

Ref: STEC NSE/BSE 65/2020

May 7, 2020

The Secretary,
BSE Ltd
P J Towers,
Dalal St,
Mumbai 400 001

The Manager
National Stock Exchange of India Ltd
Exchange Plaza, 5th Floor
Plot No.C/1, G Block
Bandra- Kurla Complex Bandra (E)
Mumbai 400 051

Sir,

Ref: ISIN – INE722A01011
Scrip Code: BSE – 532498 and NSE - SHRIRAMCIT

This is to inform you that CRISIL has reaffirmed its Ratings in respect of Non-Convertible Debentures, Subordinated Debentures and Commercial Papers as per the details given below and revised its outlook on the Non-Convertible Debentures and Subordinated Debentures of the Company to 'Negative' from 'Stable'. The instrument-wise rating actions are given below:

Sl. No.	Instrument	Existing Rating	Revised Rating
1	Non Convertible Debentures (₹ 3000 crores)	CRISL AA/Stable	CRISIL AA/Negative
2	Non Convertible Debentures (₹ 600 crores)	CRISL AA/Stable	CRISIL AA/Negative
3	Subordinate Debt (₹ 100 crores)	CRISL AA/Stable	CRISIL AA/Negative
4	Commercial Paper (₹ 3000 crores)	CRISIL A1+	

The rationale provided by CRISIL Limited dated April 30, 2020 is enclosed https://www.crisil.com/mnt/winshare/Ratings/RatingList/RatingDocs/Shriram_City_Union_Finance_Limited_April_30_2020_RR.html.

This is an intimation under Regulation 30 read with Schedule III (Part A) (3) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015 as amended from time to time.

We request you to kindly take the above information on record.

Thanking you,
Yours faithfully,

For Shriram City Union Finance Limited,
SD/-
C R Dash
Company Secretary
Contact number 9941003379

Shriram City Union Finance Limited

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Corporate Identification Number (CIN) L65191TN1986PLC012840

Ratings

Rating Rationale

April 30, 2020 | Mumbai

Shriram City Union Finance Limited

Rating outlook revised to 'Negative'; ratings reaffirmed

Rating Action

Rs.3000 Crore Non Convertible Debentures	CRISIL AA/Negative (Outlook revised from 'Stable' and rating reaffirmed)
Rs.600 Crore Non Convertible Debentures	CRISIL AA/Negative (Outlook revised from 'Stable' and rating reaffirmed)
Rs.100 Crore Subordinated Debt	CRISIL AA/Negative (Outlook revised from 'Stable' and rating reaffirmed)
Rs.3000 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has revised its outlook on the long term debt instruments of Shriram City Union Finance Limited (Shriram City) to **'Negative'** from 'Stable' and reaffirmed the rating at 'CRISIL AA'. The rating on commercial paper has been reaffirmed at 'CRISIL A1+'.

The outlook revision reflects expected pressure on Shriram City's asset quality due to the nation-wide lockdown and challenging economic environment. The company largely caters to borrowers with modest credit profile and relatively under-banked customers. The non-regular income pattern and lack of financial flexibility of these borrowers may lead to higher delinquencies. CRISIL believes that the company's MSME loan segment (~57% of assets under management) is most vulnerable due to high linkage to economic activity.

The nationwide lockdown (originally till April 14, 2020) declared by the Government of India to contain the spread of the Novel Coronavirus (Covid-19) will have near-term impact on disbursements and collections of Shriram City. The lockdown is now extended till May 3, 2020 and there is high likelihood that eventual lifting of restrictions will be in a phased manner. Any delay in return to normalcy will put further pressure on collections and asset quality metrics.

Historically, the reported GNPA / Gross Stage 3 metrics for Shriram City has remained elevated at 8.5 to 9.5%; as of December 31, 2019, it stood at 8.51%. However, Shriram City has displayed ability in the past to ultimately recover from these accounts, even post loan maturity date. With the borrower segment for Shriram City comprising primarily of MSMEs, the impact of the lockdown on the core business operations for these borrowers has been high. With a significant impact on the business operations, a large proportion of the customers have opted for moratorium. As and how the lockdown is lifted and the time taken for the borrowers operations to return to normalcy is a key monitorable. Additionally, any change in the fundamental behaviour of the borrower which could result in depletion of the ability of Shriram City to recover is a key monitorable.

The earnings profile is supported by high spreads and pre-provisioning profitability. Despite, the credit costs being high in the past ranging between 2.5%-3.7%, the overall return on managed assets (RoMA) has been comfortable at 2.4%-3.7% in the past five years. However, with the expectation of higher slippages, ability to maintain credit costs inline with historical levels may be a challenge.

Despite expected pressure on earnings profile, CRISIL does not envisage any impact on capitalisation metrics. The company's adjusted gearing was comfortable at 3.1 times as of December 31, 2019. CRISIL expects gearing to be maintained as the company will focus more on collections and is not likely to grow the book significantly over the next six months.

On the liability side, the Reserve Bank of India (RBI) announced regulatory measures under 'Covid-19 - Regulatory Package', whereby lenders were permitted to grant moratorium on bank loans. Shriram City has written to their lenders seeking moratorium. However, CRISIL understands that the approval of moratorium request by many lenders is still under process. The recent uncertainty on whether non-banking financial companies (NBFCs) are considered eligible for moratorium has resulted in some delay in decision-making by the lenders. In absence of moratorium on bank loans, liquidity profile of NBFCs could come under pressure.

Herein, CRISIL believes that Shriram City has sufficient liquidity, on standalone basis, to manage this period wherein asset-side collections will be negligible while liability-side outflows continue as per schedule. As of March 31, 2020, the liquidity cover for Shriram City for payments until June 2020 was comfortable at around 1.15x times. In terms of liquidity, Shriram City, as on March 31, 2020, had liquidity of Rs 2693 crore (Rs 2000 crore of cash and equivalents and Rs 693 crore of unutilized bank lines and securitisation lines). Against the same, they have total debt payments of Rs 2339 crore (which included CC/WCDL repayment of Rs 493 crore which is due for rollover and also debt repayment to a certain bank loan where Shriram City has already received moratorium approval) over the next 3 months till June 2020.

Analytical Approach

For arriving at its ratings on Shriram City, CRISIL 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. The two companies are herein together referred to as Shriram City.

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 or 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 16,841 crore as on December 31, 2019 (Rs 17,749 crore as on March 31, 2019), 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 6205 crore as on December 31, 2019 (Rs 5,325 crore as on March 31, 2019). It finances about 90,000 vehicles per month 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 7,060 crores and a tier 1 and an overall capital adequacy ratio of 25.3% respectively as on December 31, 2019. In addition, Shriram City's gearing (standalone) remains comfortable at 3.1 times as on December 31, 2019 as against 3.5 times as on March 31, 2019 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 4.9 times as on December 31, 2019 thereby providing adequate cushion against inherent asset quality challenges arising from borrower and product profiles. CRISIL's expectation of continued healthy capitalisation of Shriram City factors in the likely 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 480 crores and gearing of 3.5 times as of September 30, 2019 (Rs 466 crores and 3.6 times as on March 31, 2019). Shriram Housing's total capital adequacy ratio (CAR) stood at 32.6% as on September 30, 2019 (29.9% as on March 31, 2019). 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. Consequently, profitability has remained above the industry average over the past few years. Shriram City's return on managed assets stood at 3.7% for the nine months ended December 31, 2019 (on standalone basis). Although the cost of borrowing has been increasing over the past couple of quarters which remained broadly stable in the third quarter ended December 31, 2019, earnings have been historically supported by high yield portfolio varying between 14-28% for various portfolios.

*** 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 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.

Weaknesses:

*** 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 good origination, underwriting and monitoring practices coupled with strong understanding of the SME borrowers, the 90+ days past due (dpd) gross non-performing loans (GNPA) remained ranged bound over last few years. The GNPA, as per ECL stage-3 recognition, stood at 8.51% as on December 31, 2019, marginal improvement over 8.91% as on March 31, 2019.

Nevertheless, despite this, the credit costs of the company have remained below 4% historically, which stood at 2.5% (annualised) during nine months ended December 31, 2019, reflecting upon the ability of the company to recover post the 90+ slippage of a customer.

*** 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 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 44% of standalone AUM as on December 31, 2019.

Liquidity Strong

CRISIL's analysis of Shriram City's asset liability maturity profile as of December 31, 2019 shows cumulative positive mismatches in the upto one year bucket. The company continues to receive funding from banks through term loans and securitization/direct assignment. The aggregate of such sanctions in the third quarter of fiscal 2020 was Rs 3,009 crore & funds raised by way of Retail Fixed Deposits was Rs 535 crore.

On the liabilities side, Shriram City has written to their lenders seeking moratorium, under 'Covid-19 - Regulatory Package' announced by the Reserve Bank of India (RBI), whereby lenders were permitted to grant moratorium on bank loans. CRISIL understands that formal written approval of the moratorium by many lenders is in process.

In terms of liquidity, Shriram City, as on March 31, 2020, had liquidity of Rs 2693 crore (Rs 2000 crore of cash and equivalents and Rs 693 crore of unutilized bank lines and securitisation lines). Against the same, they have total debt payments of Rs 2339 crore (which included CC/WCDL repayment of Rs 493 crore which is due for rollover and also debt repayment to a certain bank loan where Shriram City has already received moratorium approval) over the next 3 months till June 2020.

Outlook: Negative

CRISIL believes that Shriram City's asset quality is likely to come under pressure due to the nation-wide lockdown and challenging economic environment. The company largely caters to borrowers with modest credit profile and relatively under-banked customers. The non-regular income pattern and lack of financial flexibility of these borrowers may lead to higher delinquencies. CRISIL believes that the company's MSME loan segment (~57% of assets under management) is most vulnerable due to high linkage to economic activity.

Rating Sensitivity factors

Upward factors

- * 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:

- * Deterioration in asset quality metrics with GNPA remaining higher than beyond 10% and collection efficiency not reverting to pre-pandemic levels
- * Increase in steady state gearing of above 5 times

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 (53% of consolidated AUM as on December 31, 2019), two wheeler financing (20%), gold loans (9%) and others (including housing, auto and personal loans) together forming 18% of AUM. Its assets under management (including housing portfolio) stood at Rs 31,646 crore as of December 31, 2019 of which the standalone AUM stood at Rs 29,546 crore, while the housing portfolio under Shriram Housing stood at Rs 2100 crore. The company has pan India presence with 947 branches as on December 31, 2019, of which 56% are situated in South India.

Key Financial Indicators

As on/for the period ending/year ending	Unit	December 30, 2019	March 31, 2019	March 31, 2018*
Total AUM	Rs. Cr.	29,546	29,582	27,582
Total income (net of interest expenses)	Rs. Cr.	2,854	3,801	3,495
Profit after tax	Rs. Cr.	847	989	711
Gross NPA (ECL Stage-3)	%	8.5	8.9	9.4
Gearing	Times	3.1	3.5	3.8
Return on managed assets	%	3.7	3.2	2.6

*Per IGAAP

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of issuance	Coupon rate (%)	Maturity Date	Issue Size (Rs. Crore)	Rating assigned with Outlook
INE722A07968	Debenture	25-Sep-19	-	25-Sep-21	29.67	CRISIL AA/Negative
INE722A07976	Debenture	25-Sep-19	-	25-Sep-21	5.40	CRISIL AA/Negative
INE722A07984	Debenture	25-Sep-19	9.70%	25-Sep-22	15.83	CRISIL AA/Negative
INE722A07992	Debenture	25-Sep-19	9.30%	25-Sep-22	13.24	CRISIL AA/Negative
INE722A07AA8	Debenture	25-Sep-19	-	25-Sep-22	8.23	CRISIL AA/Negative
INE722A07AB6	Debenture	25-Sep-19	9.85%	25-Sep-24	52.27	CRISIL AA/Negative

INE722A07AC4	Debenture	25-Sep-19	9.45%	25-Sep-24	11.06	CRISIL AA/Negative
INE722A07AD2	Debenture	25-Sep-19	-	25-Sep-24	5.64	CRISIL AA/Negative
INE722A07893	Debenture	30-Apr-19	-	30-Apr-21	24.83	CRISIL AA/Negative
INE722A07901	Debenture	30-Apr-19	6.65	30-Apr-22	64.9	CRISIL AA/Negative
INE722A07919	Debenture	30-Apr-19	9.26	30-Apr-22	40.84	CRISIL AA/Negative
INE722A07927	Debenture	30-Apr-19	-	30-Apr-22	24.62	CRISIL AA/Negative
INE722A07935	Debenture	30-Apr-19	9.75	30-Apr-24	66.15	CRISIL AA/Negative
INE722A07943	Debenture	30-Apr-19	9.35	30-Apr-24	35.06	CRISIL AA/Negative
INE722A07950	Debenture	30-Apr-19	-	30-Apr-24	20.94	CRISIL AA/Negative
INE722A07885	Debenture	30-Apr-19	9.55	09-May-21	389.59	CRISIL AA/Negative
INE722A07AH3	Debenture	05-Mar-20	9.70	05-Mar-22	550	CRISIL AA/Negative
INE722A07AG5	Debenture	05-Mar-20	9.25	05-Mar-22	25	CRISIL AA/Negative
NA	Debentures*	NA	NA	NA	25	CRISIL AA/Negative
NA	Debentures*	NA	NA	NA	2191.73	CRISIL AA/Negative
NA	Subordinated Debt*	NA	NA	NA	100	CRISIL AA/Negative
NA	Commercial Paper	NA	NA	7-365 days	3000	CRISIL A1+

*Yet to be issued

Annexure - List of entities consolidated

Entity consolidated	Extent of consolidation	Rationale for consolidation
Shriram Housing Finance Limited	Full Consolidation	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	3000.00	CRISIL A1+	27-02-20	CRISIL A1+	09-09-19	CRISIL A1+		--		--	--
Fixed Deposits	FD		--		--		--	27-07-18	Withdrawal	02-11-17	FAA/Positive	FAA/Positive
										31-10-17	FAA/Positive	
										11-07-17	FAA/Positive	
Non Convertible Debentures	LT	3600.00 30-04-20	CRISIL AA/Negative	27-02-20	CRISIL AA/Stable	09-09-19	CRISIL AA/Stable	04-12-18	CRISIL AA/Stable	02-11-17	CRISIL AA-/Positive	CRISIL AA-/Positive
								27-07-18	Withdrawal	31-10-17	CRISIL AA-/Positive	
										11-07-17	CRISIL AA-/Positive	
Short Term Debt	ST		--		--		--	27-07-18	Withdrawal	02-11-17	CRISIL A1+	CRISIL A1+
										31-10-17	CRISIL A1+	
										11-07-17	CRISIL A1+	
Subordinated Debt	LT	100.00 30-04-20	CRISIL AA/Negative	27-02-20	CRISIL AA/Stable	09-09-19	CRISIL AA/Stable	04-12-18	CRISIL AA/Stable	02-11-17	CRISIL AA-/Positive	CRISIL AA-/Positive
								27-07-18	CRISIL AA/Stable	31-10-17	CRISIL AA-/Positive	
										11-07-17	CRISIL AA-/Positive	

All amounts are in Rs.Cr.

Links to related criteria[Rating Criteria for Finance Companies](#)[CRISILs Criteria for Consolidation](#)[CRISILs Criteria for rating short term debt](#)**For further information contact:**

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