

India Ratings Assigns Shriram City Union Finance's Additional PPMLDs 'IND PP-MLD AAemr'/Stable; Affirms Existing Ratings

09

NOV 2021

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India Ratings and Research (Ind-Ra) has taken the following rating actions on Shriram City Union Finance Limited (SCUF) and its debt instruments:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Long-term/Short-term Issuer Rating	-	-	-	-	IND AA/Stable/IND A1+	Affirmed
Principal protected market linked debentures (PP-MLDs)*#	-	-	-	INR3.0	IND PP-MLD AAemr/Stable	Assigned
Non-convertible debentures (NCDs)*	-	-	-	INR45	IND AA/Stable	Affirmed
Bank loan	-	-	-	INR175	IND AA/Stable	Affirmed
PP-MLDs*	-	-	-	INR14.0	IND PP-MLD AAemr/Stable	Affirmed
Fixed deposit programme	-	-	-	-	IND tAA/Stable	Affirmed

* Details in Annexure, # Yet to be issued

The suffix 'emr' denotes the exclusion of the embedded market risk from the rating. The rating of the market-linked debentures is an ordinal assessment of the underlying credit risk of the instrument and does not factor in the market risk that investors in such instruments will assume. This market risk stems from the fact that coupon payment on these instruments will be based on the performance of a reference index or equity share (detailed in the information memorandum of the issue).

PP-MLD refers to full principal protection in the equity linked notes wherein the issuer is obligated to pay the full principal upon maturity.

Analytical Approach: Ind-Ra continues to take a consolidated view of SCUF (34% owned by Shriram Capital Limited and Shriram Ventures Limited) and Shriram Housing Finance Ltd (SHFL; debt rated at 'IND AA/Stable', 85% owned by SCUF), to arrive at the ratings. While SCUF mainly provides business loans, SHFL provides housing loans across segments and plans to leverage on the Shriram group's ecosystem.

KEY RATING DRIVERS

Well-established Track Record in High-yielding Segment: SCUF has an established track record of over three decades, with an expertise in low-ticket-size and high-yielding products such as small and medium enterprises (SMEs), contributing 47% to the assets under management (AUM) and two-wheeler (contributing 22% to the AUM) lending at end-2QFY22. During FY21, the company also launched higher yielding (as compared to the overall yields) pre-owned two-wheeler loans and loan against property (LAP) to better leverage its understanding of the two-wheeler and SME segment. The company's AUM was worth INR304 billion, distributed across 22 states, with a total network of 971 branches and 25,308 employees at end-September 2021. SCUF's key strengths are its large customer base with long-term relationships directly or through the Shriram Group companies, coupled with the strong local knowledge and the ability to appraise businesses dealing in cash and robust collection infrastructure. This has been reflected in a sharp recovery in its collection efficiency post the first and second wave of COVID-19.

Adequate Capitalisation: The company's consolidated leverage stood at 3.4x at 1HFY22 (FY21: 3.5x, FY20: 3.4x, FY19: 3.7x). SCUF (standalone) reported a tier-I capital adequacy ratio of 29.1% at end-2QFY22 (FY21: 28.6%, FY20: 27.7%, FY19: 22.75%). The agency expects SCUF to continue to hold significantly higher equity buffers than those of its peer non-banking financial companies in view of its customers' weaker credit profiles, implying operations at the higher end of the yield curve in the SME and two-wheeler portfolio, and the lack of seasoning in its housing subsidiary's portfolio. Ind-Ra believes SCUF is well capitalised to withstand credit costs that may exceed pre-provision operating profit, though this is unlikely over the near-to-medium term.

Liquidity Indicator – Adequate: According to the asset liability management statement at end-September 2021, the company continues to be in a comfortable position, with a cumulative surplus (excess of short-term assets over short-term liabilities) of up to one year (25% of total assets). This also reflects the unencumbered cash and liquid investments of over INR41.4 billion at end-October 2021 and unutilised bank lines of about INR4.0 billion.

For SCUF (standalone), bank loans constituted 44% of its total borrowings in 2QFY22 (FY21: 48.5%, FY20: 45.6%, FY19: 54%), in line with most of its peers. The share of retail deposits in SCUF's overall funding continues to increase (2QFY22: 24%, FY21: 22%, FY20: 18.4%, FY19: 16%). The company raised funds amounting to INR67.1 billion during 1HFY22 (FY21: INR139 billion;). The blended cost of borrowing declined to 8.33% in 1HFY22 (4QFY21: 9.09%; FY20: 9.70%). In Ind-Ra's opinion, the decline in SCUF's borrowing cost is lower than that observed for many other similarly rated non-banking financial companies. In terms of the lenders' environment, during the first wave of COVID-19, the lenders were hesitant to lend to most segments. The concerns regarding liquidity are low over the near term as, during the second wave, with the experience gained during the first wave and the existing liquidity in the system, the lenders' support has improved.

Loan Growth to Improve in FY22 on Flat Base: SCUF's AUM grew at a low CAGR of 2.3% over FY18-FY21, reflecting the macroeconomic stress in the SME segment as well as competition. Moreover, post the COVID-19 outbreak, the AUM growth was further impacted during FY21, as the company focused on collections while disbursing much lower amounts in the gold and two-wheeler segments. Due to the disruptions caused by the second wave, disbursements were impacted in April-May 2021; however, they have normalised from June 2021. According to the management, a substantial portion of SCUF's borrowers is also related to essential goods and services segment. These segments witnessed some demand revival in 2QFY22 which registered 14.4% yoy growth in consolidated AUM. While many competitors have remained absent from the home loan financing segment, SHFL plans high growth in the same over the medium term; however, at end-2QFY22, it constituted only about 12% of the consolidated AUM. SCUF has further strengthened the capital position of SHFL with another infusion of INR3 billion during October 2021, post which the capital adequacy ratio is estimated to improve above 30%.

That being said, the base effect as well as recent effect of disbursements worth INR238 billion (which included gold loans of INR67 billion) over 3QFY21-2QFY22 would have also helped the delinquencies partially in that pool. Given the current tough operating environment, Ind-Ra expects asset quality and credit cost to be adversely affected over the near term; the agency will monitor the collection trends over the near term.

Positive: Sustained growth in SCUF's franchise and funding profile with higher capital market participation at competitive rates and asset quality while maintaining the profitability and liquidity ratios could lead to a positive rating action.

COMPANY PROFILE

FINANCIAL SUMMARY (Consolidated)

Parameters (INR billion)	FY21	FY20
Total assets	377.3	332.3
Total equity	82.5	73.6
Net income	10.8	10.3
Return on average assets (%)	3.1	3.2
Debt/Equity (x)	3.5	3.4
Tier-I capital (%)*	28.6	27.7
Source: SCUF; *Standalone		

RATING HISTORY

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ANNEXURE

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE722A07AU6*	28 February 2020	9.25	28 May 2024	INR5.0	IND AA/Stable
NCDs	INE722A07AF7	28 February 2020	9.25	28 February 2023	INR2.4	IND AA/Stable
NCDs	INE722A07AN1	8 February 2021	9.25	8 February 2030	INR0.1	IND AA/Stable
NCDs	INE722A07AO9	8 February 2021	9.50	7 February 2031	INR0.3	IND AA/Stable
NCDs	INE722A07AP6	22 February 2021	9.25	22 February 2030	INR0.2	IND AA/Stable
NCDs	INE722A07AQ4	22 February 2021	9.50	21 February 2031	INR0.45	IND AA/Stable
NCDs	INE722A07AP6	25 March 2021	9.25	22 February 2030	INR0.3	IND AA/Stable
NCDs	INE722A07AQ4	25 March 2021	9.50	21 February 2031	INR0.3	IND AA/Stable
NCDs	INE722A07AQ8	12 August 2021	7.95	12 August 2024	INR2.6	IND AA/Stable
NCDs	INE722A07BA6	21 September 2021	8.65	21 September 2031	INR1.89	IND AA/Stable
NCDs	INE722A07BB4	21 September 2021	7.70	21 December 2022	INR3.5	IND AA/Stable
NCDs	INE722A07BC2	21 September 2021	7.48	21 September 2024	INR 3.0	IND AA/Stable
Utilised					INR20.05	
Unutilised					INR24.95	
Total Limit					INR45.0	
PP MLD - NCD	INE722A07AM3	27 January 2021	-	27 January 2023	INR1.5	IND PP-MLD AAemr/Stable
PP MLD - NCD	INE722A07AR2	1 March 2021	-	1 March 2023	INR 4.91	IND PP-MLD AAemr/Stable
PP MLD - NCD	INE722A07AR2	3 March 2021	-			IND PP-MLD AAemr/Stable
PP MLD - NCD	INE722A07AR2	10 March 2021	-			IND PP-MLD AAemr/Stable
PP MLD - NCD	INE722A07AS0	17 March 2021	-	17 May 2023	INR1.4	IND PP-MLD AAemr/Stable
PP MLD - NCD	INE722A07AS0	17 March 2021	-	17 May 2023	INR1.6	IND PP-MLD AAemr/Stable
PP MLD - NCD	INE722A07AT8	30 March 2021	-	30 March 2023	INR2.0	IND PP-MLD AAemr/Stable
PP MLD - NCD	INE722A07AZ5	1 September 2021	-	1 March 2024	INR2.0	IND PP-MLD AAemr/Stable
Utilised					INR13.41	
Unutilised					INR3.59	
Total Limit					INR17.0	

*ISIN INE722A07AE0 has been revised to INE722A07AU6 post conversion to fully paid NCD.

BANK WISE FACILITIES DETAILS

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COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Fixed deposit programme	Low
Bank loans (short- & long-term facilities)	Low
NCDs	Low
PP-MLD	High

For details on the complexity level of the instruments please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

[Financial Institutions Rating Criteria](#)

[Non-Bank Finance Companies Criteria](#)

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