Ref: STEC NSE/BSE 448/2021

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 India Ratings and Research Pvt Ltd (Ind-Ra) has revised the Company's outlook to Positive from Stable and has affirmed its Long-Term Instrument Rating at 'IND AA' and its Short-Term Instrument Rating at 'IND A1+'. The instrument-wise rating actions are given below

Sl. No.	Instrument Type	Size of Issue (billion)	Rating/ Outlook	Rating Action
1.	Principal protected market linked debentures (PP-MLDs)*	INR 17.0	IND PP-MLD AAemr/ Positive	Outlook revised to Positive from Stable ; Affirmed
2.	Non-convertible debentures (NCDs)*	INR 45	IND AA/ Positive	Outlook revised to Positive from Stable ; Affirmed
3.	Bank Loan	INR 175	IND AA/ Positive	Outlook revised to Positive from Stable ; Affirmed
4.	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.

The rationale by India Ratings and Research Pvt Ltd dated December 20, 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=253e75881954f0ed609677036030e35c529e49b1591ac1efb56a0d4aa0fa45ef9, postalCode=600059, st=TAMIL NADU, serialNumber=bba80f72467cc10e019f7ab1abd4b8bf3ae10e30333e89c7c430fa8dca68393b, cn=CHITTA RANJAN DASH
Date: 2021.12.30 12:41:43 +05'30'

Company Secretary

India Ratings & Research
A Fitch Group Company

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	IND AA/Positive	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**			**His**					
	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+
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

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
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
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

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.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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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

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