

Ref: STEC NSE/BSE 269/2021

March 18, 2021

 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 re-affirmed the rating as 'CRISIL AA' and revised the outlook on Non-Convertible Debentures to 'Stable' from 'Negative'. The rating on Commercial Paper has been re-affirmed at 'CRISIL A1+'. The instrument-wise rating actions are given below

Sl. No.	Instrument Type	Amount (₹ in crores)	Rating Action
1	Non-convertible debentures (NCDs)	600	CRISIL AA/Stable (Outlook revised from 'Negative' and rating reaffirmed)
2		3000	
3		250	
4		100	
5		50	
6	Commercial Paper	3000	CRISIL A1+ (Re-affirmed)

The rationale by CRISIL dated March 15, 2021 is enclosed https://www.crisil.com/mnt/winshare/Ratings/RatingList/RatingDocs/ShriramCityUnionFinanceLimited_March%2015,%202021_RR_266519.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

CHITTA
 RANJAN DASH

Company Secretary

Ratings

CRISIL

An S&P Global Company

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Rating Rationale

March 15, 2021 | Mumbai

Shriram City Union Finance Limited

Rating outlook revised to 'Stable'; ratings reaffirmed

Rating Action

Rs.600 Crore Non Convertible Debentures	CRISIL AA/Stable (Outlook revised from 'Negative' and rating reaffirmed)
Rs.3000 Crore Non Convertible Debentures	CRISIL AA/Stable (Outlook revised from 'Negative' and rating reaffirmed)
Rs.250 Crore Non Convertible Debentures	CRISIL AA/Stable (Outlook revised from 'Negative' and rating reaffirmed)
Rs.100 Crore Non Convertible Debentures	CRISIL AA/Stable (Outlook revised from 'Negative' and rating reaffirmed)
Rs.50 Crore Non Convertible Debentures	CRISIL AA/Stable (Outlook revised from 'Negative' 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 Ratings has revised its rating outlook on the non-convertible debentures of Shriram City Union Finance Limited (Shriram City) to '**Stable**' from 'Negative' while reaffirming the rating at '**CRISIL AA**'. The rating on commercial paper has been reaffirmed at 'CRISIL A1+'.

The outlook revision is driven by the sustained improvement in the month-on-month collection efficiencies for Shriram City leading to limited slippages and therefore asset quality metrics of the company remaining inline with pre-covid levels. The outlook revision also factors in the improving fund raising ability at competitive costs and sustained earnings profile despite elevated provisioning.

The outlook on the ratings was revised to Negative in April 2020 amidst expectations on pressure on asset quality immediately post the imposition of the lockdown and the weak macroeconomic environment. This was on account of the fact that 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 and Shriram City's exposure to MSME loan segment (~57% of assets under management) which is most vulnerable to economic activity was expected to lead to higher delinquencies.

However, since then, the collection efficiencies for the company have improved considerably after dropping to a low of 30% in April 2020. The monthly collection efficiency⁽¹⁾ had improved to over 95% in October-November 2020 and was at over 100% in December 2020 indicating recoveries even from overdue accounts. This trend has been sustained till February 2021. Segment wise too collections have improved considerably in the past 9 months. Nonetheless, while the collections have improved steadily, the overdue delinquencies for Shriram City too have remained controlled with the 30+ overdues in similar range to that as of March 2020, providing comfort on the asset quality performance. Historically, the reported GNPA / Gross Stage 3 metrics for Shriram City have remained elevated at 8.5% to 9.4% which stood at 7.9% as of March 31, 2020. Since then the asset quality metrics have improved with Gross Stage 3 assets (including Supreme Court dispensation cases) at 6.46% as on December 31, 2020. Even in terms of restructuring, the company has fared well with overall restructuring in the portfolio expected to be around 0.5 to 1% only. Consequently, while asset quality metric could see some inching up by March 2021, the performance is expected to be better than earlier anticipated.

On the resources front too, the company has continuously managed to tap various borrowing sources having raised over Rs 8500 crores in the nine months ended December 31, 2020. Further the company has also been able to raise funds via retail deposits. 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.

Despite the economic environment leading to a drop in business volumes and elevated credit costs as the company proactively provided for Covid related provisioning, the earnings profile continues to remain resilient. The earnings profile is supported by high spreads and pre-provisioning profitability. Despite higher provisioning, the profitability remains strong with RoA annualised of 2.9% for the nine months ended December 31, 2020. CRISIL expects the profitability to be sustained at these levels over the near term.

Capitalisation continues to remain strong with the company's adjusted gearing (including off-book) at 3.3 times as on December 31, 2020. CRISIL expects gearing to be maintained and remain comfortable over the medium term.

On the liquidity side, CRISIL believes that Shriram City has adequate liquidity, on standalone basis, to manage this period wherein asset-side collections are lower than budgeted and may be uncertain, while liability-side outflows continue as per schedule. As of February 28, 2021, the company had liquidity of Rs 4385 crore (comprising of cash and equivalents and unutilized CC/WCDL lines) which comfortably covered around 3 months of cash outflows (including debt repayments and opex) assuming zero collections. They have total debt payments (including working capital lines which are typically rolled over) of around Rs 4044 crore till May 2021. Additionally, the liquidity profile is expected to be supported by collections which have been on an improving trend.

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

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.

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 15,343 crore as on December 31, 2020 (16,653 crore as on March 31, 2020 and 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 6,642 crore (including pre-owned) as on December 31, 2020 (Rs 6,076 crore as on March 31, 2020 and Rs 5,325 crore as on March 31, 2019). 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 80% of the consolidated loan portfolio.

*** Healthy capitalisation**

Shriram City has healthy capitalisation underpinned by sizable absolute net worth (standalone) of around Rs 7,883 crores and a tier 1 and an overall capital adequacy ratio of 29.6% respectively as on December 31, 2020. In addition, Shriram City's adjusted gearing (standalone) remains comfortable at 3.3 times as on December 31, 2020 as against 3.6 times at March 31, 2020 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 9.1 times as on December 31, 2020 (6.2 times as on March 31, 2020) 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 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 562 crores and adjusted gearing of 6.1 times as of December 31, 2020 (Rs 513 crores and 4.3 times as on March 31, 2020). Shriram Housing's total capital adequacy ratio (CAR) stood at 21.5% as on December 31, 2020 (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 2.9% for the nine months ended December 31, 2020 (on standalone basis) against 3.2% for fiscal 2020 (3.4% for fiscal 2019) primarily impacted by higher provisioning cost for impact of Covid-19. Shriram City has provided a total of Rs 707 crore in Q4 of fiscal 2020, Q1 and fiscal 2021 and Q2 of fiscal 2021.

*** 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

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 ranged bound over last few years. The collection efficiencies for the company have improved considerably after dropping to a low of 30% in April 2020. As of December 2020, the monthly collection efficiency had improved to over 100% indicating recoveries even from overdue accounts. Segment wise too collections have improved considerably in the past 9 months. Nonetheless, while the collections have improved steadily, the overdue delinquencies for Shriram City too have remained controlled with the 30+ overdues in similar range to that as of March 2020, providing comfort on the asset quality performance. Historically, the reported GNPA / Gross Stage 3 metrics for Shriram City have remained elevated at 8.5% to 9.4% which stood at 7.9% as of March 31, 2020. Since then the asset quality metrics have improved with Gross Stage 3 assets (including Supreme Court dispensation cases) at 6.46% as on December 31, 2020. Even in terms of restructuring, the company has fared well with overall restructuring in the portfolio expected to be around 0.5-1%. Consequently, while asset quality metric could see some inching up by March 2021, the performance is expected to be better than earlier anticipated. However, any unanticipated slippages and its consequent impact on asset quality 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 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 43% of standalone AUM as on December 31, 2020.

Liquidity: Strong

CRISIL's analysis of Shriram City's asset liability maturity profile as of December 30, 2020 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.

As of February 28, 2021, the company had liquidity of Rs 4385 crore (comprising of cash and equivalents and unutilized CC/WCDL lines) which comfortably covered around 3 months of cash outflows (including debt repayments and opex) assuming zero collections. They have total debt payments (including working capital lines which are typically rolled over) of around Rs 4044 crore till May 2021. Additionally, the liquidity profile is expected to be supported by collections which have been on an improving trend.

Outlook: Stable

CRISIL Ratings believes that Shriram City will continue to maintain healthy capitalisation and strong earnings profile which will help mitigate inherent asset quality-related challenges. CRISIL also believes that the company will maintain its competitive position in the key business segments of SME and two-wheeler financing,

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:

- 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 (53% of consolidated AUM as on March 31, 2020), two wheeler financing (19%), gold loans (10%) and others (including housing, auto and personal loans) together forming 18% of AUM. Its assets under management (including housing portfolio) stood at Rs 31,389 crore as of March 31, 2020 of which the standalone AUM stood at Rs 29,085 crore, while the housing portfolio under Shriram Housing stood at Rs 2,304 crore. The company has pan India presence with 947 branches as on March 31, 2020, of which 57% are situated in South India.

Key Financial Indicators

As on/for the period ending/year ending	Unit	Dec 31, 2020	March 31, 2020	March 31, 2019
Total AUM	Rs.Cr.	28,546	29,085	29,582
Total income (net of interest expenses)	Rs.Cr.	2,675	3,747	3,801
Profit after tax	Rs.Cr.	729	1001	989
Gross NPA (ECL Stage-3)	%	6.5	7.9	8.9
Gearing	Times	3.3	3.2	3.5
Return on managed assets	%	2.9	3.2	3.4

*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	Complexity of instrument	Issue Size (Rs. Crore)	Rating assigned with Outlook
INE722A07968	Debenture	25-Sep-2019	-	25-Sep-21	Simple	29.67	CRISIL AA/Stable
INE722A07976	Debenture	25-Sep-2019	-	25-Sep-21	Simple	5.40	CRISIL AA/Stable
INE722A07984	Debenture	25-Sep-2019	9.70%	25-Sep-22	Simple	15.83	CRISIL AA/Stable
INE722A07992	Debenture	25-Sep-2019	9.30%	25-Sep-22	Simple	13.24	CRISIL AA/Stable
INE722A07AA8	Debenture	25-Sep-2019	-	25-Sep-22	Simple	8.23	CRISIL AA/Stable
INE722A07AB6	Debenture	25-Sep-2019	9.85%	25-Sep-24	Simple	52.27	CRISIL AA/Stable
INE722A07AC4	Debenture	25-Sep-2019	9.45%	25-Sep-24	Simple	11.06	CRISIL AA/Stable
INE722A07AD2	Debenture	25-Sep-2019	-	25-Sep-24	Simple	5.64	CRISIL AA/Stable
INE722A07893	Debenture	30-Apr-2019	-	30-Apr-21	Simple	24.83	CRISIL AA/Stable
INE722A07901	Debenture	30-Apr-2019	6.65	30-Apr-22	Simple	64.9	CRISIL AA/Stable
INE722A07919	Debenture	30-Apr-2019	9.26	30-Apr-22	Simple	40.84	CRISIL AA/Stable
INE722A07927	Debenture	30-Apr-2019	-	30-Apr-22	Simple	24.62	CRISIL AA/Stable

INE722A07935	Debenture	30-Apr-2019	9.75	30-Apr-24	Simple	66.15	CRISIL AA/Stable
INE722A07943	Debenture	30-Apr-2019	9.35	30-Apr-24	Simple	35.06	CRISIL AA/Stable
INE722A07950	Debenture	30-Apr-2019	-	30-Apr-24	Simple	20.94	CRISIL AA/Stable
INE722A07885	Debenture	30-Apr-2019	9.55	30-Apr-21	Simple	389.59	CRISIL AA/Stable
INE722A07AH3	Debenture	05-Mar-2020	9.70	05-Mar-22	Simple	550	CRISIL AA/Stable
INE722A07AG5	Debenture	05-Mar-2020	9.25	05-Mar-23	Simple	25	CRISIL AA/Stable
INE722A07AI1	Debenture	09-Sep-2020	8.98	09-Mar-22	Simple	150	CRISIL AA/Stable
INE722A07AJ9	Debenture	06-Oct-2020	8.98	06-Apr-22	Simple	200	CRISIL AA/Stable
INE722A07AK7	Debenture	18-Nov-2020	8.15	18-May-22	Simple	25	CRISIL AA/Stable
NA	Debentures*	NA	NA	NA	Simple	50	CRISIL AA/Stable
NA	Debentures*	NA	NA	NA	Simple	2191.73	CRISIL AA/Stable
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

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	3000.0	CRISIL A1+		--	11-11-20	CRISIL A1+	09-09-19	CRISIL A1+		--	--
			--		--	28-09-20	CRISIL A1+		--		--	--
			--		--	10-07-20	CRISIL A1+		--		--	--
			--		--	30-04-20	CRISIL A1+		--		--	--
			--		--	27-02-20	CRISIL A1+		--		--	--
Fixed Deposits	LT		--		--		--		--	27-07-18	Withdrawn	F AA/Positive
Non Convertible Debentures	LT	4000.0	CRISIL AA/Stable		--	11-11-20	CRISIL AA/Negative	09-09-19	CRISIL AA/Stable	04-12-18	CRISIL AA/Stable	CRISIL AA-/Positive
			--		--	28-09-20	CRISIL AA/Negative		--	27-07-18	Withdrawn	--
			--		--	10-07-20	CRISIL AA/Negative		--		--	--
			--		--	30-04-20	CRISIL AA/Negative		--		--	--
			--		--	27-02-20	CRISIL AA/Stable		--		--	--
Short Term Debt	ST		--		--		--		--	27-07-18	Withdrawn	CRISIL A1+
Subordinated Debt	LT		--		--	28-09-20	Withdrawn	09-09-19	CRISIL AA/Stable	04-12-18	CRISIL AA/Stable	CRISIL AA-/Positive
			--		--	10-07-20	CRISIL AA/Negative		--	27-07-18	CRISIL AA/Stable	--
			--		--	30-04-20	CRISIL AA/Negative		--		--	--
			--		--	27-02-20	CRISIL AA/Stable		--		--	--

All amounts are in Rs.Cr.

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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