

Industry  
Bloomberg  
BSE CODE

Financial  
SHUF IN  
532498

RATING	NEUTRAL
CMP	1325
Price Target	1410
Potential Upside	6%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	1900/1222
Mkt Capital (Rs Cr)	8745
Free float (%)	46%
Avg. Vol 1M (,000)	10
No. of Shares (Crs)	7
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	3801	3849	4092
PPP	2302	2341	2507
PAT	989	1156	1274
NIM %	13.0	12.0	11.8
EPS (Rs)	150	175	193
EPS growth (%)	48.7	16.9	10.2
ROE (%)	16.6	16.8	17.3
ROA (%)	3.5	3.7	3.6
BV	968	1117	1283
P/B (X)	1.9	1.2	1.0
P/E (x)	12.4	7.6	6.9

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## Muted Loan Growth Coupled with Margin Pressure

### 2QFY20 Result Update

- NII has decreased by 9% YoY on the back of Steady AUM growth. Other income has grown at 34% YoY. PAT has grown at 19% YoY on the back of tax benefit availed during the quarter. NIM has decreased from 12.85% to 12.68% sequentially.
- NIM has declined to 12.68%, while yield has decreased from 19.95% to 19.85% and cost has increased from 9.49% to 9.87% YoY. Spreads has decreased from 10.12% to 9.62% QoQ.
- AUM has remained steady YoY, growth has remained stable at 2% for SME, 2% for Two wheeler segment, decrease growth of 11% in the loan against gold while other portfolio decreased by 2%. Management has liquidity back up of Rs 1110 Cr in the form of undrawn account balances.
- Disbursement has decreased by 20% YoY, the share of two wheeler has increased to 24%, personal has increased to 32%, auto loans has increased to 13% while gold loan has declined to 14% and SME business declined to 31%. The number of vehicles financed 230000 with 292000 YoY.
- GNPA has decreased from 8.89% to 8.69% while NNPA has decreased from 5.03% to 4.91%. PCR has remained stable at 43%. The GNPA in the SME stood at 9.01%, Two wheeler stood at 9.11%, loan against gold stood at 12.13%, auto loans at 10.89%, personal loans at 2.80%.
- The ECL provision in the SME segment is at 45%, Two wheeler is at 45%, loan against gold is at 52%, auto loans is at 42% while personal loans stood at 5%. With the rising stress in the 2 wheeler and SME space management has increased the provisioning in stage 1 & 2 from 2.91% to 3.20% sequentially.
- The total number of branch network stood at 957, with 68% of the branches are present in South, 19% in west and 13% in the North. The number of active customer base of 40 Lakhs. Strong base of 28262 employees
- The capital Adequacy ratio stood at 24.37% with Tier 1 at 24.37%.

### Shriram Housing Finance Ltd.

AUM has declined by 3% on the back of huge repayment commitment. Disbursement remain affected with decrease by almost 61%.

The share of construction finance in the disbursement has increased to 12% of the portfolio from 2% QoQ.

### View and Valuation

The loan growth remains affected on the back of lower liquidity availability. SHRIRAMCIT has been able to raise Rs 2200 Cr in this quarter but the priority was mainly to repayment of the liabilities then growth. Management has priorities two wheeler, personal loan then SME business for liquidity allocation But on the back of demand side issue in the two wheeler we remain cautious on the growth front. Margin remains compressed on the back of slower growth and higher cost of fund. Management stated it will decline the share of short term funds and convert the entire long term borrowings into short term which will come with an additional cost along with it rising share of retail NCD will led to rise in couple of bps to the cost. Though management has been able to improve asset quality, we remain cautious on the growth prospect value the stock at 1.1x PB for FY21e to Rs 1410. We maintain NEUTRAL.

### Key Risks to our rating and target

- Slowdown in the industry will hamper growth.
- Incremental cost of borrowings

## Muted Growth

### 2QFY20 Results In Line With Expectations

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,472	1,413	1,403	1,450	1,432	-2.7%	-1.3%	5,083	5,677	11.7%
Interest Exp.	495	530	499	532	538	8.7%	1.3%	1,668	1,980	18.7%
NII	977	883	904	919	893	-8.5%	-2.8%	3,416	3,697	8.2%
Other Income	44	15	35	28	58	33.8%	106.9%	18	104	471.6%
Total Income	1,021	898	939	947	952	-6.7%	0.5%	3,434	3,801	10.7%
Ope Exp.	396	361	365	370	377	-4.7%	2.2%	1,362	1,499	10.0%
PPP	624	536	574	577	574	-8.0%	-0.5%	2,071	2,302	11.1%
Provisions	251	134	183	193	197	-21.4%	1.9%	1,054	782	-25.8%
PBT	374	403	391	384	378	1.0%	-1.7%	1,018	1,520	49.4%
Tax	124	144	140	131	80	-36%	-38.9%	353	531	50.5%
Extra Items	-	-	-	-	-	-	-			-
Net Profit	249	259	251	253	298	19.3%	17.5%	665	989	49%

### Concall Highlights

- Management is replacing long term borrowing to short term lending. The rising share of long term borrowings and retail NCD led to rising in the cost. Management has started a 14-17% rate product to cater to the graduated customer, now the share stands at less than 5%.
- There is a demand-side issue in the 2 wheeler side, the overall scenario is tighter with more expensive liquidity. A higher share of runoff in the earlier quarter led to a marginal drop in AUM.
- On the SME side, the demand remains robust but however, the tightness in the liquidity market led to a slowdown in the disbursement. In the two-wheeler segment, September was a slowdown for the manufacturer and financier.
- In a 3-5 year time frame, the gold is expected to grow with focus is on the retail share of the gold.
- Growth was mainly driven by personal loans led by small ticket SME loans. In the two-wheeler segment, October month has seen has an uptick in demand.
- Demand continues to be robust in the Rs 15 lakh customer segment with no asset quality pressure.
- Write off amount is to the amount of Rs 200 Cr.
- Liquidity is first channelized to 2 wheeler then to personal loans than to business loan & lastly to gold loan.
- The number of vehicles financed 230000 with 292000 YoY.
- Gross stage 3 number has declined from March level, Stage 3 is moving to stage 2 collection has drastically improved from YoY. In the next 12-18 months, GNPA is expected to be around 7-7.5%.
- The incremental borrowing stands at Rs 2200 Cr as at 2QFY20, with Rs 930 Cr of securitization, Rs 500 Cr of direct assignment, Rs 150 NCD, Rs 300 Cr of NCD, Rs 200 Cr retail FD. Out of which Rs 1000 Cr is towards the retirement of short term debt.
- Repayment commitment has slowed down disbursement growth, management has kept cash buffer for repayment of borrowings. Management expects Rs 300 disbursement in housing finance in 3QFY20 with Rs 2300 Cr in AUM by FY20.
- 75% of market is in rural & semi-urban areas.
- Demand is strong in average ticket segment of Rs 5-15 lakh with lesser asset quality pressure.
- SHRIRAMCIT majorly caters to the Trading & service sector not much stress is experienced.
- The tax rate comes around 27.5%.

## Profitability Matrix

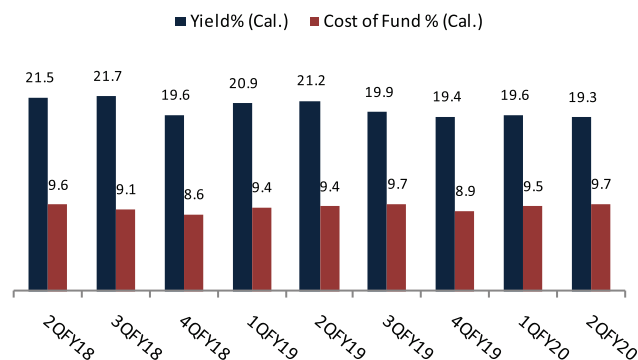
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	38.3	39.3	38.8	40.3	38.9	39.0	39.7	0.83	0.63
Empl. Cost/ Tot. Exp. %	56.0	55.7	53.4	57.4	58.9	56.6	59.1	5.66	2.50
Other Exp/Tot. Exp.%	34.3	29.2	32.3	32.7	30.8	27.0	27.9	-4.36	0.86
Provision/PPP %	93.0	37.9	40.1	24.9	31.9	33.5	34.3	-5.86	0.80
Tax Rate %	41.0	35.0	33.3	35.7	35.0	35.0	35.0	1.70	0.00
Int Exp./Int Inc. (%)	33.9	33.4	33.6	37.5	35.6	36.7	37.6	3.96	0.95
Other Inc./NII %	0.1	0.0	0.1	0.1	0.1	0.1	0.2	0.05	0.10
PPP/ Net Income %	61.7	60.7	61.2	59.7	61.1	61.0	60.3	-0.83	-0.63
PAT/ Net Income %	2.6	24.5	24.4	28.8	26.8	26.7	31.3	6.83	4.52
NII Growth % (YoY)	17.1	12.4	13.1	(3.4)	8.1	(0.7)	(8.5)	-21.63	-7.83
PPP Growth YoY %	22.6	12.8	14.6	(5.6)	8.3	1.6	(8.0)	-22.54	-9.56
PAT Growth %	83.0	14.7	6.1	2	1041.1	10.328	19.3	13.23	9.02

## Margin Performance

MARGIN %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	19.6	20.9	21.2	19.9	19.4	19.6	19.3	-1.87	-0.25
Cost Of Funds	8.6	9.4	9.4	9.7	8.9	9.5	9.7	0.28	0.26
Spreads	11.0	11.5	11.8	10.2	10.5	10.1	9.6	-2.15	-0.51
NIM	12.8	13.2	13.8	12.4	12.9	12.9	12.7	-1.16	-0.17

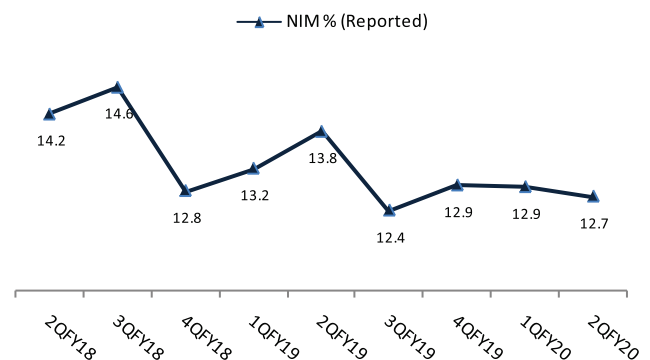
## Exhibit: Calculated Yield and Cost

Declined Spreads



## Exhibit: Net Interest Margin

NIM has declined sequentially



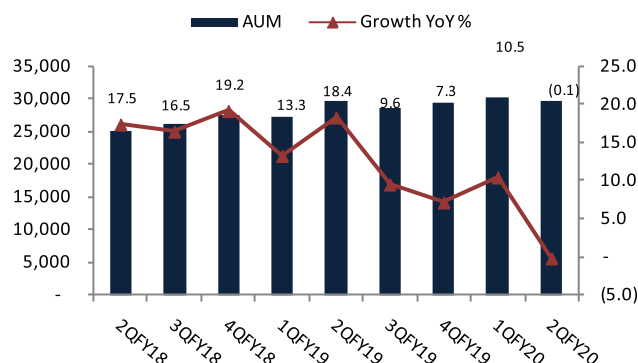
## Asset & Borrowings Growth Trend

Fig in Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Disbursements	6137	6137	6633	6410	6468	4583	6610	6275	5201
Growth YoY %	10	19	6	11	5	-25	0	-2	-20
AUM	25127	26272	27582	27461	29748	28795	29582	30352	29722
Growth YoY %	17	17	19	13	18	10	7	11	0
Borrowings	18126	19830	21401	21677	22686	22395	22572	22226	21396
Growth YoY %	17	21	26	24	25	13	5	3	-6

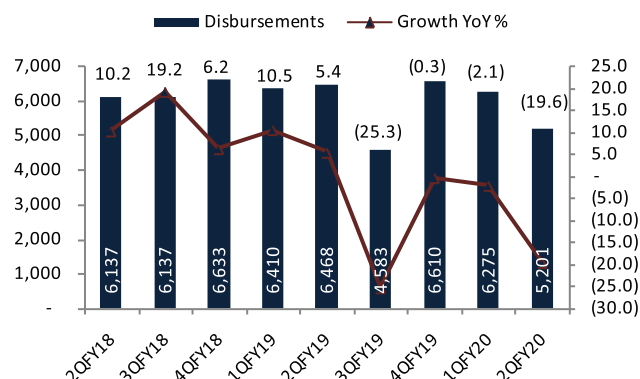
## Exhibit: AUM Growth %

Steady AUM growth



## Exhibit: Disbursement Growth %

Disbursement growth declined



## Asset Mix

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
SME (%)	55	55	56	60	58	60	60	59	59
2W (%)	17	18	18	19	18	18	18	18	19
Loan Against Gold (%)	15	13	12	13	11	10	9	10	10
Others (%)	13	13	14	8	13	12	13	13	13
Auto Loans (%)	6	6	6	5	5	4	4	4	2
Personal Loan (%)	7	8	8	8	8	8	9	9	10

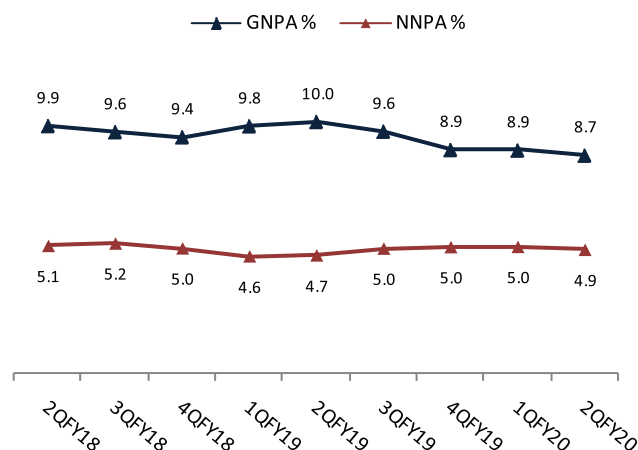
## Disbursement

Fig in Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
SME	2,516	2,327	3,093	2,830	2,852	1,774	3,001	2,278	1,595
2W	1,059	1,586	1,327	1,284	1,267	1,049	1,319	1,284	1,251
Others	674	674	793	1,690	1,735	1,363	924	922	704
Auto Loans	213	210	227	195	177	55	203	146	5
Personal Loans	461	464	566	1,495	1,558	1,308	721	776	699
Loan Against Gold	1,888	1,551	1,420	1,495	1,558	1,308	1,367	1,790	1,650

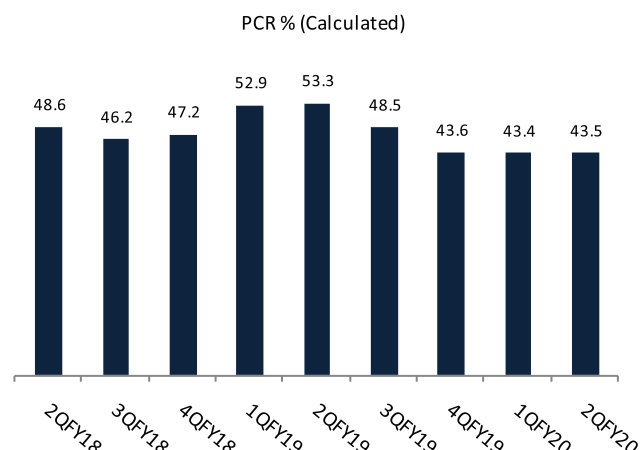
## Exhibit: Asset Quality

Asset Quality deteriorated

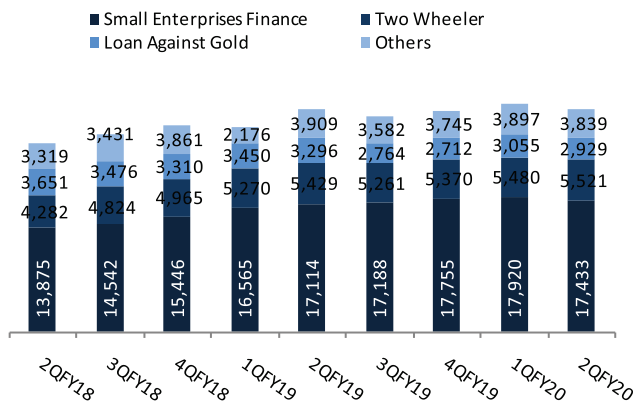


## Exhibit: Provisions

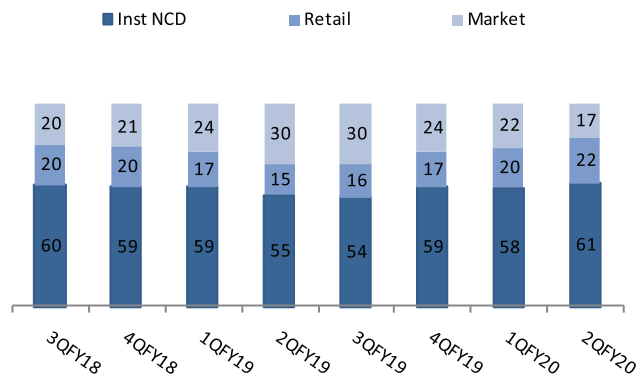
PCR Remained Stable



## Exhibit: AUM Break Up



## Exhibit: Borrowing Break Up



## AUM Break Up Region Wise

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
South(%)	69	67	67	61	61	59	59	59
West(%)	21	23	23	31	31	38	32	32
North(%)	10	10	10	8	8	3	9	9

## Liability Break UP

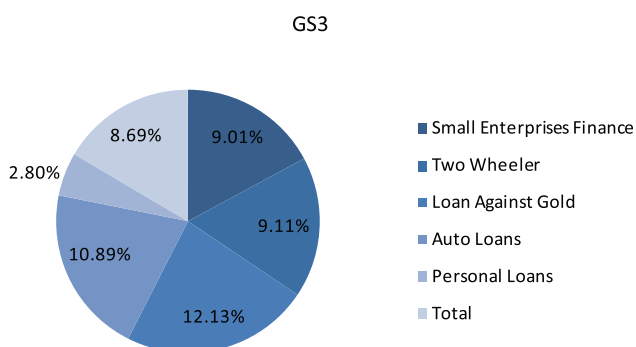
	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Fixed Borrowing (%)	60	59	59	55	54	59	58	61
Semi-Fixed Borrowing(%)	20	20	17	15	16	17	20	22
Floating Rate(%)	20	21	24	30	30	24	22	17

## Asset Quality

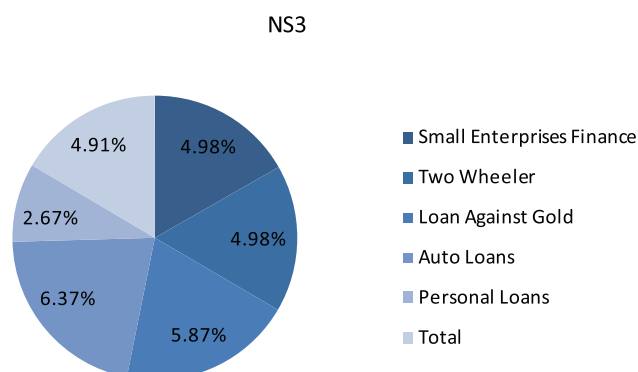
	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Gross NPA (Stage 3)	2,523	2,594	2,872	2,960	2,716	2,577	2,654	2,517
Less: ECL Provisions (Stage 3)	1,164	1,223	1,518	1,577	1,318	1,124	1,153	1,094
Net NPA (Stage 3)	1,358	1,370	1,353	1,383	1,398	1,453	1,501	1,423
Coverage Ratio (%) Stage 3	46.2	47.2	52.9	53.3	48.5	43.6	43.4	43.5
Gross Stage 1 & 2	23,733	24,985	26,321	26,606	25,489	26,339	27,196	26,444
ECL provision-Stage 1 & 2	414	568	613	653	748	803	791	846
Net Stage 1 & 2	23,320	24,417	25,708	25,952	24,741	25,536	26,404	25,598
ECL provision (%) Stage 1 & 2	1.7	2.3	2.3	2.5	2.9	3.1	2.9	3.2

## Exhibit: Provisions/Average AUM

### GNPA segmentwise



### NNPA segmentwise



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>59</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>
Equity Capital	59	66	66	66	66	66	66	66
Preference Capital								
Reserves & Surplus	2,839	4,035	4,446	4,962	5,489	6,325	7,306	8,398
<b>Networth</b>	<b>2,898</b>	<b>4,101</b>	<b>4,512</b>	<b>5,028</b>	<b>5,555</b>	<b>6,391</b>	<b>7,372</b>	<b>8,464</b>
Change (%)	29	42	10	11	10	15	15	15
Total Borrowings	12,049	12,402	14,408	17,042	20,421	22,572	24746	27435
Change (%)	(5)	3	16	18	20	11	10	11
Provisions	375	532	848	1,218	24	25	28	31
Other Liabilities	708	(1,003)	(1,547)	1,248	1,326	427	1,186	1,315
<b>Total Liabilities</b>	<b>16383</b>	<b>18038</b>	<b>20854</b>	<b>24536</b>	<b>27326</b>	<b>29415</b>	<b>33332</b>	<b>37244</b>
Investments	168	982	792	715	736	866	953	1,048
Loans	12,875	15,890	19,141	22,961	25,787	26,989	29688	32657
Change (%)	(4)	23	20	20	12	5	10	10
Fixed Assets	101	82	85	78	79	81	89	98
Other Assets	766	302	195	145	390	497	214	236
Cash Balances	2,473	781	642	637	334	982	2,387	3,206
<b>Total Assets</b>	<b>16383</b>	<b>18038</b>	<b>20854</b>	<b>24536</b>	<b>27326</b>	<b>29415</b>	<b>33332</b>	<b>37244</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	3,191	3,482	3,835	4,432	5,083	5,677	5,874	6,406
Interest expended	1,351	1,327	1,383	1,534	1,668	1,980	2,144	2,382
<b>Net Interest Income</b>	<b>1,841</b>	<b>2,155</b>	<b>2,451</b>	<b>2,897</b>	<b>3,416</b>	<b>3,697</b>	<b>3,730</b>	<b>4,024</b>
Change (%)	10	17	14	18	18	8	1	8
Other Income	47	49	21	3	18	104	119	68
Change (%)	152	4	(57)	(86)	528	472	14	(42)
<b>Total Net Income</b>	<b>1,888</b>	<b>2,204</b>	<b>2,473</b>	<b>2,900</b>	<b>3,434</b>	<b>3,801</b>	<b>3,849</b>	<b>4,092</b>
Change (%)	12	17	12	17	18	11	1	6
Operating Expenses	724	909	1,049	1,136	1,362	1,499	1,509	1,586
Change (%)	13	26	15	8	20	10	1	5
Employee Expenses	271	412	513	550	704	839	837	837
Change (%)	18	52	25	7	28	19	(0)	0
Other Expenses	424	455	499	551	626	474	453	520
<b>Pre-provisioning Profit</b>	<b>1,164</b>	<b>1,295</b>	<b>1,423</b>	<b>1,764</b>	<b>2,071</b>	<b>2,302</b>	<b>2,341</b>	<b>2,507</b>
Change (%)	11	11	10	24	17	11	2	7
Provisions	384	454	616	911	1,054	782	783	785
Change (%)	(0)	18	36	48	16	(26)	0	0
<b>PBT</b>	<b>780</b>	<b>841</b>	<b>807</b>	<b>854</b>	<b>1,018</b>	<b>1,520</b>	<b>1,558</b>	<b>1,722</b>
Tax	259	283	277	298	353	531	402	448
<b>Profit After Tax</b>	<b>521</b>	<b>558</b>	<b>530</b>	<b>556</b>	<b>665</b>	<b>989</b>	<b>1,156</b>	<b>1,274</b>
Change (%)	16	7	(5)	5	20	49	17	10
<b>Adjusted Profit After Tax</b>	<b>521</b>	<b>558</b>	<b>530</b>	<b>556</b>	<b>665</b>	<b>989</b>	<b>1,156</b>	<b>1,274</b>
Change (%)	16	7	(5)	5	20	49	17	10



## Financial Details

### Key Ratios

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Balance Sheet Metrics</b>								
AUM	14668	16717	19577	23132	27461	29582	32540	35794
Off-Book AUM	1793	827	436	171	1674	2593	2852	3137
AUM Growth (%)	(7.3)	14.0	17.1	18.2	18.7	7.7	10.0	10.0
Borrowing Growth (%)	(5.3)	2.9	16.2	18.3	19.8	10.5	9.6	10.9
Loan/Borrowing (%)	1.1	1.3	1.3	1.3	1.3	1.2	1.2	1.2
Disbursement (Rs Cr)	4454	4668	5222	6245	6632	6610	7159	7875
Disbursement Growth (%)	1.0	19.9	3.7	1.4	(6.3)	(5.3)	0.3	(0.8)
CRAR (%)	26	29	27	24	21	23	26	26
Tier 1 (%)	20.2	24.8	23.8	22.3	20.6	22.8	24.6	25.3
Tier 2 (%)	5.9	4.2	2.8	1.7	0.8	0.4	1.3	1.1
Debt/Equity(x)	4.2	3.0	3.2	3.4	3.7	3.5	3.4	3.2
<b>Assets Quality Metrics</b>								
Gross NPA (Rs)	340	491	980	1537	2464	2577	2798	3007
Gross NPA (%)	2.7	3.1	5.2	6.7	9.4	8.9	8.6	8.4
Net NPA (Rs)	76	107	297	410	938	1453	1539	1654
Net NPA (%)	0.6	0.7	1.6	1.8	5.0	5.0	4.7	4.6
Specific Provision Coverage (%)	78	78	70	73	62	44	45	45
Provision/Average Advances (%)	2.5	2.9	3.4	4.3	4.2	2.7	2.5	2.3
<b>Margin Metrics</b>								
Yield On Advances (%)	20.9	22.2	21.1	20.8	20.1	19.9	18.9	18.7
Cost Of Funds (%)	10.9	10.9	10.3	9.8	8.6	8.9	9.1	9.1
Spread (%)	10.0	11.3	10.8	11.0	11.5	11.0	9.9	9.6
NIM on AUM (%)	12.1	13.7	13.5	13.6	13.5	13.0	12.0	11.8
<b>Profitability &amp; Efficiency Metrics</b>								
Int. Expense/Int.Income (%)	42.3	38.1	36.1	34.6	32.8	34.9	36.5	37.2
Other Income/NII (%)	2.6	2.3	0.9	0.1	0.5	2.8	3.2	1.7
Operating Profit/Net Income (%)	61.7	58.7	57.6	60.8	60.3	60.6	60.8	61.3
Net Profit/Net Income (%)	27.6	25.3	21.4	19.2	19.4	26.0	30.0	31.1
Cost to Income (%)	38.3	41.3	42.4	39.2	39.7	39.4	39.2	38.7
Employee Exp/Net Income (%)	14.3	18.7	20.8	19.0	20.5	22.1	21.7	20.4
Cost on Average Assets (%)	4.4	5.3	5.4	5.0	5.3	5.3	4.8	4.5
Provision/PPP (%)	33.0	35.0	43.3	51.6	50.9	34.0	33.4	31.3
Tax Rate (%)	33.2	33.6	34.3	34.9	34.7	35.0	25.8	26.0
<b>Valuation Ratio Metrics</b>								
EPS (Rs)	88	85	80	84	101	150	175	193
Change (%)	8.4	(3.7)	(5.1)	4.9	19.5	49	16.9	10.2
ROAE (%)	20.3	15.9	12.3	11.7	12.6	16.6	16.8	17.3
ROAA (%)	3.2	3.2	2.7	2.5	2.6	3.5	3.7	3.6
Dividend Payout (%)	11.4	17.7	18.7	17.8	17.9	14.7	13.1	11.9
Dividend yield (%)	0.9	0.8	1.0	0.7	0.8	1.2	1.7	1.7
DPS	10.0	15.0	15.0	15.0	18.0	22.0	23.0	23.0
Book Value(Rs)	489	622	684	763	842	968	1117	1283
Change (%)	21	27	10	11	10	15	15	15
P/B (X)	2.3	3.2	2.2	3.0	2.5	1.9	1.2	1.0
P/E (X)	12.5	23.2	18.7	27.3	21.2	12.4	7.6	6.9

## Financial Details

### Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	19.6	20.2	19.7	19.5	19.6	20.0	18.7	19.2
Interest expended	8.3	7.7	7.1	6.8	6.4	7.0	6.8	7.1
<b>Net Interest Income</b>	<b>11.3</b>	<b>12.5</b>	<b>12.6</b>	<b>12.8</b>	<b>13.2</b>	<b>13.0</b>	<b>11.9</b>	<b>12.1</b>
Non-Fund Based Income	11.6	12.8	12.7	12.8	13.2	13.4	12.3	12.3
Total Income	11.6	12.8	12.7	12.8	13.2	13.4	12.3	12.3
Total Operating Expenses	4.4	5.3	5.4	5.0	5.3	5.3	4.8	4.8
Employee Expenses	1.7	2.4	2.6	2.4	2.7	3.0	2.7	2.5
Other Expenses	2.8	2.9	2.8	2.6	2.5	2.3	2.1	2.2
Operating Profit	7.1	7.5	7.3	7.8	8.0	8.1	7.5	7.5
Provisions	2.4	2.6	3.2	4.0	4.1	2.8	2.5	2.4
Others								
PBT	4.8	4.9	4.1	3.8	3.9	5.4	5.0	5.2
Tax	1.6	1.6	1.4	1.3	1.4	1.9	1.3	1.3
<b>PAT/RoAA</b>	<b>3.2</b>	<b>3.2</b>	<b>2.7</b>	<b>2.5</b>	<b>2.6</b>	<b>3.5</b>	<b>3.7</b>	<b>3.8</b>
Equity Multiplier (x)	6.3	4.9	4.5	4.8	4.9	4.7	4.6	4.5
<b>ROAE</b>	<b>20.3</b>	<b>15.9</b>	<b>12.3</b>	<b>11.7</b>	<b>12.6</b>	<b>16.6</b>	<b>16.8</b>	<b>17.3</b>



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