

## Shriram City Union Finance Limited

October 24, 2017

### Ratings

| Facilities                              | Amount<br>(Rs.cr)                                     | Ratings <sup>1</sup>                                 | Rating Action |
|---|---|--|---------------|
| Non-Convertible Debenture<br>(Proposed) | 500   | CARE AA+; Stable<br>[Double A Plus; Outlook; Stable] | Assigned      |
| <b>Total</b>                            | <b>500</b><br><b>(Rupees Five Hundred 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) factors in 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 amidst the increase in credit cost during the last two years ended March 31, 2017. 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. Being part of the Shriram group, SCUF has access to a vast client base and network of the group.

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 four states with Andhra Pradesh, 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 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. 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 segment. SBL segment as a percent 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). LAG as a percentage of AUM remained at 15% as on March 2017 (17% as on March 31, 2016).

##### *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).

##### *Healthy profitability indicators*

During FY17, the total income grew by 15% 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. The 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 under banked segments. 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.

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

##### **Applicable Criteria**

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

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

[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.

| Brief Financials (Rs. crore) | FY16 (A)          | FY17 (A) |
|------------------------------|-------------------|----------|
| Total income                 | 3,856             | 4,434    |
| PAT                          | 530               | 556      |
| Interest coverage (times)    | 1.58              | 1.56     |
| Total Assets                 | 20,803            | 24,484   |
| Net NPA (%)                  | 1.56 <sup>#</sup> | 1.79*    |
| ROTA (%)                     | 2.73              | 2.46     |

A-Audited

*#NPA recognition policy has been changed from 180dpd to 150dpd as on March 31, 2016.*

*\*-NPA recognition policy has been changed from 150dpd to 120dpd as on March 31, 2017.*

**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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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 |
|----------------------------|------------------|-------------|---------------|-------------------------------|---|
| Non Convertible Debentures | -                | -           | -             | 500.00                        | 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 (07-Jul-17)<br>2)CARE AA+ (FD) (12-Jul-16) | 1)CARE AA+ (FD); Stable (10-Mar-17)<br>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)<br>2)CARE AA+ (06-Apr-16)                  | -   | 1)CARE AA+ (25-Jul-14)                    |
| 3.      | Debentures-Non Convertible Debentures  | LT              | -                              | -                     | -  | 1)Withdrawn (06-Oct-16)<br>2)CARE AA+ (06-Apr-16)                  | -   | 1)CARE AA+ (25-Jul-14)                    |
| 4.      | Debentures-Non Convertible Debentures  | LT              | 35.67                          | CARE AA+; Stable      | 1)CARE AA+; Stable (07-Jul-17)                                     | 1)CARE AA+; Stable (10-Mar-17)<br>2)CARE AA+ (12-Jul-16)           | 1)CARE AA+ (14-Jul-15)                    | 1)CARE AA+ (25-Jul-14)                    |

|     |                                       |    |         |                         |  |   |   |
|-----|---------------------------------------|----|---------|-------------------------|--|---|---|
| 5.  | Commercial Paper                      | ST | 2000.00 | CARE A1+<br>(07-Jul-17) | 1)CARE A1+<br>(10-Mar-17)<br>2)CARE A1+<br>(20-Jan-17)<br>3)CARE A1+<br>(27-Jul-16)<br>4)CARE A1+<br>(12-Jul-16) | 1)CARE A1+<br>(14-Jul-15)   | 1)CARE A1+<br>(25-Jul-14)                           |
| 6.  | Debentures-Non Convertible Debentures | LT | -       | -                       | -  | 1)Withdrawn<br>(12-Jul-16)  | 1)CARE AA+<br>(14-Jul-15) 1)CARE AA+<br>(25-Jul-14) |
| 7.  | Debentures-Non Convertible Debentures | LT | -       | -                       | -  | 1)Withdrawn<br>(06-Oct-16)<br>2)CARE AA+<br>(06-Apr-16)           | - 1)CARE AA+<br>(25-Jul-14)                         |
| 8.  | Debt-Subordinate Debt                 | LT | 145.35  | CARE AA+;<br>Stable     | 1)CARE AA+;<br>Stable<br>(07-Jul-17)   | 1)CARE AA+;<br>Stable<br>(10-Mar-17)<br>2)CARE AA+<br>(12-Jul-16) | 1)CARE AA+<br>(14-Jul-15) 1)CARE AA+<br>(25-Jul-14) |
| 9.  | Debentures-Non Convertible Debentures | LT | 31.50   | CARE AA+;<br>Stable     | 1)CARE AA+;<br>Stable<br>(07-Jul-17)   | 1)CARE AA+;<br>Stable<br>(10-Mar-17)<br>2)CARE AA+<br>(12-Jul-16) | 1)CARE AA+<br>(14-Jul-15) 1)CARE AA+<br>(25-Jul-14) |
| 10. | Debt-Subordinate Debt                 | LT | 100.00  | CARE AA+;<br>Stable     | 1)CARE AA+;<br>Stable<br>(07-Jul-17)   | 1)CARE AA+;<br>Stable<br>(10-Mar-17)<br>2)CARE AA+<br>(12-Jul-16) | 1)CARE AA+<br>(14-Jul-15) 1)CARE AA+<br>(25-Jul-14) |
| 11. | Debentures-Non Convertible Debentures | LT | 111.16  | CARE AA+;<br>Stable     | 1)CARE AA+;<br>Stable<br>(07-Jul-17)   | 1)CARE AA+;<br>Stable<br>(10-Mar-17)<br>2)CARE AA+<br>(12-Jul-16) | 1)CARE AA+<br>(14-Jul-15) 1)CARE AA+<br>(25-Jul-14) |
| 12. | Debt-Subordinate Debt                 | LT | 60.00   | CARE AA+;<br>Stable     | 1)CARE AA+;<br>Stable<br>(07-Jul-17)   | 1)CARE AA+;<br>Stable<br>(10-Mar-17)<br>2)CARE AA+<br>(12-Jul-16) | 1)CARE AA+<br>(14-Jul-15) 1)CARE AA+<br>(25-Jul-14) |
| 13. | Debentures-Non Convertible Debentures | LT | 85.60   | CARE AA+;<br>Stable     | 1)CARE AA+;<br>Stable<br>(07-Jul-17)   | 1)CARE AA+;<br>Stable<br>(10-Mar-17)<br>2)CARE AA+                | 1)CARE AA+<br>(14-Jul-15) 1)CARE AA+<br>(25-Jul-14) |

|     |                                       |    |        |                  |  |  |  |                        |
|-----|---------------------------------------|----|--------|------------------|--|--|--|------------------------|
|     |                                       |    |        |                  |  | (12-Jul-16)  |  |                        |
| 14. | Debentures-Non Convertible Debentures | LT | 95.15  | CARE AA+; Stable | 1)CARE AA+; Stable (07-Jul-17)<br>2)CARE AA+ (12-Jul-16) | 1)CARE AA+; Stable (10-Mar-17)<br>2)CARE AA+ (12-Jul-16) | 1)CARE AA+ (14-Jul-15)                           | 1)CARE AA+ (25-Jul-14) |
| 15. | Debentures-Non Convertible Debentures | LT | 100.00 | CARE AA+; Stable | 1)CARE AA+; Stable (07-Jul-17)                           | 1)CARE AA+; Stable (10-Mar-17)<br>2)CARE AA+ (12-Jul-16) | 1)CARE AA+ (14-Jul-15)                           | 1)CARE AA+ (27-Mar-15) |
| 16. | Debentures-Non Convertible Debentures | LT | -      | -                | 1)Withdrawn (07-Jul-17)                                  | 1)CARE AA+; Stable (10-Mar-17)<br>2)CARE AA+ (12-Jul-16) | 1)CARE AA+ (14-Jul-15)<br>2)CARE AA+ (08-Jun-15) | -                      |
| 17. | Debentures-Non Convertible Debentures | LT | 100.00 | CARE AA+; Stable | 1)CARE AA+; Stable (07-Jul-17)                           | 1)CARE AA+; Stable (10-Mar-17)<br>2)CARE AA+ (12-Jul-16) | 1)CARE AA+ (14-Jul-15)<br>2)CARE AA+ (17-Jun-15) | -                      |
| 18. | Debentures-Non Convertible Debentures | LT | -      | -                | 1)Withdrawn (07-Jul-17)                                  | 1)CARE AA+; Stable (10-Mar-17)<br>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 (07-Jul-17)                           | 1)CARE AA+; Stable (10-Mar-17)<br>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 (07-Jul-17)                           | 1)CARE AA+; Stable (10-Mar-17)<br>2)CARE AA+ (12-Jul-16) | 1)CARE AA+ (18-Aug-15)                           | -                      |
| 21. | Debentures-Non Convertible Debentures | LT | 75.00  | CARE AA+; Stable | 1)CARE AA+; Stable (07-Jul-17)                           | 1)CARE AA+; Stable (10-Mar-17)<br>2)CARE AA+ (12-Jul-16) | 1)CARE AA+ (02-Nov-15)                           | -                      |
| 22. | Debentures-Non                        | LT | 175.00 | CARE             | 1)CARE AA+;  | 1)CARE AA+;  | -  | -                      |

|     |                                       |    |        |                     |  |   |   |   |
|-----|---------------------------------------|----|--------|---------------------|--|---|---|---|
|     | Convertible Debentures                |    |        | AA+;<br>Stable      | Stable<br>(07-Jul-17)  | Stable<br>(10-Mar-17)<br>2)CARE AA+<br>(27-Jul-16)                |   |   |
| 23. | Debentures-Non Convertible Debentures | LT | 100.00 | CARE AA+;<br>Stable | 1)CARE AA+;<br>Stable<br>(07-Jul-17)   | 1)CARE AA+;<br>Stable<br>(10-Mar-17)<br>2)CARE AA+<br>(07-Oct-16) | - | - |
| 24. | Debentures-Non Convertible Debentures | LT | 115.00 | CARE AA+;<br>Stable | 1)CARE AA+;<br>Stable<br>(07-Jul-17)   | 1)CARE AA+;<br>Stable<br>(10-Mar-17)                              | - | - |
| 25. | Debentures-Non Convertible Debentures | LT | 355.00 | CARE AA+;<br>Stable | 1)CARE AA+;<br>Stable<br>(07-Jul-17)<br>2)CARE AA+;<br>Stable<br>(26-Jun-17) | -   | - | - |
| 26. | Debentures-Non Convertible Debentures | LT | 135.00 | CARE AA+;<br>Stable | 1)CARE AA+;<br>Stable<br>(07-Jul-17)<br>2)CARE AA+;<br>Stable<br>(26-Jun-17) | -   | - | - |
| 27. | Debentures-Non Convertible Debentures | LT | 500.00 | CARE AA+;<br>Stable | -  | -   | - | - |

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