

RL/SHCIUNFI/286511/NCD/0222/25556/98135171

February 04, 2022

Ms. Krithika Doraiswamy
Vice President - Finance
Shriram City Union Finance Limited
123,
Angappa Naiackon Street,
Chennai - 600001
8056118749

Dear Ms. Krithika Doraiswamy,

Re: Review of CRISIL Rating on the Rs.1000 Crore Non Convertible Debentures* of Shriram City Union Finance Limited

All ratings assigned by CRISIL Ratings are kept under continuous surveillance and review.

CRISIL Ratings has, after due consideration, reaffirmed its CRISIL AA (pronounced as CRISIL double A rating) rating to the captioned Debt instrument. Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk. However, the rating continues to be under "Rating Watch with Positive Implications". The Rating Watch reflects an emerging situation, which may affect the credit profile of the rated entity.

As per our Rating Agreement, CRISIL Ratings would disseminate the rating along with outlook through its publications and other media, and keep the rating along with outlook under surveillance for the life of the instrument. CRISIL Ratings reserves the right to withdraw, or revise the rating / outlook assigned to the captioned instrument at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL Ratings believes may have an impact on the rating.

As per SEBI circular (reference number: CIR/IMD/DF/17/2013; dated October 22, 2013) on centralized database for corporate bonds/debentures, you are required to provide international securities identification number (ISIN; along with the reference number and the date of the rating letter) of all bond/debenture issuances made against this rating letter to us. The circular also requires you to share this information with us within 2 days after the allotment of the ISIN. We request you to mail us all the necessary and relevant information at debtissue@crsil.com. This will enable CRISIL Ratings to verify and confirm to the depositories, including NSDL and CDSL, the ISIN details of debt rated by us, as required by SEBI. Feel free to contact us at debtissue@crsil.com for any clarification you may need.

Should you require any clarification, please feel free to get in touch with us.

With warm regards,

Yours sincerely,



Rahul Malik
Associate Director - CRISIL Ratings



Nivedita Shibu
Associate Director - CRISIL Ratings



* Unutilised amount of the above is Rs 150 crore

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CRISIL Ratings Limited

(A subsidiary of CRISIL Limited)

Corporate Identity Number: U67100MH2019PLC326247

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

January 27, 2022 | Mumbai

Shriram City Union Finance Limited

'CRISIL AA/Watch Positive' assigned to NCD; Rating continues on 'Watch Positive'; CP reaffirmed

Rating Action

Rs.500 Crore Non Convertible Debentures	CRISIL AA/Watch Positive (Assigned; Placed on 'Rating Watch with Positive Implications')
Rs.600 Crore Non Convertible Debentures	CRISIL AA/Watch Positive (Continues on 'Rating Watch with Positive Implications')
Rs.1000 Crore Non Convertible Debentures	CRISIL AA/Watch Positive (Continues on 'Rating Watch with Positive Implications')
Rs.200 Crore Non Convertible Debentures	CRISIL AA/Watch Positive (Continues on 'Rating Watch with Positive Implications')
Rs.100 Crore Non Convertible Debentures	CRISIL AA/Watch Positive (Continues on 'Rating Watch with Positive Implications')
Rs.600 Crore Non Convertible Debentures	CRISIL AA/Watch Positive (Continues on 'Rating Watch with Positive Implications')
Rs.3000 Crore Non Convertible Debentures	CRISIL AA/Watch Positive (Continues on 'Rating Watch with Positive Implications')
Rs.250 Crore Non Convertible Debentures	CRISIL AA/Watch Positive (Continues on 'Rating Watch with Positive Implications')
Rs.100 Crore Non Convertible Debentures	CRISIL AA/Watch Positive (Continues on 'Rating Watch with Positive Implications')
Rs.50 Crore Non Convertible Debentures	CRISIL AA/Watch Positive (Continues on 'Rating Watch with Positive Implications')
Rs.3000 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **'CRISIL AA'** rating to Rs.500 crore Non-convertible Debentures of Shriram City Union Finance Limited (Shriram City) and placed it on **'Rating Watch with Positive Implications'**. Outstanding rating on non-convertible debentures continue to be on **'Rating Watch with Positive Implications'** while the rating of commercial paper was reaffirmed at **'CRISIL A1+'**

Ratings were placed on watch on December 13, 2021, following the board of directors of Shriram Transport Finance Company Limited (Shriram Transport), Shriram Capital Limited (Shriram Capital) and Shriram City approval for the merger of the entities with Shriram Transport. The resultant entity (post the merger subject to necessary approvals) is expected to be renamed as 'Shriram Finance Limited'. Further, Shriram Housing Finance Limited (Shriram Housing), currently a subsidiary of Shriram City, will become a subsidiary of the merged entity, Shriram Finance Limited (85.02% shareholding). The merger process is expected to be completed by the third quarter of next fiscal and is subject to approvals under the applicable law including approvals from the creditors, debenture holders, National Company Law Tribunal, other relevant governmental/regulatory authorities and third parties.

The rating action factored likely improvement in the credit profile of Shriram City as it would be equivalent to the merged entity, Shriram Transport. Therefore, the long-term rating was placed on 'Watch with Positive Implications'. The merged entity will be one of the largest NBFCs in India with consolidated assets under management (AUM) of Rs 1.56 lakh crore based on reported financials as on September 30, 2021. The business risk profile of the merged entity will be also benefit from diversity in product segments, larger branch network and potential for cross sell within the customer segment. Further, CRISIL Ratings also expects the integration impact to be minimal as the merger is within the Group entities with similar

policies for human resources, business practices, systems and management. In terms of profitability, the merged entity's proforma return on managed assets (RoMA) is estimated at 2.2% for fiscal 2021 and 1.7% (annualised) for the first half of fiscal 2022. In comparison, on standalone entity basis, Shriram Transport's reported RoMA stood at 2.0% for fiscal 2021 and 1.4% for first half of fiscal 2022 while Shriram City's RoMA was at 2.9% and 3.5% for similar comparable periods. The merged entity's adjusted gearing is also estimated at 4.1 times as on September 30, 2021 as compared to 4.4 times and 3.1 times for Shriram Transport and Shriram City respectively.

CRISIL Ratings believes that there are many steps and developments, which may potentially need to be considered and approved by regulators before the merger comes into effect. The rating watch will be resolved and final rating action will be taken once there is adequate progress on receipt of requisite approvals for the reorganization and, after taking into consideration other developments pertaining to the merger scheme and company's performance.

The current outstanding ratings of Shriram City continue to reflect the healthy capitalisation levels, earnings profile supported by strong pre-provisioning operating profit (PPOP) margins, Shriram City's strong market position and its linkages to the Shriram Group. The ratings are constrained by the asset quality challenges with the underlying borrower profile and the concentration of exposure in a few states.

As on September 30, 2021, the consolidated AUM of Shriram City Union Finance was Rs 34,680 crore of which 41% was loans to MSMEs, 24% was two-wheeler loans (including used 2W), 13% was gold loans, 12% was housing loans (under Shriram Housing Finance Limited), 8% was personal loans and remaining was auto loans and loan against property (LAP). On standalone basis, the AUM was Rs 30,425 crore as on September 30, 2021, of which 47% was loans to MSMEs, 26% was two-wheeler loans (including used 2W), 14% was Gold loans, 9% was personal loans and remaining 3% was Auto loans and LAP.

Analytical Approach

For arriving at its ratings on Shriram City, CRISIL Ratings has combined the business and financial risk profiles of Shriram City and its subsidiary, Shriram Housing Finance Ltd (Shriram Housing). This is because of common management and the financial support that the latter receives from Shriram City and the overall Shriram group. With the completion of the merger, the credit profile will reflect the combined business and financial risk profiles of the erstwhile Shriram Transport and Shriram City as well as Shriram Housing.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

*** Established competitive position in SME and two-wheeler segments**

Shriram City has well-established market position in SME loan and two-wheeler financing segments. In the SME loan segment, the company is a leading financier among retail NBFCs. The company has grown significantly in the unique space created from its legacy chit fund ecosystem. The main characteristics of SME loan portfolio are that the borrowers have limited documentary income proof and the ticket size is small at average of Rs 10 lakh-Rs 15 lakhs. Shriram City has also been expanding in SME space beyond its chit fund ecosystem, thus leading to faster growth rate in the segment. This SME portfolio, at Rs 14,389 crore as on September 30, 2021 (15,069 crore as on March 31, 2021 and 16,653 crore as on March 31, 2020), was one of the highest among retail NBFCs. In the two-wheeler financing segment, the company is among leading players in the sector with a portfolio of Rs 7,928 crore (including pre-owned of Rs. 1,173 crore) against Rs 7,971 crore as on March 31, 2021 (incl 1,087 crore of used TW) (Rs 6,076 crore as on March 31, 2020). It finances about 90,000 vehicles per month (pre-covid) and competes with large players including private sector banks. These two segments account for over 70% of the consolidated loan portfolio.

*** Healthy capitalisation**

Shriram City has healthy capitalisation underpinned by sizable absolute net worth (standalone) of around Rs 8,549 crores and a tier 1 and an overall capital adequacy ratio of 29.1% respectively as on September 30, 2021. In addition, Shriram City's adjusted gearing (standalone) remains comfortable at 3.1 times as on September 30, 2021, as against 3.2 times as on March 31, 2021 and is expected to remain below 5 times over the next few years on account of expectations of strong accruals to net worth. Further, the net worth to net NPA (calculated per Indian Accounting Standard or Ind-AS) remains adequate at around 8.4 times as on September 30, 2021 (9.3 times as on March 31, 2021, and 6.2 times as on March 31, 2020) thereby providing adequate cushion against inherent asset quality challenges arising from borrower and product profiles. CRISIL Ratings expectation of continued healthy capitalisation of Shriram City factors in the likely equity support from the Shriram group if required.

Shriram City's subsidiary Shriram Housing's capitalisation is also comfortable with a networth (per IndAS) of Rs 807 crore and gearing of 4.2 times as on September 30, 2021 (Rs 576 crores and 5.5 times as on March 31, 2021). Shriram Housing's total capital adequacy ratio (CAR) stood at 23.0% as on March 31, 2021 (27.8% as on March 31, 2020). Overall, the healthy capitalisation is expected to be maintained over the medium term, driven by substantial accruals and expected support from Shriram group, if required.

*** Healthy earnings profile**

The company's healthy earnings profile is driven by focus on high yielding product and customer segments. Earnings have been historically supported by high yield portfolio varying between 14-28% for various portfolios. Consequently, profitability has remained above the industry average over the past few years. Shriram City's return on managed assets stood at 3.5% in the first six months of fiscal 2022 (on standalone basis) against 2.9% for fiscal 2021 (3.1% for fiscal 2020). The pre-provisioning operating profit margin (PPOP margin) has been comfortable at above 6% for H1 of fiscal 2022 and historically has been between 6.4-8.2% in the past 5 fiscals between 2017 and 2021, which is expected to provide cushion for the credit cost which was at 2.7% for H1 of fiscal 2022 and was between 2.4-3.7% in the past 5 fiscals.

*** Benefits derived from linkages with Shriram group**

The company benefits from access to the Shriram group's established branch infrastructure, clientele, management, systems and processes, and investor base. The group has been in the financing business for over three decades, with a strong market position in commercial vehicle finance (through Shriram Transport Finance Company Ltd), retail finance, and chit fund businesses. Shriram City has expanded its target customer segment beyond its traditional chit ecosystem. Nevertheless, a large portion of its clientele in the small enterprise loan segment comprises the group's existing customers or referrals by its existing customers. This facilitates acquisition of customers with established track records while reducing the cost of origination. Shriram City's management is largely drawn from the Shriram group's other businesses and is experienced in the small-ticket retail-finance segment in the semi-urban and rural areas. The group's brand image with retail investors enables Shriram City to source adequate retail funds to meet its growth requirements. CRISIL Ratings believes Shriram City is strategically important to the Shriram group and will continue to benefit from its linkages with the group, given its focus on providing financial services to under-banked segments

Weakness:

*** Exposure to inherent asset quality-related challenges arising from lending to borrowers with modest credit profile**

The company's retail financing business remains susceptible to inherent challenges related to asset quality arising from lending to borrowers with modest credit profile and relatively under-banked customers, despite having in place good credit appraisal and monitoring practices. Primarily the focus is on offering small enterprise financing to self-employed customers in semi-urban and rural areas. The non-regular income pattern and lack of financial flexibility of these borrowers cause higher delinquencies.

However, owing to strong understanding of the SME borrowers, the 90+ days past due (dpd) remained range bound over last few years. The monthly collection efficiency^[1] was impacted in April and May 2021 with the onset of second wave. However, the collections have picked up from July with collection efficiencies reaching about 100%. The asset quality metrics in Q1 of fiscal 2022 were impacted by the lower collections and the gross non-performing assets (GNPA)/ Gross Stage 3 assets increased to 6.91% as on June 30, 2021 from 6.37% as on March 31, 2021. With the collections returning to normalcy, the GNPA improved marginally to 6.86% as on September 30, 2021. The overall restructuring in Shriram City (standalone) was about Rs 335 crore, equivalent to 1.1% of the portfolio as on September 30, 2021. However, CRISIL Ratings notes that the slippages in the early buckets of 31-60 dpd and 61-90 dpd has been higher in all the major segments. Any material disruption in the collection efficiencies and therefore asset quality metrics remains a key monitorable.

*** High geographical concentration in lending portfolio**

The company is focusing on offering small enterprise financing to customers beyond the chit fund clientele and is expanding in hitherto untapped geographies; Although the segment of borrowers has some credit history, this is an untested market for Shriram City. In view of this, CRISIL Ratings believes that asset quality performance, mainly in the small enterprise financing segment, remains susceptible and will remain a key monitorable over the medium term. While the company remains concentrated in the three states of South India namely Andhra Pradesh, Telangana and Tamil Nadu, it is working on expanding into newer geographies with the share of Northern and Western parts of the country together constituting 42% of standalone AUM as on March 31, 2021.

^[1] Collection Efficiency = Total Collections including Overdues (excluding Prepayments) / Scheduled Billing for the month.

Liquidity: Strong

Analysis of Shriram City's asset liability maturity profile as on September 30, 2021, shows cumulative positive mismatches in the upto 5 year bucket. The company continues to receive funding from banks through term loans, securitization/direct assignment and through NCDs. The company has continuously managed to tap various borrowing sources having raised over Rs 13,895 crores in fiscal 2021 and Rs 8,296 crore in H1 of fiscal 2022. The company has also been able to raise funds via retail deposits consistently. The ability of Shriram City to continue to raise funds from diversified sources and competitive borrowing costs is expected to continue to remain adequate going forward as well.

As on December 31, 2021, the company had liquidity of Rs 5,666 crore (comprising of cash and equivalents and unutilized CC/WCDL lines) which comfortably covered around 3 months of debt repayments assuming zero collections. They have total debt payments (including working capital lines which are typically rolled over) of around Rs 3,745 crore till end March 2022. Additionally, the liquidity profile is expected to be supported by collections.

Rating Sensitivity Factors

Upward factors

- Successful completion of the merger with no material impact on the merged entity's financials will result in the overall credit profile of Shriram City to be equivalent to that of the merged entity
- Reduction and sustainability in standalone GNPA below 5%
- Increase in scale of operations while maintaining profitability (RoMA) at the current or higher levels

Downward factors:

- Increase in steady state gearing of above 5 times
- Deterioration in asset quality metrics or collection efficiency levels
- Inability to raise funds from diversified sources on consistent basis and at optimal costs

About the Company

Incorporated in 1986, Shriram City is a part of Shriram group of companies. It is registered with RBI as a systemically important, deposit taking, non-banking finance company (NBFC-SI-D). It predominantly operates in the retail financing segment with a focus on small enterprise loans, two-wheeler financing, gold loans, housing loans and others (auto and personal loans). Its assets under management (including housing portfolio) stood at Rs 33,509 crore as on June 30, 2021 of which the standalone AUM stood at Rs 29,599 crore, while the housing portfolio under Shriram Housing stood at Rs 3,910 crore. The company has pan India presence with 926 branches as on March 31, 2021, of which 67% are situated in South India.

Key Financial Indicators

As on/for the period ending/year ending	Unit	September 30, 2021	March 31, 2021	March 31, 2020
Total AUM	Rs.Cr.	30,425	29,571	29,085
Total income (net of interest expenses)	Rs.Cr.	1,890	3,605	3,747
Profit after tax	Rs.Cr.	656	1,011	1,001
Gross NPA (ECL Stage-3)	%	6.9	6.4	7.9
Adjusted gearing	Times	3.1	3.2	3.3
Return on managed assets	%	3.5	2.9	3.1

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of issuance	Coupon rate (%)	Maturity Date	Complexity of instrument	Issue Size (Rs. Crore)	Rating assigned with Outlook
NA	Debentures*	NA	NA	NA	Simple	500	CRISIL AA/Watch Positive
INE722A07BE8	Debenture	21-Dec-2021	9.05	20-Dec-31	Simple	600	CRISIL AA/Watch Positive
INE722A07984	Debenture	25-Sep-2019	9.70	25-Sep-22	Simple	15.83	CRISIL AA/Watch Positive
INE722A07992	Debenture	25-Sep-2019	9.30	25-Sep-22	Simple	13.24	CRISIL AA/Watch Positive
INE722A07AA8	Debenture	25-Sep-2019	-	25-Sep-22	Simple	8.23	CRISIL AA/Watch Positive
INE722A07AB6	Debenture	25-Sep-2019	9.85	25-Sep-24	Simple	52.27	CRISIL AA/Watch Positive
INE722A07AC4	Debenture	25-Sep-2019	9.45	25-Sep-24	Simple	11.06	CRISIL AA/Watch Positive
INE722A07AD2	Debenture	25-Sep-2019	-	25-Sep-24	Simple	5.64	CRISIL AA/Watch Positive
INE722A07901	Debenture	30-Apr-2019	9.65	30-Apr-22	Simple	64.9	CRISIL AA/Watch Positive
INE722A07919	Debenture	30-Apr-2019	9.26	30-Apr-22	Simple	40.84	CRISIL AA/Watch Positive
INE722A07927	Debenture	30-Apr-2019	-	30-Apr-22	Simple	24.62	CRISIL AA/Watch Positive
INE722A07935	Debenture	30-Apr-2019	9.75	30-Apr-24	Simple	66.15	CRISIL AA/Watch Positive

INE722A07943	Debenture	30-Apr-2019	9.35	30-Apr-24	Simple	35.06	CRISIL AA/Watch Positive
INE722A07950	Debenture	30-Apr-2019	-	30-Apr-24	Simple	20.94	CRISIL AA/Watch Positive
INE722A07AH3	Debenture	05-Mar-2020	9.70	05-Mar-22	Simple	550	CRISIL AA/Watch Positive
INE722A07AG5	Debenture	05-Mar-2020	9.25	05-Mar-23	Simple	25	CRISIL AA/Watch Positive
INE722A07AI1	Debenture	09-Sep-2020	8.98	09-Mar-22	Simple	150	CRISIL AA/Watch Positive
INE722A07AJ9	Debenture	06-Oct-2020	8.98	06-Apr-22	Simple	200	CRISIL AA/Watch Positive
INE722A07AK7	Debenture	18-Nov-2020	8.15	18-May-22	Simple	25	CRISIL AA/Watch Positive
INE722A07AV4	Debentures	23-Jun-21	9.00	23-Jun-31	Simple	100	CRISIL AA/Watch Positive
INE722A07AW2	Debentures	23-Jul-21	8.25	23-Jul-24	Simple	50	CRISIL AA/Watch Positive
INE722A07AX0	Debentures	23-Jul-21	8.75	23-Jul-31	Simple	100	CRISIL AA/Watch Positive
NA	Debentures*	NA	NA	NA	Simple	2191.73	CRISIL AA/Watch Positive
NA	Debentures*	NA	NA	NA	Simple	100	CRISIL AA/Watch Positive
NA	Debentures*	NA	NA	NA	Simple	150	CRISIL AA/Watch Positive
INE722A07BA6	Debentures	21-Sep-21	8.65	21-Sep-31	Simple	200	CRISIL AA/Watch Positive
INE722A07BB4	Debentures	21-Sep-21	7.70	21-Dec-22	Simple	350	CRISIL AA/Watch Positive
INE722A07BC2	Debentures	21-Sep-21	3M – T bill linked	21-Sep-24	Simple	300	CRISIL AA/Watch Positive
NA	Commercial Paper	NA	NA	7-365 days	Simple	3000	CRISIL A1+

*Yet to be issued

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Shriram Housing Finance Limited	Full Consolidation	Subsidiary

Annexure - Rating History for last 3 Years

		Current		2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	3000.0	CRISIL A1+		--	17-12-21	CRISIL A1+	11-11-20	CRISIL A1+	09-09-19	CRISIL A1+	--
			--		--	29-11-21	CRISIL A1+	28-09-20	CRISIL A1+		--	--
			--		--	08-09-21	CRISIL A1+	10-07-20	CRISIL A1+		--	--
			--		--	13-07-21	CRISIL A1+	30-04-20	CRISIL A1+		--	--
			--		--	15-06-21	CRISIL A1+	27-02-20	CRISIL A1+		--	--
			--		--	15-03-21	CRISIL A1+		--		--	--
Fixed Deposits	LT		--		--		--		--		--	Withdrawn
Non Convertible Debentures	LT	6400.0	CRISIL AA/Watch Positive		--	17-12-21	CRISIL AA/Watch Positive	11-11-20	CRISIL AA/Negative	09-09-19	CRISIL AA/Stable	CRISIL AA/Stable
			--		--	29-11-21	CRISIL AA/Stable	28-09-20	CRISIL AA/Negative		--	--
			--		--	08-09-21	CRISIL AA/Stable	10-07-20	CRISIL AA/Negative		--	--

			--	--	13-07-21	CRISIL AA/Stable	30-04-20	CRISIL AA/Negative		--	--
			--	--	15-06-21	CRISIL AA/Stable	27-02-20	CRISIL AA/Stable		--	--
			--	--	15-03-21	CRISIL AA/Stable		--		--	--
Short Term Debt	ST		--	--		--		--		--	Withdrawn
Subordinated Debt	LT		--	--		--	28-09-20	Withdrawn	09-09-19	CRISIL AA/Stable	CRISIL AA/Stable
			--	--		--	10-07-20	CRISIL AA/Negative		--	--
			--	--		--	30-04-20	CRISIL AA/Negative		--	--
			--	--		--	27-02-20	CRISIL AA/Stable		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria

[Rating Criteria for Finance Companies](#)

[CRISILs Criteria for rating short term debt](#)

[CRISILs Criteria for Consolidation](#)

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Mr. R Chandrasekar
Chief Financial Officer
Shriram City Union Finance Limited
221, Royapettah High Road, Mylapore
Chennai - 600 004

February 07, 2022

Dear Sir/Madam,

Re: Rating Letter for non-convertible debenture (NCD) programme of Shriram City Union Finance Limited

India Ratings and Research (Ind-Ra) is pleased to communicate the rating of

- INR45.0 billion long-term non-convertible debentures (NCDs): 'IND AA'/Outlook Positive.
- INR17.0 billion Principal protected market linked debenture (PP-MLDs): 'IND PP-MLD AAemr'/Outlook Positive.

Please refer to annexure for details.

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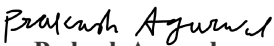
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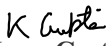
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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please email us at infogrp@indiaratings.co.in

Sincerely,

India Ratings


Prakash Agarwal
Director


Karan Gupta
Director

Annexure: Facilities Breakup

Instrument Type	ISIN	Date Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE722A07AU6*	28-Feb-20	9.25	28-May-24	INR5.0	IND AA/Positive
NCDs	INE722A07AF7	28-Feb-20	9.25	28-Feb-23	INR2.4	IND AA/ Positive
NCDs	INE722A07AN1	08-Feb-21	9.25	08-Feb-30	INR0.1	IND AA/ Positive
NCDs	INE722A07AO9	08-Feb-21	9.5	07-Feb-31	INR0.3	IND AA/ Positive
NCDs	INE722A07AP6	22-Feb-21	9.25	22-Feb-30	INR0.2	IND AA/ Positive
NCDs	INE722A07AQ4	22-Feb-21	9.5	21-Feb-31	INR0.45	IND AA/ Positive
NCDs	INE722A07AP6	25-Mar-21	9.25	22-Feb-30	INR0.3	IND AA/ Positive
NCDs	INE722A07AQ4	25-Mar-21	9.5	21-Feb-31	INR0.3	IND AA/ Positive
NCDs	INE722A07AY8	12-Aug-21	7.95	12-Aug-24	INR2.6	IND AA/ Positive
NCDs	INE722A07BA6	21-Sep-21	8.65	21-Sep-31	INR1.89	IND AA/ Positive
NCDs	INE722A07BB4	21-Sep-21	7.7	21-Dec-22	INR3.5	IND AA/ Positive
NCDs	INE722A07BC2	21-Sep-21	7.48	21-Sep-24	INR 3.0	IND AA/ Positive
NCD	INE722A07BE8	20-Dec-21	9.05	20-Dec-31	INR 6.0	IND AA/ Positive
Utilised					INR26.05	
Unutilised					INR18.95	
Total limit					INR45.0	
Instrument Type	ISIN	Date Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
PP MLD NCD	INE722A07AM3	27-Jan-21	-	27-Jan-23	INR1.5	IND PP-MLD AAem/ Positive
PP MLD NCD	INE722A07AR2	01-Mar-21	-	01-Mar-23	INR4.91	IND PP-MLD AAem/ Positive
PP MLD						IND PP-MLD AAem/

NCD	INE722A07AR2	03-Mar-21	-			Positive
PP MLD NCD	INE722A07AR2	10-Mar-21	-			IND PP-MLD AAem/ Positive
PP MLD NCD	INE722A07AS0	17-Mar-21	-	17-May-23	INR3.0	IND PP-MLD AAem/ Positive
PP MLD NCD	INE722A07AT8	30-Mar-21	-	30-Mar-23	INR2.0	IND PP-MLD AAem/ Positive
PP MLD NCD	INE722A07AZ5	01-Sep-21	-	01-Mar-24	INR2.0	IND PP-MLD AAem/ Positive
PP MLD NCD	INE722A07BD0	23-Nov-21	-	23-May-24	INR3.0	IND PP-MLD AAem/ Positive
Utilised					INR16.41	
Unutilised					INR0.59	
Total Limit					INR17.0	

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



India Ratings Revises Shriram City Union Finance's Outlook to Positive; Affirms 'IND AA'

20

DEC 2021

By Amit Rane

India Ratings and Research (Ind-Ra) has revised Shriram City Union Finance Limited's (SCUF) Outlook to Positive from Stable, while affirming its Long-Term Issuer Rating at 'IND AA' and its Short-Term Issuer Rating at 'IND A1+'. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Principal protected market linked debentures (PP-MLDs)*	-	-	-	INR17.0	IND PP-MLD AAemr/Positive	Outlook revised to Positive from Stable; Affirmed
Non-convertible debentures (NCDs)*	-	-	-	INR45	IND AA/Positive	Outlook revised to Positive from Stable; Affirmed
Bank loan	-	-	-	INR175	<u>IND AA/Positive</u>	Outlook revised to Positive from Stable; Affirmed
Fixed deposit programme	-	-	-	-	IND tAA/Positive	Outlook revised to Positive from Stable; Affirmed

* Details in Annexure

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 (34.5% owned by Shriram Capital Limited and Shriram Ventures Limited) and Shriram Housing Finance Ltd (SHFL; debt rated at 'IND AA+/Positive, 85% owned by SCUF), to arrive at the ratings. While SCUF mainly provides business loans, SHFL provides housing loans across segments and leverages the Shriram group's ecosystem.

The Outlook revision and rating affirmation primarily reflect the possible benefit of increased scale of operations and significant geographical diversification to SCUF post merger with STFC. The rating affirmation also factors in SCUF's well-established track record in high-yielding segments, adequate capitalisation and liquidity, sufficient profitability buffers to absorb credit costs as well as an improving trend in asset quality since the normalisation of economic activities post pandemic.

KEY RATING DRIVERS

SCUF to Benefit in terms of Scale-up and Geographical Diversification: Ind-Ra expects the merger of SCUF and Shriram Capital merger with Shriram Transport Finance Limited (STFC; IND AA+/Stable) to be credit positive for SCUF. The Positive Outlook reflects the possible benefit of increased scale of operations and significant geographical diversification over the medium term, unless integration challenges prove insurmountable.

The transaction was announced through a public announcement on 13 December 2021. Post the merger, the new entity will be named as Shriram Finance Ltd (SFL). Financials for SFL for 1HFY22 have been linearly added; actual consolidation would result in modestly different metrics. While the actual merger could take time, SFL is also referred to as the combined entity for ease of reference. 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.

The return on assets of SCUF (consolidated) at 3.1% in FY21 was much higher than that of the combined entity at 2.1%. However, the addition of SCUF's 4.3 million customers to STFC's 2.1 million with minimal overlap will create cross-selling opportunities in between lending and other non-lending verticals through geographically distributed (post-merger) branch networks, thus providing geographical diversification for SCUF. The combined entity aims to achieve minimum two products per customer by FY24. The products of STFC and SCUF across each other's branches will be introduced in stages. SCUF's (consolidated) AUM grew at a low CAGR of 2.3% over FY18-FY21; post merger, it will be better positioned to improve franchise growth the medium term.

Furthermore, a larger employee base with significant domain knowledge, benefit of analytics and a more comprehensive product suite will provide an opportunity to increase market penetration and increase share in customer's wallet over the medium term for both the entities. However, training almost 50,000 employees of the consolidated entity with the

mechanics of all the products would be a tall order and hence the cross-sell would be slow to begin with. Ind-Ra opines that execution would be key to realise full synergy benefit from the merger.

Diversification of Funding Mix: Ind-Ra expects SCUF's standalone funding mix as of 1HFY22 (bank loans: 44%; debentures: 21%; retail deposits: 24%; securitisation: 11%) to diversify post the merger (bank loans: 25%; debentures: 18%; retail deposits: 19%; securitisation: 17%, foreign currency borrowings: 16%; sub-debt/others: 4%) with lesser reliance on any one source.

Liquidity Indicator – Adequate: SCUF standalone has been maintaining adequate liquidity to meet minimum three to four months of debt outflows historically. On other hand, STFC has higher liquidity buffers which are adequate to meet six months of the debt outflows. Even for SFL on a proforma basis while the liquidity buffers are being maintained at elevated levels, on a steady-state basis the management remains committed to maintaining three months of liquidity buffers on an ongoing basis.

Adequate Capitalisation: Ind-Ra expects SFL's leverage increase to 4.1x as of 1HFY22 (SCUF standalone : 3.2x, consolidated: 3.5x in FY21), while SCUF will be benefited in terms of scope for growth in the medium term which was a concern last three years. SCUF (standalone) reported a tier-I capital adequacy ratio of 29.1% at end-2QFY22 (FYE21: 28.6%, FYE20: 27.7%, FYE19: 22.75%). The management remains committed to maintaining a minimum common equity tier 1 capital of 14% and a total capital adequacy ratio of 17% for SFL, in line with the current policy on minimum capital requirements. The agency believes that the current capital levels along with internal accruals for the combined entity on a proforma basis provide sufficient room for loan growth in the medium term along with the requirement of buffers for any asset quality shocks.

Merger Integration Cost – No Major Impact: As both SCUF and STFC have similar HR practices and common technology platform, Ind-Ra does not expect merger integration to have a major operating cost impact. Management has estimated an overall cost of INR4 billion, of which one-time stamp duty cost is expected to contribute half, and INR600 million-700 million p.a. for initial two years is budgeted for upskilling and salary-scale rationalisation. The branch overlap is only 50 out of total 3,500 branches of the combined entity, so there is limited scope of branch rationalisation.

Ind-Ra expects the merger process to conclude by October/November 2022, subject to the receipt of all the necessary approvals including those from the shareholders, stock exchanges, the Reserve Bank of India and the other regulators.

Combined Entity to have Higher Stage 3 than SCUF (pre-merger); but will have Adequate Buffers: SCUF's (pre-merger) gross stage 3 and net stage 3 are lower than that of STFC by 100bp and 70bp, respectively. However, SFL (combined entity) as of 1HFY22 will have higher gross stage 3 and net stage 3 ratios than that of SCUF by 60bp and 50bp, respectively, given that STFC's AUM is four times that of SCUF. That being said, SFL's credit costs will be lower by 30bp post the merger, consequently, the pre-provision operating profit/credit cost are estimated to remain above 2x. Furthermore, for SCUF standalone, the regulatory daily recognition of stage 3 assets would result in an uptick on the gross stage 3 assets with minimal impact on the provisioning, as the entity already follows the expected credit loss model for estimating provisioning under IND-AS accounting norms. SCUF's gross stage-3 assets increased to 6.86% in 2QFY22 (FY21: 6.37%, FY20: 7.90%, FY19: 8.9%). That being said, SCUF's (standalone) actual collection efficiency (excluding overdues, prepayments and foreclosures and excluding gold loan collections) has witnessed an improving trend (September 2021: 94%; June 2021: 83%; March 2021: 80%).

RATING SENSITIVITIES

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.

Negative: The following events could individually and collectively lead to a negative rating action:

- merger not being executed within the stated timelines or any integration challenges related to same
- significant deterioration in the asset-liability profile and liquidity position, with the gross stage 3 assets exceeding 10% and/or the net stage-3 assets surpassing and sustaining above 6% in the current recognition regime
- tier 1 ratio falling below 20%

COMPANY PROFILE

SCUF was established in 1986 as a commercial vehicle financier, part of the larger Shriram Group. In FY06, SCUF shifted focus to retail financing which includes small business loans, two-wheeler loans, auto loans, loans against gold, and personal loans. SUCF is one of the largest non-banking financial companies that lends to small businesses directly. It had 971 branches and total loans under management of INR304 billion at end-September 2021.

FINANCIAL SUMMARY (Consolidated)

Particulars (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

Instrument Type	Current Rating/Outlook			Historic					
	Rating Type	Rated Limits (billion)	Rating	3 December 2021	9 November 2021	24 August 2021	31 May 2021	26 May 2021	23 March 2021

Issuer rating	Long-term/Short-term	-	IND AA/Positive/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+
NCDs	Long-term	INR45	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Bank loan	Long-term	INR175	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Fixed deposit programme	Long-term	-	IND tAA/Positive	IND tAA/Stable	IND tAA/Stable	IND tAA/Stable	IND tAA/Stable	IND tAA/Stable	IND tAA/Stable	IND tAA/Stable
PP-MLDs	Long-term	INR17.0	IND PP-MLD AAemr/Positive	IND PP-MLD AAemr/Stable	IND PP-MLD AAemr/Stable	IND PP-MLD AAemr/Stable	IND PP-MLD AAemr/Stable	IND PP-MLD AAemr/Stable	IND PP-MLD AAemr/Stable	IND PP-MLD AAemr/Stable

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/Positive
NCDs	INE722A07AF7	28 February 2020	9.25	28 February 2023	INR2.4	IND AA/ Positive
NCDs	INE722A07AN1	8 February 2021	9.25	8 February 2030	INR0.1	IND AA/ Positive
NCDs	INE722A07AO9	8 February 2021	9.50	7 February 2031	INR0.3	IND AA/ Positive
NCDs	INE722A07AP6	22 February 2021	9.25	22 February 2030	INR0.2	IND AA/ Positive
NCDs	INE722A07AQ4	22 February 2021	9.50	21 February 2031	INR0.45	IND AA/ Positive
NCDs	INE722A07AP6	25 March 2021	9.25	22 February 2030	INR0.3	IND AA/ Positive
NCDs	INE722A07AQ4	25 March 2021	9.50	21 February 2031	INR0.3	IND AA/ Positive
NCDs	INE722A07AQ8	12 August 2021	7.95	12 August 2024	INR2.6	IND AA/ Positive
NCDs	INE722A07BA6	21 September 2021	8.65	21 September 2031	INR1.89	IND AA/ Positive
NCDs	INE722A07BB4	21 September 2021	7.70	21 December 2022	INR3.5	IND AA/ Positive
NCDs	INE722A07BC2	21 September 2021	7.48	21 September 2024	INR 3.0	IND AA/ Positive
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/ Positive
PP MLD - NCD	INE722A07AR2	1 March 2021	-	1 March 2023	INR 4.91	IND PP-MLD AAemr/ Positive
PP MLD - NCD	INE722A07AR2	3 March 2021	-			IND PP-MLD AAemr/ Positive
PP MLD - NCD	INE722A07AR2	10 March 2021	-			IND PP-MLD AAemr/ Positive
PP MLD - NCD	INE722A07AS0	17 March 2021	-	17 May 2023	INR3.0	IND PP-MLD AAemr/ Positive
PP MLD - NCD	INE722A07AT8	30 March 2021	-	30 March 2023	INR2.0	IND PP-MLD AAemr/ Positive
PP MLD - NCD	INE722A07AZ5	1 September 2021	-	1 March 2024	INR2.0	IND PP-MLD AAemr/ Positive
PP MLD - NCD	INE722A07BD0	23 November 2021	-	23 May 2024	INR3.0	IND PP-MLD AAemr/ Positive
Utilised					INR16.41	
Unutilised					INR0.59	
Total Limit					INR17.0	

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

BANK WISE FACILITIES DETAILS

[Click here to see the details](#)

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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[Non-Bank Finance Companies Criteria](#)

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