Ref: STEC NSE/BSE 64/2020 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 India Ratings and Research Limited has placed the Company's Long term rating of 'IND AA'on Rating Watch Negative (RWN) and affirmed Short-Term Issuer Rating at 'IND A1+'. The outlook was stable. The instrument-wise rating actions are given below

Sl. No.	Instrument	Existing Rating	Revised Rating/Rating Watch
1	Bank Loan (₹ 150 billion)	IND AA/Stable	IND AA/RWN
2	Long Tem debt Programme (₹ 0.05 billion)	IND AA/Stable	IND AA/RWN
3	NCDs (₹ 10 billion)	IND AA/Stable	IND AA/RWN
4	Fixed deposit programme	IND tAA/Stable	IND tAA/RWN

The rationale by India Ratings and Research Limited dated May 4, 2020 is enclosed

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 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

India Ratings & Research
A Fitch Group Company

India Ratings Places Shriram City Union Finance's Ratings on RWN

04
MAY 2020

By Kumar Vishal

India Ratings and Research (Ind-Ra) has placed Shriram City Union Finance Limited's (SCUF) Long-Term Issuer Rating of 'IND AA' on Rating Watch Negative (RWN) while affirming 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/Rating Watch	Rating Action
Bank loan	-	-	-	INR150	IND AA/RWN	Placed on RWN
Long-term debt programme*				INR0.05	IND AA/RWN	Placed on RWN
NCDs*	-	-	-	INR10	IND AA/RWN	Placed on RWN
Fixed deposit programme	-	-	-	-	IND tAA/RWN	Placed on RWN

* Details in Annexure

The RWN reflects limited clarity on the extent of the negative impact on SCUF's overall performance due to the measures taken by the government to contain the COVID-19 pandemic. Micro, small and medium enterprises (MSME) and two-wheeler loans could be among the asset classes that could face higher impact in light of their weaker customer profile. The loss of income from disruptions in economic activity over an extended period of time is likely to have a large impact on borrower cash flows and cause disruption in collections for non-banking finance companies (NBFCs) while increasing credit risk significantly. Ind-Ra believes this event could result in both – a considerable elevation of softer bucket delinquencies and the higher transition of softer buckets to stage 3 delinquencies.

Furthermore, the agency will also remain watchful of the tightening market conditions that could impact the funding sources. Similarly, banks have been somewhat cautious in their incremental exposures, thereby increasing the cost of borrowings. SCUF has navigated the recent tough liquidity conditions partly by augmenting securitisation funding. As the funding sources remain somewhat dislocated, incremental funding through capital markets could face challenges, while banks' risk premium could rise, resulting in a further increase in funding costs.

KEY RATING DRIVERS

Incremental Pressure on Asset Quality in Near Term: The headwinds and other operational issues based on which Ind-Ra had assigned a negative outlook to the NBFC sector for FY21 have aggravated in light of the country-wide lockdown. The negative outlook was based on the agency's expectations of slower balance sheet growth and elevated slippages leading to weaker profitability for the sector. The slowing economic activity and the aggravation of macro-economic stress are together likely to put significant pressure on borrowers' cash flows. This is likely to affect SCUF's collections, asset quality and credit costs in the near term.

SCUF's gross stage-3 assets improved moderately to 8.5% in 9MFY20 (FY19: 8.9%; FY18: 9.4%). Moreover, its credit costs (as a percentage of assets under management (AUM)) reduced to 2.7% on an annualised basis in 9MFY20 (FY19: 2.9%; FY18: 4.2%). That said, the ongoing lockdown could reverse the trend in the near term. Moreover, an increase in mortality rate in the company's small and medium enterprises (SME) portfolio (currently at about 1%) could put incremental pressure on asset quality and credit costs. However, Ind-Ra expects SCUF's pre-provision operating profit buffers (9MFY20: 7.8%; FY19: 8.1%) to sufficiently cushion any moderate increases in delinquencies and credit costs over the near term without facing any capital erosion.

The company has substantial presence in Tamil Nadu, Maharashtra and Andhra Pradesh, accounting for about 60% of its AUM at end-December 2019. These states have been severely impacted by the COVID-19 outbreak with over one-third of their districts in the red zone, as per a recent notification issued by the government. According to the company, about 20% of its branches are in the green zone, 37% in the orange zone and the remaining in the red zone. While even in the red zone, the restrictions may not necessarily apply to the entire district uniformly, this could delay the normalisation of collections and as a consequence, impact asset quality adversely. That said, there are additional exemptions even in the red zones of Tamil Nadu that could support collections in the state. Ind-Ra also considers that the company has managed about 30% collections in April 2020 through digital channels (INR1.5 billion from customers making their first digital transactions) from 0.45 million customers. The agency will continue to monitor the impact of COVID-19 outbreak in these states closely.

Funding Costs Could Further Increase Amid Tightening Market Conditions: The funding environment for NBFCs, especially for those operating in microfinance, MSME and used commercial vehicle segments could be more challenging than in the past in wake of the COVID-19 outbreak. Ind-Ra will continue to evaluate the

willingness of lenders to provide funding support to these NBFC segments. Since September 2018, SCUF's borrowing costs have been elevated from its historical average, which can further increase in the current situation. That being said, SCUF's ability to access funding at competitive rates could benefit from it being part of the Shriram Group. However, SCUF's ability to borrow from some banks could be limited, given that they could have reached group limits on Shriram Group.

The share of securitisation in SCUF's overall funding has increased substantially (3QFY20: 14%, FY19: 5%). Despite this, SCUF depends on banks for about half of its total borrowings, and this is in line with most of its peers rated in the 'IND AA' category. The presence of several banks offsets concentration risk in SCUF's funding profile. SCUF's borrowings in 9MFY20, when the market liquidity was slightly tight, included NCDs of INR8.1 billion, cumulative commercial papers of INR7.4 billion and incremental term loans of INR22.1 billion.

Loan Growth Slows Down; likely to Remain Subdued: The company's loan growth has slowed down since March 2018 (7% growth in AUM), reflecting macroeconomic stress in the SME segment. The SME loan portfolio posted a modest 0.6% yoy decline in AUM in 3QFY20 to INR169.7 billion. As a result, the SME loan segment constituted 57% of the total advances at end-December 2019 (end-December 2018: 60%). Moreover, Ind-Ra expects AUM growth to remain subdued at least in 1HFY21, primarily due to the ongoing lockdown and the ensuing incremental stress in the SME segment; the focus would be on supplementing collection efforts and recoveries for most of this year.

In the wake of the COVID-19 situation, SCUF states its long-term strategy to focus on the secured SME loan segment (SME loan segment to constitute about 65% of its AUM over the medium term) remains intact. SCUF's average disbursement per SME loan account has remained INR1.2 million-1.3 million since FY18 and the company expects it to remain at similar levels over the medium term. According to the management, a substantial portion of their borrowers is also related to essential goods and services segment. These segments could see some demand and possibly lower asset quality deterioration. That being said, Ind-Ra expects loan growth this year to be marginal, if any.

Liquidity Indicator – Adequate: At FYE20, SCUF had cash and cash equivalents of INR21 billion and unutilised bank lines of INR2 billion as against contractual commitments (including operating expenses) of INR31 billion over 1QFY21. SCUF has drawn down some of its bank lines to beef up cash in hand, resulting in lower unutilised lines than usually seen in the past. At FYE20, the agency believes SCUF to have had adequate liquidity to cover its debt repayments (principal + interest) and operating expenses for a minimum of two months assuming nil inflows and no moratorium. The company has sought a moratorium on its debt repayments due in April and May 2020 and has received a positive response from a couple of its lenders. SCUF's liquidity profile is aided by surplus asset-liability tenors stemming from a shorter-tenor asset profile than for liabilities. Historically, SCUF carried 10%-15% surplus short-term assets compared to liabilities; the company increased this to over 30% at end-December 2019.

Adequate Capitalisation: SCUF reported Tier-I capital adequacy ratio of 25.3% in 9MFY20 (FYE19: 22.75%). The agency expects SCUF to continue to hold significantly higher equity buffers than its peer NBFCs to reflect its customers' weaker credit profile, 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, although the early delinquencies seem materially lower than those observed in the past. Ind-Ra believes SCUF is well capitalised to withstand incremental credit costs that may arise from the COVID-19 situation.

Balancing RoAA and Provision Cover: SCUF's return on average assets (RoAA; 9MFY20 (annualised): 3.8%; FYE19: 3.5%; FYE18: 2.8%; FYE17: 2.6%) and operating buffers (5.7%, 5.7%; 4.6%; 4.3%) have improved moderately as its incremental credit costs declined. However, Ind-Ra expects operating buffers to be impacted by a potential increase in credit costs in the near term due to the COVID-19 outbreak. SCUF has lowered the provision coverage ratio on stage-3 assets (9MFY20: 43.6%; FY19: 43.61%; FY18: 47.17%) to maintain its RoAA as it transitioned to 90 days past due recognition of non-performing loans. The agency expects the company to maintain provision coverage on stage-3 assets of 40%-45% in FY21.

RATING SENSITIVITIES

The RWN indicates that the ratings may be either downgraded or affirmed. The agency will continue to monitor the impact of COVID-19 on the collections and asset quality and ability of NBFCs to continue to raise funds from various sources at competitive rates. The rating watch would be resolved as the impact of COVID-19 lockdown begins to crystalise.

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 NBFCs that lend to small businesses directly. It had 947 branches and total loans under management of INR295 billion at end-December 2019.

FINANCIAL SUMMARY

Parameters	FY19	FY18
Total assets (INR billion)	293.7	272.4
Total equity (INR billion)	63.4	54.7
Net income (INR billion)	9.9	7.1
Return on average assets (%)	3.49	2.81
Tier-I capital (%)	22.75	20.57

Source: SCUF

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	19 February 2020	7 March 2019	12 December 2017
Issuer rating	Long-term/Short-term	-	IND AA/RWN/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+
Long-term debt programme	Long-term	INR0.05	IND AA/RWN	IND AA/Stable	IND AA/Stable	IND AA/Stable
NCDs	Long-term	INR10.00	IND AA/RWN	IND AA/Stable	-	-
Bank loan	Long-term	INR150	IND AA/RWN	IND AA/Stable	IND AA/Stable	IND AA/Stable
Fixed deposit programme	Long-term	-	IND tAA/RWN	IND tAA/Stable	IND tAA/Stable	IND tAA/Stable

ANNEXURE

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Rating Watch
NCDs	INE722A07182	4 February 2011	10.75	4 February 2021	INR0.05	IND AA/RWN
NCDs	INE722A07AE0*	28 February 2020	9.25	28 May 2024	INR5.0	IND AA/RWN
NCDs	INE722A07AF7	28 February 2020	9.25	28 February 2023	INR5.0	IND AA/RWN
		Total			INR10.05	

*Partly paid NCD; debenture holders have subscribed for INR0.5 billion and they have right, but not obligation, to subscribe to an additional amount of INR4.5 billion on the completion of 15 months from initial deemed date of allotment.

COMPLEXITY LEVEL OF INSTRUMENTS

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

SOLICITATION DISCLOSURES

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

Financial Institutions Rating Criteria
Non-Bank Finance Companies Criteria

Analyst Names

Primary Analyst
Kumar Vishal

Senior Analyst
India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block. Bandra Kurla Complex Bandra (East), Mumbai 400051
+91 22 40356196

Secondary Analyst
Jindal Haria

Director
+91 22 40001750

Committee Chairperson
Prakash Agarwal

Director and Head Financial Institutions
+91 22 40001753

Media Relation
Ankur Dahiya

Manager – Corporate Communication
+91 22 40356121 >