



# SHRIRAM CITY UNION FINANCE LTD

September 02, 2016

SECTOR NBFC  
RECOMMENDATION

Buy @ 2100, Target 2350



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### **Shriram City Union Finance Limited - Structurally High Growth Business**

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## Company Overview and Stock Price

### Shriram Group

Shriram Group is one of the largest financial conglomerates significant presences in small enterprising financing, commercial vehicle financing business, retail finance, life and general insurance, stock broking, chit funds and distribution of financial products. The group is also present in businesses such as property development, engineering projects and information technology.

**Shriram City Union Finance** is a deposit accepting non banking financial company (NBFC) Shriram City is today India's premier financial services company specializing in retail finance. The company has a wide range of offerings comprising finance for two wheelers, personal loans, small business loans and loan against gold.

Shriram City Union Share Price Performance	
EXCHANGE SYMBOL	SHRIRAM CITY
Current Price * (Rs.)	2142.80
Face Value (Rs.)	10.00
52 Week High (Rs.)	2356.00(19-Aug-16)
52 Week Low (Rs.)	1332.25(18-Jan-16)
Life Time high (Rs.)	2356.00(19-Aug-16)
Life Time low (Rs.)	32.90(12-Apr-05)
Average Daily Movement	67.35
Average Volume	26648
1 Month Return (%)	10.45
P/E Ratio (x)	24.53
Book Value	705.09
Market Cap	13871.60(Cr)
% of Promoter holding pledged	NIL



**Chart Hypothesis: Shriram City has given correction of 10% from recent high of 2356 and is trading at 2112.**

COMPANY PROFILE OF SHRIRAM CITY UNION	
Date of Incorporation	06-Jan-1993
Date of Listing	08-Jan-2010
Management	
Name	Designation
Maya S Sinha	Ind. Non-ED
Vipen Kapur	Ind. Non- ED
Venkataraman Murali	Ind. Non- ED
Subramaniam Krishnamurthy	Ind. Non- ED
Pranab Prakash Pattanayak	Ind. Non- ED
Duruvasan Ramachandra	Managing Director & CEO
Debendranath Sarangi	Non Exe.Ind.Chairman
Shashank Singh	Non Exe.Non Ind.Director
Khushru Burjor Jijina	Non Exe.Non Ind.Director
Gopalsamudram S S	Non Exe Non Ind Director
Gerrit Lodewyk Van Heerde	Non Exe.Non Ind.Director
Ranvir Dewan	Non Exe.Non Ind.Director
Registered Office Address	
123, Angappa Naicken Street,600001,Chennai (Madras),Tamil Nadu,India	
Website	
<a href="http://www.shriramcity.in">http://www.shriramcity.in</a>	



## Products of Shriram City Union

### Non Corporate Small Business Loans

Shriram City Union Finance started offering customized loans to the Small Enterprise segment in 2006, and since then, has continually focused on widening its customer base for this product. The small enterprises segment comprises of self-employed professionals, wholesale and retail dealers, merchants, builders, small and medium scale manufacturing concerns, catering services, tour operators, etc. Loans are customized to suit the requirements of the customers after having assessed and understood their business model.

Shriram City Union Finance believes that the small enterprises finance segment is still largely under banked, and most of the lending in this sector has traditionally been addressed by the unorganized players in various regions in India. Shriram City Union Finance expects the small enterprise segment which contributes 17% of India's GDP to grow significantly in the coming years.

### Two Wheeler Loans

Shriram City Union Finance currently offers various options for financing the purchase of two wheeler vehicles across manufacturers and brands. A widespread presence in dealer showrooms, and with preferred finance tie-ups with all two wheeler brands in India have given Shriram City Union Finance a distinct edge in segment. Shriram City Union Finance executives man dealer showrooms with a dedicated team to clear proposals, making it the quickest and most efficient financing option a customer can ask for.

### Gold Loans

The Company offer loan against gold jewellery, primarily to individuals who possess gold jewellery but do not have access to formal credit within a reasonable time, or to whom credit may not be available at all, to meet their short-term requirements. Shriram City Union Finance targets the customers who otherwise continue to rely on the unorganized sector for timely funding requirements. Shriram City Union Finance has capitalized on the 'Shriram' brand name to build a credible and reliable gold loan business.





### Personal Loans

Shriram City Union Finance offers personal loans to customer segments that do not have easy access to banks and similar institutions for speedy short or medium finance. Shriram City Union Finance provides personal loans to its existing and old customers, as well as customers of other Shriram Group entities.

### Auto Loans

Shriram City Union Finance offers a variety of loans to finance the purchase of new and pre-owned passenger and commercial vehicles. This includes three wheelers, four wheelers, used and new cars. Shriram City Union Finance principally targets the financing of new passenger and commercial vehicles.

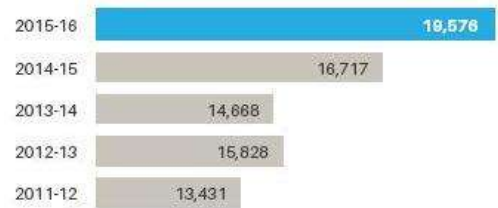
### Home Loans

Shriram Housing Finance Ltd. (SHFL) is a housing finance company, and is also a subsidiary of Shriram City Union Finance. SHFL is registered with the National Housing Bank, and commenced its lending operations from December 2011 onwards.

SHFL is headquartered in Mumbai and has a pan India presence. The company offers several innovative mortgage products to provide financial assistance to prospective homeowners who remain underserved even today.

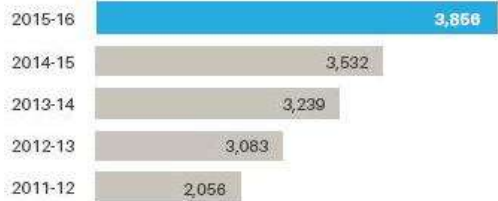
#### AUM

₹ In Crores



#### TOTAL INCOME

₹ In Crores





## Company Financials

Quarterly Income Statement (in Cr)	Jun-16	Mar-16	Dec-15	Sep-15	Jun-15	Mar-16
	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Annually
Net Sales/Income from operations	1053.48	975.7	1000.84	945.48	912.85	3834.87
Total Income From Operations	1053.48	975.7	1000.84	945.48	912.85	3834.87
Employees Cost	137.57	152.79	121.04	124.28	115.12	513.23
Depreciation	9.03	11.31	7.22	9.51	8.88	36.92
Other Expenses	127.25	132.01	130.13	117.68	112.09	499.24
Total Expenditure	273.85	296.11	258.39	251.47	236.09	1049.39
Operating Profit	644.08	423.5	616.77	576.14	560.06	2169.14
Provisions And Contingencies	135.55	256.09	125.68	117.87	116.7	616.34
Other Income	1.52	16.28	0.25	0.48	4.15	21.16
P/L Before Int., Excpt. Items & Tax	645.6	439.78	617.02	576.62	564.21	2190.3
Interest	367.24	353.37	353.14	344.5	339.77	1383.46
P/L Before Exceptional Items & Tax	278.36	86.41	263.88	232.12	224.44	806.84
P/L Before Tax	278.36	86.41	263.88	232.12	224.44	806.84
Tax	96.57	30.92	89.59	79.81	76.74	277.06
P/L After Tax from Ordinary Activities	181.79	55.49	174.29	152.31	147.7	529.78
PAT	181.79	55.49	174.29	152.31	147.7	529.78
Minority Interest	--	--	--	--	--	--
Net Profit/(Loss) For the Period	--	--	--	--	--	--
Equity Share Capital	65.93	65.93	65.93	65.92	65.91	65.93
Reserves	--	4445.69	--	--	--	4445.69
Equity Dividend Rate (%)	--	--	--	--	--	100
EPS (Rs.) [Before Extraordinary items]	27.57	8.41	26.44	23.11	22.41	80.37
EPS (Rs.) [After Extraordinary items]	27.57	8.41	26.44	23.11	22.41	80.37

The Company has posted a net profit of Rs. 181.79 crore for the quarter ended June 30, 2016 as compared to Rs. 147.70 crore for the quarter ended June 30, 2015.

Total Income has increased from Rs. 917 crore for the quarter ended June 30, 2015 to Rs. 1055 crore for the quarter ended June 30, 2016.

The Operating Profit margin of the company increased to 61% in Jun 30, 2016 compare to 43% in last quarter.



Balance Sheet (In Cr)	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12
<b>EQUITIES AND LIABILITIES</b>					
<b>SHAREHOLDERS FUNDS</b>					
Equity Share Capital	65.93	65.91	59.28	55.42	52.37
Total Share Capital	65.93	65.91	59.28	55.42	52.37
Reserves and Surplus	4,582.83	4,150.09	2,940.49	2,190.24	1,593.78
Total Reserves and Surplus	4,582.83	4,150.09	2,940.49	2,190.24	1,593.78
Money Received Against Share Warrants	0	0	0	43.62	84.37
Total Shareholder's Funds	4,648.76	4,215.99	2,999.78	2,289.28	1,730.51
Minority Interest	89.11	82.54	78.61	34.08	0
<b>NON-CURRENT LIABILITIES</b>					
Long Term Borrowings	10,012.69	8,089.74	8,930.35	8,275.92	6,314.01
Other Long Term Liabilities	501.26	354.12	373.52	400.54	445.92
Long Term Provisions	190.55	93.29	59.14	20.76	10.46
Total Non-Current Liabilities	10,704.50	8,537.15	9,363.02	8,697.21	6,770.38
<b>CURRENT LIABILITIES</b>					
Short Term Borrowings	1,053.16	1,177.45	383.55	1,602.29	1,237.95
Other Current Liabilities	4,902.89	4,197.83	3,424.87	3,541.69	2,827.54
Short Term Provisions	674.73	445.28	318.37	96.01	78.34
Total Current Liabilities	6,630.77	5,820.56	4,126.79	5,239.98	4,143.83
Total Capital And Liabilities	22,073.14	18,656.25	16,568.20	16,260.55	12,644.73
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Tangible Assets	72.83	76.54	92.34	88.1	51.95
Intangible Assets	14.42	6.87	10.61	2	1.31
Fixed Assets	87.25	83.41	102.96	90.1	53.25
Non-Current Investments	367.42	101.65	12.96	3.01	3.01
Deferred Tax Assets [Net]	39.19	31.18	18.81	18.96	13.59
Long Term Loans And Advances	7,410.04	6,031.25	4,534.12	3,477.59	2,501.08
Other Non-Current Assets	35.21	137.23	128.22	242.8	369.69
Total Non-Current Assets	7,939.12	6,384.71	4,797.06	3,832.46	2,940.62
<b>CURRENT ASSETS</b>					
Current Investments	346.91	734.65	461.11	21.19	0
Cash And Cash Equivalents	654.69	802.8	2,485.17	2,179.13	1,160.15
Short Term Loans And Advances	13,009.91	10,599.83	8,639.67	9,993.28	8,225.24
Other Current Assets	122.52	134.27	185.2	234.49	318.71
Total Current Assets	14,134.02	12,271.54	11,771.14	12,428.09	9,704.10
Total Assets	22,073.14	18,656.25	16,568.20	16,260.55	12,644.73

**The Company is increasing its reserves in every financial year.**

**The total asset value of the company is increasing.**



### Financial Ratios

Ratios	2015 - 16	2014 - 15	2013 - 14	2012 - 13	2011 - 12
Debt Equity Ratio	3.2	3.03	4.19	5.69	5.58
Return on Average Total Assets (%)	2.72	3.24	3.2	3.12	3.12
Capital Adequacy Ratio (%)	26.14	28.84	25.77	18.61	17.4
Tier-1 Capital Adequacy Ratio	23.36	24.64	19.87	14.58	13.76
Return on Average Net worth (%)	12.33	16.03	20.38	22.69	23.33

### Credit Rating

Rating Agency	Year Ending Mar 31	Long Term	Short Term	Bank Loan Ratings	Subordinate Debt	Fixed Deposit
INDIA RATINGS	2016	IND AA'/STABLE	IND A1+	IND AA'	-	'IND AA'
CARE	2016	CARE AA+	CARE A1+	-	CARE AA+	CARE AA+
ICRA	2016	ICRA AA/Stable	ICRA A1+	-	-	MAA+/Stable
CRISIL	2016	CRISIL AA-/Stable	CRISIL A1+	-	CRISIL AA-/Stable	FAA/Stable

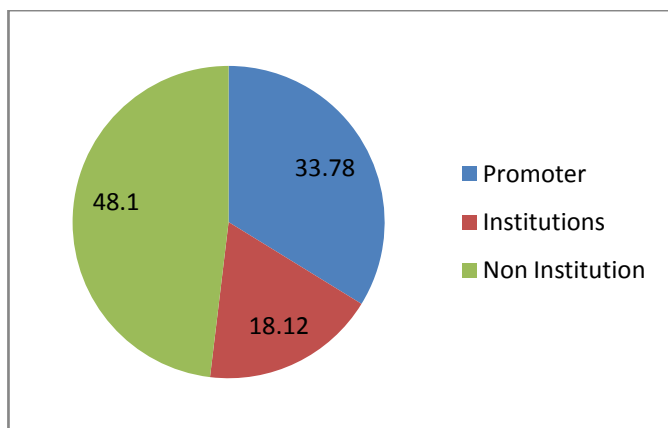




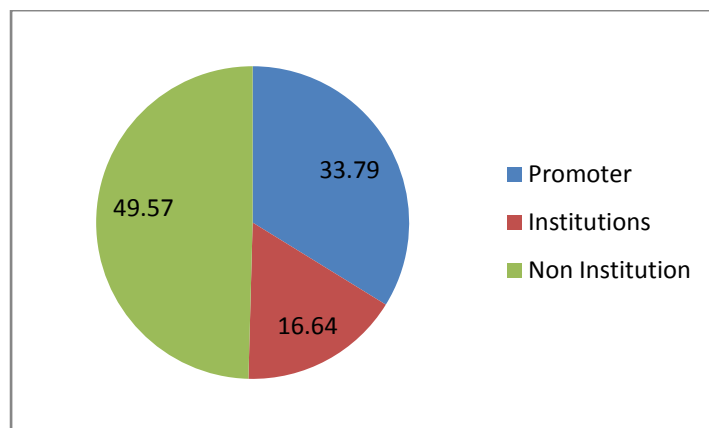
### Share Holding Pattern

Shareholding Pattern	Jun-16	Mar-16	Dec-15	Sep-15	Jun-15
Promoter and Promoter Group (%)	33.78	33.78	33.78	33.78	33.79
Indian	33.78	33.78	33.78	33.78	33.79
Foreign	NIL	NIL	NIL	NIL	NIL
Institutions (%)	18.12	19.2	18.65	17.39	16.64
FII	16.13	17.37	16.48	15.12	13.95
DII	1.99	1.84	2.17	2.27	2.69
Non Institutions (%)	48.1	47.02	47.57	48.83	49.57
Bodies Corporate	NIL	NIL	NIL	11.43	11.63
Others	48.1	47.02	47.57	37.4	37.94
Custodians	NIL	NIL	NIL	NIL	NIL
Total no. of shares (cr.)	6.59	6.59	6.59	6.59	6.59

**Jun 16**



**Jun15**





## Economic Environment

### Global Economy

Global economic activity remained subdued in 2015 and is expected to grow at 3.4% in 2016 and 3.6% in 2017. The year had contrary trends with advanced economies having a modest recovery, and declining growth in emerging market and developing economies. The US economy was supported by eased out monetary policies and the firming of housing and labour markets.

Chinese economy witnessed a gradual slowdown, as it moved away from investment and manufacturing toward consumption and services. Countries currently in economic distress, Brazil, Russia, and some countries in the Middle East, are expected to show gradual improvements in the growth rate and in turn contribute to the growth of the Global economy in the years to come.

### Indian Economy

India's GDP grew by 7.6% in 2015-16, making it one of the fastest growing major economies in the world. The International Monetary Fund (IMF) predicts Indian GDP to grow at 7.5% for the years 2016 and 2017.

India remained on moderate growth radar owing to positive policy initiatives of the government, low interest rates, declining fiscal deficit, and moderating inflation. As inflation eased sharply, the Reserve Bank of India (RBI) was able to cut interest rates four times this year.

During 2015-16, continuing fiscal consolidation has reduced the central government's fiscal deficit to close to 4% of GDP (on a 12-month rolling basis), down from a peak of 7.6% in 2009. Current account deficit narrowed to 1.3% of the gross domestic product in the fiscal third quarter from 1.5% in the year-earlier period, as the country's trade deficit contracted.

Indian GDP Growth (%)			
Sectors	2015-16	2014-15	2013-14
Agriculture, forestry and fishing	1.1	1.1	3.7
Industry	6.1	5.9	4.5
Services	10.9	10.6	9.1
GDP at market prices	7.6	7.4	6.9



## Strength of Shriram City Union

### Strengths

**Building on relationship:** The Company possesses a specialized business model focused on serving Small Business Owners, especially of the unserved and underserved category. The Company also enjoys leadership status in the Two Wheeler financing segment. Relationship-based lending and decentralized decision-making provide a competitive edge.

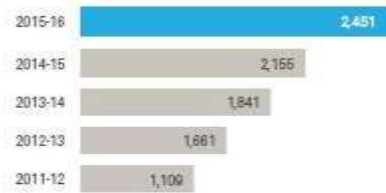
**Established leadership:** The Asset Under Management of the company has grown consistently at a CAGR of 28% from FY 2008-14. The growth has been driven by small enterprises and under banked semi-urban customers. The company has established leadership in the small enterprise segment, which has very low competition. 80% of our branch network is in underpenetrated segment across semi-urban India and possesses huge potential for growth due to rising income levels. Our efforts are focused on building and tapping 'long term customer relationships' across Shriram ecosystem.

**Diversified product offering:** The Company has have successfully diversified our product offerings from traditional two-wheeler and auto financier to gold loans and personal loans. The Company further diversified our offerings to the high growth housing finance segment and small enterprise finance. The Company aim to continue rollout of full range of products at all business outlets.

**Group synergies:** The company banks upon the expanded reach of the Shriram Ecosystem by optimum utilisation of the existing branch and distribution network, sales force, customer base and brand goodwill.

**Robust in-house capabilities:** The Company have a tailored credit appraisal technique, stringent risk management framework and are guided by an experienced management.

NET INTEREST INCOME ₹ In Crores



PROFIT AFTER TAX ₹ In Crores





## Investment Rationale:

Shriram City Union Finance is the largest financial conglomerates having significant presences in small enterprising financing, commercial vehicle financing business, retail finance, life and general insurance, stock broking, chit funds and distribution of financial products.

The company is showing a very significant top line growth of 15% YoY.

The operating profit margin of the company increased to 61% in last quarter compared to 43% in the previous quarter.

The Net profit of the company has been increased by 22% YoY.

With the growing Indian economy, with significant growth in India's GDP, the company is expected to increases its top line as well as bottom line figures.

The stock is trading at a P/E ratio of 24.64 which is good for investment.

Since last budget, the share price gain 45%. Now the stock is trading at a 10% correction from its recent high of 2356 which is its life time high.

All the rating companies, like India Rating, Crisil, Care, Icra have given stable to positive rating for Shriram City Union Finance which is a positive factor for investment in the company's stock.

Though in a very small level, but the institutions are increasing their positions in the stock. Currently, FII's are holding 16% and DII around 2% of stock.

*We initiate coverage on [Shriram City Union Finance Ltd](#) as a BUY @2100 with an immediate target of Rs 2350 representing a potential upside of 12% from the buy price. Shriram City Union is trading at a PE of 24.64.*



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