Ref: STEC NSE/BSE 445/2021 December 30, 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 has placed the Company's rating on non-convertible debentures as 'CRISIL AA' on Rating Watch with Positive implications and re-affirmed the rating of Commercial Papers as '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/Watch Positive (Placed on 'Rating Watch with Positive Implications')
2		1000	
3		200	
4		100	
5		600	
6		3000	
7		250	
8		100	
9		50	
10	Commercial Paper	3000	CRISIL A1+ (Re-affirmed)

The rationale by CRISIL dated December 17, 2021 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 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
Digitally signed by CHITTA RANJAN DASH
DN: c=IN, o=Personal, pseudonym=253e75881954f0ed6096770 36030e35c529e49b1591ac1efb56a0d4aa 0fa45e9, postalCode=600059, st=TAMIL NADU, serialNumber=bba80f72467cc10e019f7a b1abd4b8bf3ae10e30333e89c7c430fa6d ca68393b, cn=CHITTA RANJAN DASH
Date: 2021.12.30 11:09:39 +05'30'
Company Secretary

Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

December 17, 2021 | Mumbai

Shriram City Union Finance Limited

Rating placed on 'Watch Positive'

Rating Action

Rs.600 Crore Non Convertible Debentures	**CRISIL AA/Watch Positive (Placed on 'Rating Watch with Positive Implications')**
Rs.1000 Crore Non Convertible Debentures	**CRISIL AA/Watch Positive (Placed on 'Rating Watch with Positive Implications')**
Rs.200 Crore Non Convertible Debentures	**CRISIL AA/Watch Positive (Placed on 'Rating Watch with Positive Implications')**
Rs.100 Crore Non Convertible Debentures	**CRISIL AA/Watch Positive (Placed on 'Rating Watch with Positive Implications')**
Rs.600 Crore Non Convertible Debentures	**CRISIL AA/Watch Positive (Placed on 'Rating Watch with Positive Implications')**
Rs.3000 Crore Non Convertible Debentures	**CRISIL AA/Watch Positive (Placed on 'Rating Watch with Positive Implications')**
Rs.250 Crore Non Convertible Debentures	**CRISIL AA/Watch Positive (Placed on 'Rating Watch with Positive Implications')**
Rs.100 Crore Non Convertible Debentures	**CRISIL AA/Watch Positive (Placed on 'Rating Watch with Positive Implications')**
Rs.50 Crore Non Convertible Debentures	**CRISIL AA/Watch Positive (Placed 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 placed its ratings on the non-convertible debentures of Shriram City Union Finance Limited (Shriram City) on **'Rating Watch with Positive Implications'** and reaffirmed the rating on the commercial paper at 'CRISIL A1+'.

On December 13, 2021, the board of directors of Shriram Transport Finance Company Limited (Shriram Transport), Shriram Capital Limited (Shriram Capital) and Shriram City approved 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 factors in the likely improvement in the credit profile of Shriram City as it would be equivalent to the merged entity, Shriram Transport. Therefore, the long-term ratings have been 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

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[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 October 31, 2021, the company had liquidity of Rs 4,272 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 3404 crore till end January 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:
CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' 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 Level	Issue Size (Rs. Crore)	Rating assigned with Outlook
NA	Debentures*	NA	NA	NA	Simple	600	CRISIL AA/Watch Positive
INE722A07984	Debenture	25-Sep-19	9.70	25-Sep-22	Simple	15.83	CRISIL AA/Watch Positive
INE722A07992	Debenture	25-Sep-19	9.30	25-Sep-22	Simple	13.24	CRISIL AA/Watch Positive
INE722A07AA8	Debenture	25-Sep-19	-	25-Sep-22	Simple	8.23	CRISIL AA/Watch Positive
INE722A07AB6	Debenture	25-Sep-19	9.85	25-Sep-24	Simple	52.27	CRISIL AA/Watch Positive
INE722A07AC4	Debenture	25-Sep-19	9.45	25-Sep-24	Simple	11.06	CRISIL AA/Watch Positive
INE722A07AD2	Debenture	25-Sep-19	-	25-Sep-24	Simple	5.64	CRISIL AA/Watch Positive
INE722A07901	Debenture	30-Apr-19	9.65	30-Apr-22	Simple	64.9	CRISIL AA/Watch Positive
INE722A07919	Debenture	30-Apr-19	9.26	30-Apr-22	Simple	40.84	CRISIL AA/Watch Positive
INE722A07927	Debenture	30-Apr-19	-	30-Apr-22	Simple	24.62	CRISIL AA/Watch Positive
INE722A07935	Debenture	30-Apr-19	9.75	30-Apr-24	Simple	66.15	CRISIL AA/Watch Positive
INE722A07943	Debenture	30-Apr-19	9.35	30-Apr-24	Simple	35.06	CRISIL AA/Watch Positive
INE722A07950	Debenture	30-Apr-19	-	30-Apr-24	Simple	20.94	CRISIL AA/Watch Positive
INE722A07AH3	Debenture	05-Mar-20	9.70	05-Mar-22	Simple	550	CRISIL AA/Watch Positive
INE722A07AG5	Debenture	05-Mar-20	9.25	05-Mar-23	Simple	25	CRISIL AA/Watch Positive
INE722A07AI1	Debenture	09-Sep-20	8.98	09-Mar-22	Simple	150	CRISIL AA/Watch Positive
INE722A07AJ9	Debenture	06-Oct-20	8.98	06-Apr-22	Simple	200	CRISIL AA/Watch Positive
INE722A07AK7	Debenture	18-Nov-20	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			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	3000.0	CRISIL A1+	29-11-21	CRISIL A1+	11-11-20	CRISIL A1+	09-09-19	CRISIL A1+		--	--
			--	08-09-21	CRISIL A1+	28-09-20	CRISIL A1+		--		--	--
			--	13-07-21	CRISIL A1+	10-07-20	CRISIL A1+		--		--	--
			--	15-06-21	CRISIL A1+	30-04-20	CRISIL A1+		--		--	--
			--	15-03-21	CRISIL A1+	27-02-20	CRISIL A1+		--		--	--
Fixed Deposits	LT		--		--		--		--	27-07-18	Withdrawn	F AA/Positive
Non Convertible Debentures	LT	5900.0	CRISIL AA/Watch Positive	29-11-21	CRISIL AA/Stable	11-11-20	CRISIL AA/Negative	09-09-19	CRISIL AA/Stable	04-12-18	CRISIL AA/Stable	CRISIL AA-/Positive
			--	08-09-21	CRISIL AA/Stable	28-09-20	CRISIL AA/Negative		--	27-07-18	Withdrawn	--
			--	13-07-21	CRISIL AA/Stable	10-07-20	CRISIL AA/Negative		--		--	--
			--	15-06-21	CRISIL AA/Stable	30-04-20	CRISIL AA/Negative		--		--	--
			--	15-03-21	CRISIL AA/Stable	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.

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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