.5	203	2.2	11.5	21.3
FY11E	7,412	21.7	2,337	20	47.6	243	1.9	9.5	21.3
FY12E	9,213	24.3	2,997	28	61.0	317	1.4	7.4	22.7

Highlights of Q4FY10 results

Shriram City Union Finance ('SCUF') reported a PAT of Rs454mn (a yoy increase of 39%), in line with our estimates of Rs450m, led by strong margin expansion and healthy growth in disbursements.

- **Expansion in NIMs leads to healthy NII growth:** SCUF's reported NIMs expanded by 80bp qoq and 85bp yoy to 12.3%, benefiting from lower funding costs. Costs of funds came-off by 53bp qoq to 9.4% due to low wholesale borrowings rates, driving a 45bp qoq expansion in loan spreads (to 11.76%). Consequently, NII grew by a healthy 15% yoy to Rs1.57bn, in line with our estimates, also aided by strong disbursement growth.
- **Traction in disbursements:** Disbursements increased by a strong 27% yoy and 25% qoq to Rs14.9bn, led by 35% qoq expansion in secured loans and 119% qoq expansion in personal loans. Proportion of secured (auto and gold loans) grew to ~55% in Q4FY10 from 48% in Q3FY10. Management indicated that gold loans, a market which SCUF had entered 1-1.5 years back, is witnessing ~30% yoy growth and currently constitutes ~20% of the total loan portfolio. On back of strong growth in disbursements, total loan book by 26% yoy and 7.5% qoq to Rs47.3m, while AUM grew by 13% yoy to Rs52.2bn (includes Rs4.8bn off balance sheet assets).
- **Pre-dominantly wholesale funding mix:** During the quarter, wholesale borrowings (from banks & FIs) increased ~6.1bn while retail funds remained almost constant at Rs18.7bn. Consequently, proportion of wholesale funding increased to ~60% in Q4FY10 from 54.2% in Q3FY10. A higher proportion of wholesale liabilities (vis-à-vis Q3FY10), led to a decline in interest costs partially explaining the margin expansion witnessed during the quarter. With 80% of the liabilities being fixed in nature, the management expects the impact of rising funding costs to be minimal on margins over FY11.

- **Asset quality improves, coverage improves:** Gross NPAs improved by 16bp sequentially to 2.27% in Q4FY10, a function of increasing proportion of secured gold loans. Net NPAs declined by 17bp qoq to 0.71% as of Q4FY10, leading to an expansion in coverage ratio by 460bp qoq to 69%. Including write-offs of ~Rs251m, SCUF's coverage ratio stands at a comfortable level of ~75%. Owing to strong collections and recovery processes, SCUF has succeeded in maintaining its asset quality despite exposure to a riskier business segment.
- **Decline in provisions:** In line with improving asset quality, provisions were below our estimates at Rs284m (qoq decline of 17%). As a result, provisions to average assets declined from 2.1% in Q3FY10 to 1.8% in Q4FY10.
- **Higher operating expenses:** SCUF's operating expenses were higher than estimates at Rs619m (up 16% yoy), owing to higher business promotion and recovery expenses. Brokerage and commission expenses were muted despite the strong disbursements owing to increasing proportion of short tenure loans (as gold loans).

Valuations & View

Shriram City Union Finance has emerged as the only organized lender in the unsecured retail credit space. Given its monopolistic niche, SCUF is able to command elevated yields of 24-26%, which coupled with benign borrowing costs have led to expansion in margins during the quarter. Aided by a pick-up in the economic environment, we expect disbursements to register a strong 27% CAGR over FY10-12. Healthy loan growth, coupled with steady margins would drive a 23% CAGR in NII over FY10-12E. We expect 24% CAGR in earnings over FY10-12 and return ratios to sustain at the current elevated levels (average RoA of 3.3% over FY10-12E). The stock currently trades at 1.9x FY11E and 1.4x FY12E adjusted book value. Reiterate Outperformer with an 18-month price target of Rs640/ share (2x FY12E adjusted book and 10.5x EPS).

Quarterly results

(Rs m)	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	FY010	FY11E	FY12E	Comments
Interest income	2,418	2,301	2,449	2,360	2,565	10,720	13,001	16,428	
Income from securitization	164	360	240	238	206	1,045	238	304	~Rs2bn loans securitized in FY10
Net interest income	1,376	1,501	1,541	1,472	1,577	6,417	7,657	9,507	Buoyed by loan book growth and margin expansion
<i>yoy growth (%)</i>	<i>40.1</i>	<i>30.6</i>	<i>22.3</i>	<i>28.7</i>	<i>14.6</i>	<i>24.6</i>	<i>21.7</i>	<i>24.3</i>	
Other income	37	214	54	31	28	327	245	294	
Operating expenses	535	628	549	529	619	2,389	2,769	3,306	Higher than estimates - up 17% qoq
<i>yoy growth (%)</i>	<i>1.2</i>	<i>8.8</i>	<i>-7.7</i>	<i>-1.6</i>	<i>15.6</i>	<i>(3.1)</i>	<i>15.9</i>	<i>19.4</i>	
Operating profit	730.9	1,059.5	1,035.7	961.8	971.5	4,029	4,888	6,201	
<i>yoy growth (%)</i>	<i>74.5</i>	<i>80.8</i>	<i>58.3</i>	<i>61.2</i>	<i>32.9</i>	<i>56.9</i>	<i>21.3</i>	<i>26.8</i>	
Provisions and write-offs	231	235	306	341	284	1,166	1,373	1,694	Lower on better asset quality
Profit before tax	500	825	730	620	688	2,863	3,515	4,507	
<i>yoy growth (%)</i>	<i>94.8</i>	<i>93.5</i>	<i>55.3</i>	<i>54.4</i>	<i>37.6</i>	<i>59.3</i>	<i>22.8</i>	<i>28.2</i>	
Profit after tax	327	581	502	405	454	1,943	2,337	2,997	Meets estimates on expanding margins and strong disbursements
<i>yoy growth (%)</i>	<i>51.7</i>	<i>111.2</i>	<i>62.8</i>	<i>56.3</i>	<i>38.8</i>	<i>66.0</i>	<i>20.3</i>	<i>28.2</i>	

Quarterly results

Ratios (%)	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	FY010	FY11E	FY12E	Comments
NIMs*	11.0	10.7	10.6	10.4	10.7	10.4	10.5	10.4	Improved due to higher loan yields & lower funding costs
NIM (net of sec gains)	9.7	8.1	9.0	8.7	9.3	8.6	10.2	10.0	
Other income / avg assets	0.3	1.5	0.4	0.2	0.2	0.6	0.3	0.3	
Employee exp / avg assets	0.6	0.6	0.7	0.7	0.5	0.6	0.6	0.6	
Other op exp/avg assets	4.5	2.2	1.8	2.1	3.5	3.5	3.3	3.1	
Total op exp / avg assets	4.3	4.5	3.8	3.7	4.2	4.1	3.9	3.7	
Cost-Income ratio	37.9	36.6	34.4	35.2	38.6	37.2	36.2	34.8	
Provisions / avg assets	1.9	1.7	2.1	2.4	1.9	2.0	1.9	1.9	Credit costs contained on improved asset quality
PBT/Avg assets	4.0	5.9	5.0	4.4	4.7	4.9	5.0	5.1	
Tax/PBT	34.5	29.6	31.2	34.7	33.9	32.1	33.5	33.5	
PAT/avg assets	2.6	4.1	3.5	2.9	3.1	3.3	3.3	3.4	
Balance sheet (Rs bn)									
Total assets	54.4	58.1	58.0	55.2	62.5	62.5	78.8	98.8	
Total AUM	46.3	49.5	47.7	48.1	52.2	52.2	67.0	85.1	
Disbursements	11.7	12.8	10.0	12.5	14.9	50.2	64.3	81.0	Driven by secured lending and personal loans; up by 19% qoq
Loan book	37.5	42.2	42.6	44.0	47.3	47.3	60.8	77.2	

Exhibit 1: Strong disbursements (Rs bn)

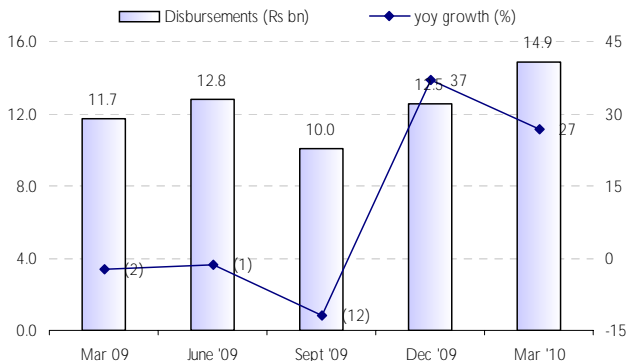


Exhibit 2: Loan book growth remains robust (Rs bn)

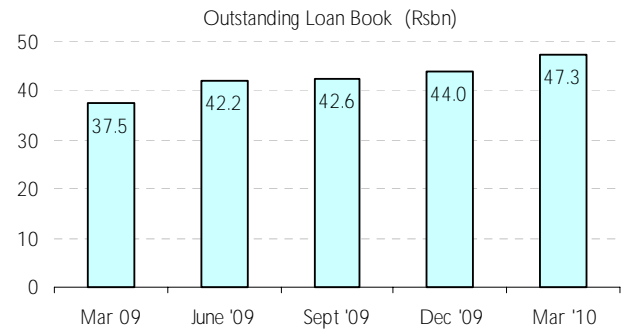


Exhibit 3: Margins* see an uptick (%)

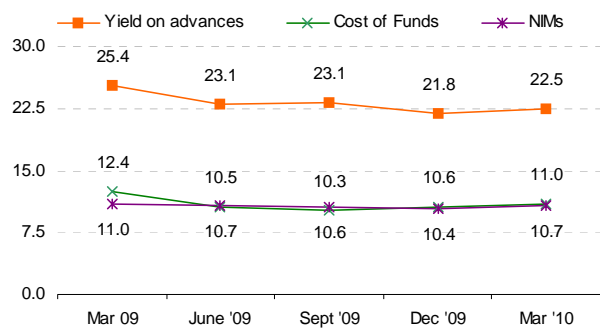
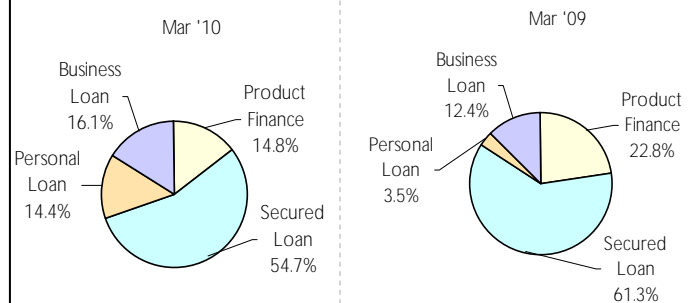


Exhibit 4: Disbursement mix



* Calculated on average quarterly balances

Exhibit 5: Asset under management

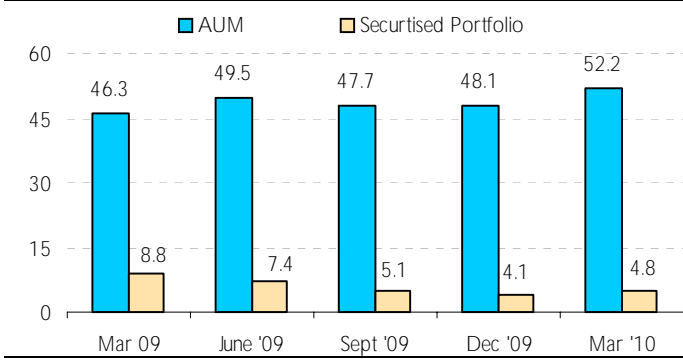
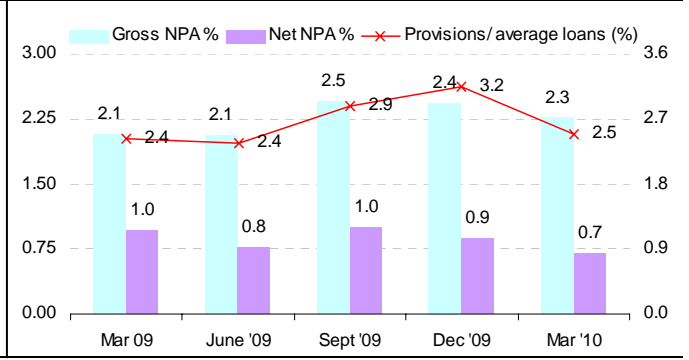


Exhibit 6: Gross NPAs decline



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