

Shriram City Union Finance (SCUF) – BUY

February Month Pick

Current Market Price (CMP)

Rs.1152

Target Price

Rs.1500

There is a 30.2% upside to our Fair Value of Rs.1500

Rationale:

- Negligible impact of moratorium exit likely due to improving monthly collection
- Trends in recovery remain strong and business is reverting to normal
- We are revising estimates by -4% to +5% to reflect tailwinds in NII & trends in ECL (NII – Net interest income; ECL – Expected credit loss)
- SCUF trades at inexpensive valuation of 0.75X FY23 expected book value
- At our fair value, we expect the company to trade at ~1 book of March 2023E

Q3FY21 Earnings update:

👍 Positives:

- SCUF reported collection efficiency (including overdue) of 98% (95% in Sept'20)
- Almost flat Stage 3 loans qoq and about 0.50% of loan restructuring
- Provisions have declined from peak levels (down 3% yoy/13% qoq)
- We expect the company to deliver 3.5-3.7% RoA and about 14% near-term RoE (RoA – Return on assets; RoE – Return on equities)

👎 Negatives:

- Profit after tax declined 6% yoy while core Profit before tax was flat yoy
- NII declined ~1% yoy due to 3% yoy decline in AUM (NII – Net Interest Income; AUM – Asset under Management)

[Click here](#) For detailed report dated 31st January 2021. Note: CMP & valuation may differ due to difference in dates



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