

## Shriram City Union Finance Limited

June 21, 2017

### Rating

Facilities	Amount (Rs.cr)	Ratings <sup>1</sup>	Rating Action
Non-Convertible Debenture (Proposed)	355	CARE AA+; Stable [Double A Plus; Outlook; Stable]	Assigned
<b>Total</b>	<b>355</b> <b>(Rupees Three Hundred Fifty</b> <b>Five crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Rating Rationale

The rating assigned to the proposed Non-Convertible Debenture issue 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 moderation in asset quality and increase in provisions during the last two years ended March 31, 2017, mainly due to change in non-performing asset (NPA) recognition norms.. 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 NPA recognition norm to 90 dpd as on March 2018 will be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Benefits derived from being part of the Shriram group**

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.90,000 crore with 3,000 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+' for its various series of debt instruments). As on March 31, 2017, 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).

##### **Niche player in rural and semi-urban market with regional concentration**

SCUF's loan portfolio is mainly concentrated in three states with Andhra Pradesh, 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 a 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.

##### **Diversified product portfolio**

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 and LAG segments. SBL segment as a percentage of AUM remained at 55% as on March 31, 2017 (54% as on March 31, 2016). 2-Wheeler loans (2W) remained at 18% of AUM as on March 31, 2017 (18% as on March 31, 2016). With fluctuations in gold prices in the last few years, SCUF is consciously

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

maintaining the share of LAG at less than 20% of AUM. LAG as a percentage of AUM remained at 15% as on March 2017 (17% as on March 31, 2016).

In FY17 (refers to the period April 1 to March 31), overall loan portfolio witnessed 20% growth aided by growth across all the segments. There was no disbursement in Consumer Durable Loans during the current year and there is no portfolio outstanding in this segment as on March 31, 2017. Going forward, the company's concentration would continue on SBL along with maintaining its share on 2W and LAG segment

#### **Comfortable capital adequacy levels**

SCUF's capitalisation is supported by continuous equity infusion in the past. Total CAR stood at 23.91% as on March 31, 2017 (26.14% as on March 31, 2016) and Tier I CAR stood at 22.25% as on March 31, 2017 (23.36% as on March 31, 2016). This capital levels will be sufficient to fund the growth plans of the company for the next two years without any fresh equity infusion.

#### **Healthy profitability indicators**

During FY17, the total income grew by 14% 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. Interest spread has improved from 9.10% in FY16 to 9.72% in FY17 and NIM has improved from 11.90% in FY16 to 12.34% in FY17. Operating profit before Provisions and Tax increased from Rs.1,423 crore in FY16 to Rs.1,764 crore in FY17.

PAT has increased from Rs.530 crore in FY16 to Rs.556 crore in FY17.

#### **Key Rating Weaknesses**

##### **Moderation in asset quality during FY17 primarily due to changes in NPA recognition norms**

SCUF's borrower profile is majorly the lower income groups and under banked segments. SCUF primarily focuses on offering small enterprise financing to self-employed customers in semi-urban and rural areas. SBL loans, key focus area of the company are provided to existing Shriram Chits customers with immovable property which is given as collateral. This facilitates acquisition of customers with established track record while reducing the cost of origination. However, in last 3 years, SCUF is expanding its business to customers outside Shriram group as well. The asset quality parameters have seen moderation in the last 3 years primarily in the SBL, LAG and 2W segments. SCUF has reported GNPA of 6.73% and NNPA of 1.79% as on March 31, 2017(120 dpd) as against GNPA of 5.15% and NNPA of 1.56% as on March 31, 2016 (150 dpd). As per changes in regulation, SCUF has moved to NPA recognition from 150 dpd to 120 dpd as on March 2017. On comparable basis (120 dpd), SCUF's GNPA was 6.27% as on March 31, 2016. Due to demonetisation, SCUF has availed RBI dispensation for NPA reporting in December Quarter.

#### **Analytical Approach Followed- Standalone**

##### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

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

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

[Ratios-Financial Sector](#)

[Rating Methodology – Non Banking Financial 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 FY17, SCUF has reported a PAT of Rs.556 crore on a total income of Rs.4,434 crore as against a PAT of Rs.530 crore on a total income of Rs.3,856 crore in FY16.

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

**Rating History (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.

#### **Analyst Contact**

Name: Mr. Sudhakar P

Tel: 044-2849 7812

Email: [p.sudhakar@careratings.com](mailto:p.sudhakar@careratings.com)

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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
Debentures-Non Convertible Debentures	-	-	-	355.00	CARE AA+; Stable

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

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fixed Deposit	LT	10.00	CARE AA+ (FD); Stable	-	1)CARE AA+ (FD); Stable (10-Mar-17) 2)CARE AA+ (FD) (12-Jul-16)	1)CARE AA+ (FD) (14-Jul-15)	1)CARE AA+ (FD) (25-Jul-14)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (06-Oct-16) 2)CARE AA+ (06-Apr-16)	-	1)CARE AA+ (25-Jul-14)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (06-Oct-16) 2)CARE AA+ (06-Apr-16)	-	1)CARE AA+ (25-Jul-14)
4.	Debentures-Non Convertible Debentures	LT	43.33	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (14-Jul-15)	1)CARE AA+ (25-Jul-14)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (12-Jul-16)	1)CARE AA+ (14-Jul-15)	1)CARE AA+ (25-Jul-14)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (06-Oct-16) 2)CARE AA+ (06-Apr-16)	-	1)CARE AA+ (25-Jul-14)

7.	Debt-Subordinate Debt	LT	150.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (14-Jul-15)	1)CARE AA+ (25-Jul-14)
8.	Debentures-Non Convertible Debentures	LT	31.50	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (14-Jul-15)	1)CARE AA+ (25-Jul-14)
9.	Debt-Subordinate Debt	LT	100.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (14-Jul-15)	1)CARE AA+ (25-Jul-14)
10.	Debentures-Non Convertible Debentures	LT	435.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (14-Jul-15)	1)CARE AA+ (25-Jul-14)
11.	Debt-Subordinate Debt	LT	60.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (14-Jul-15)	1)CARE AA+ (25-Jul-14)
12.	Debentures-Non Convertible Debentures	LT	153.61	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (14-Jul-15)	1)CARE AA+ (25-Jul-14)
13.	Debentures-Non Convertible Debentures	LT	137.89	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (14-Jul-15)	1)CARE AA+ (25-Jul-14)
14.	Commercial Paper	ST	2000.00	CARE A1+	-	1)CARE A1+ (10-Mar-17) 2)CARE A1+ (20-Jan-17) 3)CARE A1+ (27-Jul-16) 4)CARE A1+ (12-Jul-16)	1)CARE A1+ (14-Jul-15) 2)CARE A1+ (15-Apr-15)	1)CARE A1+ (05-Jan-15)
15.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (14-Jul-15)	1)CARE AA+ (27-Mar-15)
16.	Debentures-Non Convertible Debentures	LT	21.00	CARE AA+;	-	1)CARE AA+; Stable	1)CARE AA+ (14-Jul-15)	-

				Stable		(10-Mar-17) 2)CARE AA+ (12-Jul-16)	2)CARE AA+ (08-Jun-15)	
17.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (14-Jul-15) 2)CARE AA+ (17-Jun-15)	-
18.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (22-Jul-15)	-
19.	Debentures-Non Convertible Debentures	LT	2.70	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (22-Jul-15)	-
20.	Debentures-Non Convertible Debentures	LT	35.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (18-Aug-15)	-
21.	Debentures-Non Convertible Debentures	LT	225.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (02-Nov-15)	-
22.	Debentures-Non Convertible Debentures	LT	175.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (27-Jul-16)	-	-
23.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17) 2)CARE AA+ (07-Oct-16)	-	-
24.	Debentures-Non Convertible Debentures	LT	225.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Mar-17)	-	-
25.	Debentures-Non Convertible Debentures	LT	355.00	CARE AA+; Stable	-	-	-	-

**CONTACT****Head Office Mumbai****Mr. Mehul Pandya**

Cell: +91-98242 56265

E-mail: [mehul.pandya@careratings.com](mailto:mehul.pandya@careratings.com)**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)**CREDIT ANALYSIS & RESEARCH LIMITED**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)**BENGALURU****Mr. Deepak Prajapati**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)**CHANDIGARH****Mr. Sajan Goyal**SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: [sajan.goyal@careratings.com](mailto:sajan.goyal@careratings.com)**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

CIN - L67190MH1993PLC071691