

Shriram City Union Finance Ltd

Growth momentum intact

Fundamental Grade **3/5 (Good fundamentals)**
Valuation Grade **5/5 (CMP has strong upside)**

Industry **Consumer Finance**

Shriram City Union Finance Ltd's (Shriram City's) Q2FY12 earnings were broadly in line with CRISIL Research's expectations due to the growth in total operating income and lower provisions despite an increase in cost to income ratio. We broadly maintain our estimates and our cautious stance on the asset quality for H2FY12 given the challenging environment. We maintain the fundamental grade of **3/5**.

Q2FY12 result analysis

- Q2FY12 total operating income grew 11.4% q-o-q to Rs 2,424 mn as net interest income (constituting 99% of total income) grew 17% q-o-q to Rs 2,399 mn. Non-interest income was subdued at Rs 25 mn in Q2FY12.
- Net interest income grew 17% q-o-q led by 13.5% growth in AUM to Rs 100 bn and with gross spreads increasing 42 bps to 12.1%. Gold loans, small business loans and auto loans – which drove AUM growth – together constituted 82% of AUMs in Q2FY12 as against 69% in Q1FY12. Gross spreads increased as yields were repriced by 53 bps to 20.3% despite cost of funds increasing by 11 bps to 8.2%.
- Operational costs grew 35.4% q-o-q to Rs 826 mn due to rise in operating expenses which rose 42.3% q-o-q to Rs 636 mn due to non-convertible debenture (NCD) issue expenses of Rs 80 mn booked in Q2FY12 (excludes pre-allotment interest expense) and technology spends. Staff cost grew 16% q-o-q due to salary revisions. So, cost to income ratio rose to 35.2%.
- Provisions fell 4.4% q-o-q to Rs 346 mn. Despite a challenging environment, asset quality was healthy with gross NPAs and net NPAs at 1.8% and 0.4%, respectively, helped by rising contribution of low-risk gold loans to AUMs (gold loan contribution grew 200 bps q-o-q to 28% of AUM).
- PAT was flat q-o-q (up 45.8% y-o-y) due to higher cost to income ratio despite growth in operating income and lower provisions. Excluding NCD issue expense of Rs 100 mn in Q2FY12, PAT up 13% q-o-q to Rs 911 mn.

Earnings estimates – largely maintained

We increase our FY12 and FY13 total operating income estimates by 8% and 9%, respectively, as we have increased the total AUM to Rs 112 bn and Rs 134 bn, respectively. We have increased the operating costs in FY12 due to the NCD issue expenses and because the company is investing in technology infrastructure; hence the pre-provision profit remains largely unchanged. Overall, our PAT estimates are largely maintained.

Valuations: Current market price has strong upside

We maintain our fair value of Rs 673 per share based on the price-to-book multiple method. We had assigned a price to book (P/B) multiple of 1.9x on FY13 adjusted book value. Accordingly, the valuation grade is **5/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Total operating income	5,032	6,399	8,082	9,838	11,431
Pre-provision profit	2,788	4,075	4,841	6,347	7,715
Adjusted net profit	1,170	1,943	2,406	2,833	3,581
EPS	28	40	49	57	72
P/E (x)	11.6	11.5	12.8	9.1	7.2
P/ABV (x)	2.2	2.3	2.6	1.8	1.5
ROE (%)	22.2	22.8	21.8	21.2	22.0
ROA (%)	2.5	3.3	3.0	2.6	2.6
Net NPA (%)	1.0	0.7	0.5	0.4	0.3
Capital adequacy ratio (%)	25.7	26.3	20.8	20.3	20.1

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

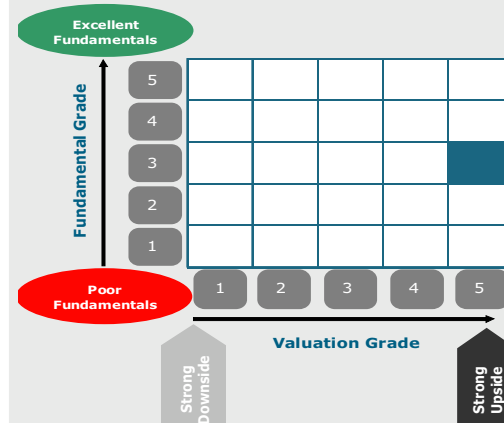


November 15, 2011

Fair Value **Rs 673**

CMP **Rs 520**

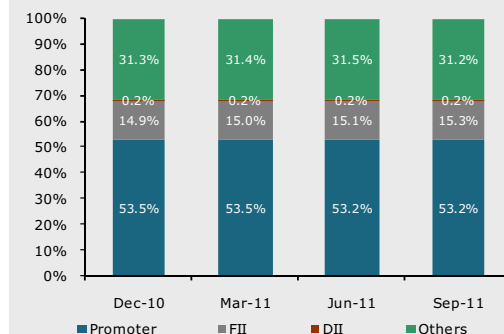
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5258/17465
NSE / BSE ticker	SHRIRAMCIT/ SHRM CITY
Face value (Rs per share)	10
Shares outstanding (mn)	49.8
Market cap (Rs mn)/(US\$ mn)	26,294/537
52-week range (Rs) (H/L)	717/486
Beta	0.51
Free float (%)	46.3%
Avg daily volumes (30-days)	1,476
Avg daily value (30-days) (Rs mn)	0.8

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Shriram City	-2%	-7%	-15%	-25%
NIFTY	2%	-8%	-12%	-16%

ANALYTICAL CONTACT

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