

## Shriram City Union Finance Limited

January 20, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Commercial Paper	2,000 [enhanced from 1,500]	<b>CARE A1+</b> <b>[A One Plus]</b>	Reaffirmed
<b>Total Facilities</b>	<b>2,000</b> <b>(Rupees Two Thousand crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale

The rating assigned to the short term debt instrument of Shriram City Union Finance Ltd. (SCUF) continues to derive strength from the position of SCUF as a niche player in the rural and semi-urban market offering diversified asset-financing products, its strong resource raising ability with diversified funding base and comfortable liquidity profile, comfortable capital adequacy levels and healthy profitability indicators. The rating further factors in the experienced management team and the benefits derived from being part of the Shriram group which has significant presence in the domestic financial services sector. The rating takes note of the continuation in moderation of asset quality during FY16 (refers to the period April 1 to March 31). The rating is, however, constrained by the regional concentration of its asset portfolio and the risk associated with its customer base which is relatively less organised. The ability of the company to geographically diversify its asset base and to maintain its asset quality amidst the change in non-performing asset recognition norm to 120 dpd (days past due) in March 2017 and 90 dpd in March 2018 will be the key rating sensitivities.

### Detailed description of the key rating drivers

Chennai-based Shriram group came into existence in 1974. The group ventured into financial services industry through Chit fund business more than three decades ago. With strong foundation in the Chit fund business, the group diversified into other segments of financial services industry including Commercial Vehicle Finance, Consumer & Enterprise Finance, Life & General Insurance and Financial product distribution. The group's Financial Services Businesses manages assets exceeding Rs.80,000 crore with 2,800 business outlets across India. Being part of the Shriram group, SCUF has access to a vast client base and network of the group. Other major companies of the group include Shriram Transport Finance Company Ltd. (rated 'CARE AA+'). As on March 31, 2016, the promoter group companies held 33.78% stake in SCUF.

SCUF's management is largely from Shriram group's other businesses and has significant experience in small ticket retail financing in the semi-urban and rural areas. SCUF has an experienced senior management team headed by Mr R Duruvasan as the managing director (who has been serving Shriram group for more than three decades).

SCUF's loan portfolio is mainly concentrated in three states with Andhra Pradesh (including Telangana), Tamil Nadu and Maharashtra. SCUF has a significant presence in the rural and semi-urban market which consists of relatively less banked/unbanked segment and customer segment of SCUF is relatively less organised. However, as majority of its customers are associated with the Shriram group, their long credit history with the group enables SCUF to mitigate the risk to an extent. 'Others' segment (consisting of Northern and Western India) is growing significantly. However, SCUF's operations will remain concentrated in South India.

SCUF has a diversified product portfolio in the retail finance segment with strong focus on small business loans. In the past few years, the company increased its focus on SBL (Small Business Loan) and LAG (Loan against gold) segment. SBL segment as a percent of AUM remained at 54% as on March 31, 2016 (53% as on March 31, 2015). 2-Wheeler loans (2W) remained at 18% of AUM as on March 31, 2016 (18% as on March 31, 2015). With fluctuations in gold prices in the last few years, SCUF is consciously maintaining the share of LAG at less than 20% of AUM. LAG as a percentage of AUM remained at 17% as on March 2016 (18% as on March 31, 2015). In FY16, overall loan portfolio witnessed 17% growth aided by growth across all the segments (except AL) with highest growth of 66% in PL portfolio. AL has de-grown by 7% during the year. There was no disbursement in Consumer Durable Loans during the current year and there is no portfolio

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

outstanding in this segment as on March 31, 2016. Going forward, the company's concentration would continue on SBL along with maintaining its share on 2W and LAG segment.

SCUF's capitalisation is supported by continuous equity infusion in the past. Total CAR stood at 26.14% as on March 31, 2016 (29.03% as on March 31, 2015) and Tier I CAR stood at 23.36% as on March 31, 2016 (24.80% as on March 31, 2015). This capital levels will be sufficient to fund the growth plans of the company for the next two years without any fresh equity infusion.

During FY16, the total income grew by 9% with improvement in interest spread and NIM due to company's continuing focus on SBL segment where the yield is generally higher and reduction in the cost of borrowing with not much change in the lending rates. Interest spread has improved from 8.59% in FY15 to 9.10% in FY16 and NIM has improved from 11.36% in FY15 to 11.90% in FY16. The operating expenses continued to be on the rising trend in FY16 as well. Due to change in the NPA recognition from 180 dpd to 150 dpd, there was an additional provisioning requirement of around Rs.140 crore which resulted in increase in Provisions and Write-offs from Rs.454 crore in FY15 to Rs.616 crore in FY16. This has resulted in decrease in PAT by 5% from Rs.558 crore in FY15 to Rs.530 crore in FY16.

SCUF has reported GNPA of 5.15% and NNPA of 1.56% as on March 31, 2016 (150 dpd) as against GNPA of 3.12% and NNPA of 0.68% as on March 31, 2015 (180 dpd). As per changes in regulation, SCUF has moved to NPA recognition from 180 dpd to 150 dpd as on March 2016. On comparable basis (180 dpd), SCUF's GNPA was 3.57% and NNPA of 0.71% as on March 31, 2016. As a policy, the company writes off 100% of GNPA in personal loans segment.

**Analytical approach:** Standalone

#### Applicable Criteria

[CARE's Policy on Default Recognition](#)

[CARE's methodology for short term instruments](#)

[Ratios-Financial Sector](#)

[Rating Methodology - Non Banking Finance Companies](#)

#### About the Company

SCUF was incorporated in 1986 under the name of Shriram Hire Purchase Finance Ltd. SCUF went public in 1994 and is registered as a Deposit Accepting Non-Banking Finance Company (NBFC) with the Reserve Bank of India (RBI).

SCUF started operations in 1986 with truck financing and was in this segment till 2002 when it expanded into retail financing. Presently, SCUF has presence in the following business segments –Small Business Loans (SBL), 2-Wheeler Loans (2W), Loan against Gold (LAG), Auto Loans (AL) and Personal Loans (PL).

During FY16, SCUF has reported a PAT of Rs.530 crore on a total income of Rs.3,856 crore as against a PAT of Rs.558 crore on a total income of Rs.3,532 crore in FY15.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	7-364 days	2000.00	CARE A1+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Chronology of Rating history for past three years			
			Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fixed Deposit	LT	10.00	CARE AA+ (FD)	1)CARE AA+ (FD) (12-07-2016)	1)CARE AA+ (FD) (14-07-2015)	1)CARE AA+ (FD) (25-07-2014)	1)CARE AA (FD) (08-07-2013)
2.	Debentures-Non Convertible Debentures	LT	100.00	Withdrawn	1)Withdrawn (06-10-2016) 2)CARE AA+ (06-04-2016)		1)CARE AA+ (25-07-2014)	1)CARE AA (08-07-2013)
3.	Debentures-Non Convertible Debentures	LT	100.00	Withdrawn	1)Withdrawn (06-10-2016) 2)CARE AA+ (06-04-2016)		1)CARE AA+ (25-07-2014)	1)CARE AA (08-07-2013)
4.	Debentures-Non Convertible Debentures	LT	43.33	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (14-07-2015)	1)CARE AA+ (25-07-2014)	1)CARE AA (08-07-2013)
5.	Commercial Paper	ST	2000.00	CARE A1+	1)CARE A1+ (27-07-2016) 2)CARE A1+ (12-07-2016)	1)CARE A1+ (14-07-2015)	1)CARE A1+ (25-07-2014)	1)CARE A1+ (08-07-2013)
6.	Debentures-Non Convertible Debentures	LT	355.00	Withdrawn	1)Withdrawn (12-07-2016)	1)CARE AA+ (14-07-2015)	1)CARE AA+ (25-07-2014)	1)CARE AA (08-07-2013)
7.	Debentures-Non Convertible Debentures	LT	100.00	Withdrawn	1)Withdrawn (06-10-2016) 2)CARE AA+ (06-04-2016)		1)CARE AA+ (25-07-2014)	1)CARE AA (08-07-2013)
8.	Debt-Subordinate Debt	LT	150.00	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (14-07-2015)	1)CARE AA+ (25-07-2014)	1)CARE AA (08-07-2013)
9.	Debentures-Non Convertible Debentures	LT	31.50	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (14-07-2015)	1)CARE AA+ (25-07-2014)	1)CARE AA (08-07-2013)
10.	Debt-Subordinate	LT	100.00	CARE AA+	1)CARE AA+	1)CARE	1)CARE	1)CARE AA

	Debt				(12-07-2016)	AA+ (14-07-2015)	AA+ (25-07-2014)	(08-07-2013)
11.	Debentures-Non Convertible Debentures	LT	435.00	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (14-07-2015)	1)CARE AA+ (25-07-2014)	1)CARE AA (08-07-2013)
12.	Debt-Subordinate Debt	LT	60.00	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (14-07-2015)	1)CARE AA+ (25-07-2014)	1)CARE AA (08-07-2013)
13.	Debentures-Non Convertible Debentures	LT	153.61	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (14-07-2015)	1)CARE AA+ (25-07-2014)	1)CARE AA (08-11-2013)
14.	Debentures-Non Convertible Debentures	LT	137.89	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (14-07-2015)	1)CARE AA+ (25-07-2014)	1)CARE AA (19-03-2014)
15.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (14-07-2015)	1)CARE AA+ (27-03-2015)	
16.	Debentures-Non Convertible Debentures	LT	21.00	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (14-07-2015) 2)CARE AA+ (08-06-2015)		
17.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (14-07-2015) 2)CARE AA+ (17-06-2015)		
18.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (22-07-2015)		
19.	Debentures-Non Convertible Debentures	LT	2.70	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (22-07-2015)		
20.	Debentures-Non Convertible Debentures	LT	35.00	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (18-08-2015)		

21.	Debentures-Non Convertible Debentures	LT	225.00	CARE AA+	1)CARE AA+ (12-07-2016)	1)CARE AA+ (02-11-2015)		
22.	Debentures-Non Convertible Debentures	LT	175.00	CARE AA+	1)CARE AA+ (27-07-2016)			
23.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+	1)CARE AA+ (07-10-2016)			

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