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India Ratings Assigns Shriram Finance's Additional NCDs 'IND AA+'/Stable; Affirms Existing Ratings

Jan 02, 2023 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has taken the following rating actions on Shriram Finance Limited (SFL):

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-term Issuer Rating/Short-term	-	-	-	-	IND AA+/Stable/IND A1+	Affirmed
Non-convertible debentures (NCDs)^,*	-	-	-	INR288,059.33	IND AA+/Stable	Affirmed
NCDs^,*	-	-	-	INR41,500	IND AA+/Stable	Assigned
Bank loans	-	-	-	INR130,000	IND AA+/Stable/IND A1+	Affirmed
Bank loans	-	-	-	INR190,000	IND AA+/Stable	Assigned
Subordinated debt*	-	-	-	INR66,200	IND AA+/Stable	Affirmed
Short-term debt/commercial paper (CP) programme	-	-	60-90 days	INR75,000	IND A1+	Affirmed
Term deposit	-	-	-	-	IND AA+/Stable	Affirmed
Principal protected market linked debentures (PP-MLDs) *	-	-	-	INR17,000	IND PP-MLD AA+emr/Stable	Assigned

*Details in Annexure
^ Yet to be issued

Analytical Approach: The merger of the erstwhile Shriram Transport Finance Company Limited (STFC) with Shriram City Union Finance Limited (SCUF) and Shriram Capital Limited (SCL) was concluded on 30 November 2022 with the receipt of all the regulatory approvals. Post the merger, STFC, SCUF and SCL have been amalgamated into a single entity which has been named as Shriram Finance Limited (SFL). All debt instruments of SCUF and STFC have been migrated to SFL after the conclusion of the merger. Ind-Ra has withdrawn the ratings SCUF.

Key Rating Drivers

Merger Concluded; Integration Proceeding Smoothly with No Significant Long-term Challenges: Over the past 12 months since the announcement of the transaction, the management teams have worked together to align the credit policies, business processes and teams to ensure a smooth transition. The agency opines that the operating profile of the merged entity is likely to strengthen over the medium term as the merger expands the franchise of STFC by making it a multi-product company and bolsters its position among the leading non-banking finance companies (NBFCs). SFL continues to focus on the opportunity to cross-sell to its large, existing and earlier served customer base through its expansive branch networks and by adding to its digital and analytics capabilities. The quantum of synergistic benefits of the transaction can only be ascertained over the medium term. Ind-Ra however further opines that given SCUF and STFC are in people-intensive businesses, the changed operating environment could be unsettling, at least in the initial years for a segment of employees and hence may impede on the performance of the company.

Improved Diversity of Assets Portfolio: Post the merger, SFL had assets under management (AUM) of INR1,779.1 billion (including housing finance subsidiary) as of 2QFY23. The AUM (excluding AUM of INR65.5 billion for the housing finance subsidiary) was quite diversified with 60.3% being commercial vehicle (CV) financing, 17% passenger vehicles financing, 11.5% small-medium enterprise (SME) finance, 5.5% two-wheelers financing, 3.1% personal loans and 2.6% gold loans. The management expects the share of the CV financing in the total business could decline in the next three years as the non-CV business grows at a faster pace. Overall disbursement growth in recent times has been picking up and management is guiding for 15% yoy AUM growth in the near term. The agency however believes that inflationary pressures and a potential severe impact of another covid wave as seen in geographies including China and Japan could impact STFC's near-term AUM growth ambitions.

Strengthened Management Bandwidth to Support Large Franchise: Ahead of the merger, STFC had already created significant management bandwidth with the appointment of five joint managing directors which will deal with respective geographical areas. They will also be leading important functions such as finance and accounts along with digital innovation and other new initiatives. The erstwhile MD &CEO of STFC has become the vice-chairman of the combined entity, while the MD & CEO of SCUF has become the MD &CEO of SFL. The agency believes that the new management structure adequately strengthens the business of the combined entity from an operation and functioning perspective as it has become one of the largest NBFCs in India.

Healthy Capital Buffers to Continue for SFL: The management remains committed to maintaining a minimum common equity tier 1 capital of 14% and total capital adequacy ratio of 17% for the combined entity which is in line with STFC's policy on minimum capital requirements. The agency believes that the capital levels (total capital adequacy - 2QFY23: 23.1%; FY22: 22.97%) along with internal accruals for the combined entity on a proforma basis provide sufficient room for medium-term loan growth along with the requirement of buffers for any asset quality shocks.

Financial Parameters Remain Comfortable for Combined Entity: Ind-Ra believes that for the combined entity on a proforma basis, the pre-provisioning operating profit/credit costs could improve 10-20bp yoy post the merger, on account of SCUF having higher net interest margins than STFC even after factoring in SCUF's higher operating expenses/assets. Furthermore, with SCUF having lower leverage than STFC, the leverage for the combined entity could also be about 50bp lower than the estimate for STFC. On asset quality metrics as well, on a combined basis, the gross stage 3 and net stage 3 assets could be marginally lower. These calculations do not include the impact of synergies that the management has guided for and will be more visible in the second year of operations post the merger.

Reasonable Buffers to Absorb Spike in Credit Costs: SFL's combined profitability buffers (pre-provisioning operating profit /credit costs) on a proforma basis for 1HFY23 stood at 3.0x. Further COVID-19 provisions of INR20.3 billion in 2QFY23 (1.2% of AUM) could partially offset the need for higher provisions in case of successive covid waves or if utilised could lower the current provisioning requirements. Additionally, SFL's provision coverage ratio of around 50% and strong equity buffers provide comfort to the ratings.

Liquidity Indicator – Adequate: On a combined basis, SFL had a positive cumulative surplus in the one-year time frame of structural liquidity statement at end-September 2022 on a proforma basis. Despite stressing the structural liquidity statement, the company still would have a positive cumulative surplus. In the past few quarters, both STFC and SCUF have been maintaining liquidity for four to five months of repayments. SFL has been contemplating on bringing down its liquidity buffers and this liquidity adjustment will continue. Even for the combined entity on a proforma basis, while the liquidity buffers are being maintained at elevated levels, the management intends to bring it down over the next two to three quarters. The management however remains committed to maintaining three months of liquidity buffers on a steady-state basis.

Diversity in Funding Mix to Continue; Spread with Peers on Cost of Borrowings Needs Moderation: SFL would continue to have strong access to banks, long-term funding institutions and deposits, and the funding profile is likely to remain well diversified in terms of both sources and counterparties. Furthermore, with its asset portfolio largely being retail in nature and within that a 78% share of assets that qualifies for priority-sector advances, SFL could continue to use the

securitisation route effectively and could increase the share, if required. However, the agency believes that SFL's cost of borrowings at 8.6% for 2QFY23 is likely to remain elevated in comparison to similar rated NBFC peers, as was the case earlier with STFC.

Ind-Ra believes that the funding would require enhanced focus as the combined entity is significantly large from a systemic perspective. Also, the company's borrowings are well spread both in terms of sources and counterparties. Moreover, the regulatory single party norms are unlikely to be breached for banks in the near term. Ind-Ra also believes that the company would continue to focus on diversifying its borrowings both in terms of sources and counterparties and manage cost of funds.

Rating Sensitivities

Positive: A significantly strengthened, stable funding profile that could emerge through a meaningfully larger proportion of granular retail funding and highly increased credit costs-absorbing buffers, while maintaining the dominant franchise in the used CV financing segment could strengthen the credit profile and thus would lead to a positive rating action.

Negative: Developments that could individually and collectively, result in a negative rating action include:

- a sharp increase in the credit cost, leading to depletion of the operating buffers on a sustained basis

- reduced resource raising ability impacting the liquidity

- a significant loss of franchise

- common equity tier 1 capital falling below 14% on a steady-state basis

- depletion of the capital buffers without a commensurate improvement in the operating environment

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on SFL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

SFL is one of the largest NBFCs in the asset finance segment in India. It is the flagship company of Chennai-based Shriram Group, which operates in consumer finance and insurance segments. SFL operates through 2,875 branches and 758 other offices with 52% of the branches being located in rural areas. The entity has a customer base of 6.7 million customers and 57,382 employees. On an AUM basis, 60.3% comprises CV financing, 17% passenger vehicles financing, 11.5% SME finance, 5.5% two wheelers financing, 3.1% personal loans and 2.6% gold loans.

FINANCIAL SUMMARY

Particulars	FY22*	FY21*
Total assets (INR billion)	1,421.1	1,296.8

Total equity (INR billion)	259.3	215.7
Net income (INR billion)	27.1	24.9
Return on average assets (%)	2.0	2.0
Equity/assets (%)	18.2	16.6
Tier-1 capital (%)	20.70	19.94
Stage 3 assets (%)	7.07	7.06
Source: * For STFC only, Ind-Ra		

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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Rating History

Instrument Type	Current Rating/Outlook					
	Rating Type	Rated Limits (million)	Rating	28 September 2022	20 December 2021	3
Issuer rating	Long-term/Short-term	-	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	AA-
NCDs	Long-term	INR329,559.33	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND
Bank loans	Long-term/Short-term	INR130,000	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	AA-
Bank loans	Long-term	INR190,000	IND AA+/Stable	-	-	
Subordinated debt	Long-term	INR66,200	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND
Short-term debt/CP programme	Short-term	INR75,000	IND A1+	IND A1+	IND A1+	
PP-MLDs	Long-term	INR17,000	IND PP-MLD AA+emr/Stable	-	-	
Term deposit	Long-term	-	IND AA+/Stable	IND tAA+/Stable	IND tAA+/Stable	tA

Annexure

SUBORDINATED DEBT

ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook

INE721A08CV0	1 December 2016	8.50	30 May 2024	INR400	IND AA+/Stable
INE721A08CW8	1 December 2016	8.50	1 December 2026	INR600	IND AA+/Stable
INE721A08CX6	29 December 2016	8.50	29 December 2026	INR750	IND AA+/Stable
INE721A08CY4	17 October 2017	8.20	15 October 2027	INR2,940	IND AA+/Stable
INE721A08CZ1	23 March 2018	9.00	23 March 2028	INR1,000	IND AA+/Stable
INE721A08DA2	28 March 2018	9.00	28 March 2028	INR9,950	IND AA+/Stable
INE721A08DB0	28 March 2018	8.95	28 April 2025	INR400	IND AA+/Stable
INE721A08DC8	28 November 2018	10.25	26 April 2024	INR17,750	IND AA+/Stable
INE721A08DD6	12 December 2018	10.51	12 December 2028	INR350	IND AA+/Stable
INE721A08DE4	31 December 2018	10.25	27 December 2024	INR5500	IND AA+/Stable
INE721A08DG9	25 October 2018	8.75	25 October 2032	INR1150	IND AA+/Stable
			Total utilised	**INR40,790.00**	
			Total unutilised	**INR25,410.00**	
			Total	**INR66,200.00**	

NCDs

ISIN	Date of Allotment	Coupon (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
INE721A07NA3	30 November 2017	8.00	30 November 2022	INR700.00	WD (Paid in full)
INE721A07NL0	22 March 2018	8.72	22 March 2023	INR2,415.00	IND AA+/Stable
INE721A07NS5	27 March 2018	8.72	27 March 2023	INR8,250.00	IND AA+/Stable
INE721A07KG6	25 May 2016	9.05	25 May 2023	INR500.00	IND AA+/Stable
INE721A07KI2	9 June 2016	9.05	9 June 2023	INR125.00	IND AA+/Stable
INE721A07NT3	12 July 2018	8.93	12 July 2023	INR1,504.00	IND AA+/Stable
INE721A07NW7	12 July 2018	9.30	12 July 2023	INR5,402.00	IND AA+/Stable
INE721A07NZ0	12 July 2018	9.30^	12 July 2023	INR903.00	IND AA+/Stable
INE721A07KP7	19 July 2016	9.05	19 July 2023	INR750.00	IND AA+/Stable
INE721A07OB9	2 November 2018	9.12	2 November 2023	INR946.30	IND AA+/Stable
INE721A07OE3	2 November 2018	9.50	2 November 2023	INR1,143.20	IND AA+/Stable
INE721A07OH6	2 November 2018	9.50^	2 November 2023	INR421.30	IND AA+/Stable
INE721A07OM6	6 February 2019	9.12	6 February 2024	INR877.02	IND AA+/Stable
INE721A07OP9	6 February 2019	9.50	6 February 2024	INR1,001.12	IND AA+/Stable
INE721A07OS3	6 February 2019	9.50 p.a (Cumulative effective yield)	6 February 2024	INR419.39	IND AA+/Stable
INE721A08DF1	22 January 2019	9.90	21 June 2024	INR5,000.00	IND AA+/Stable
INE721A07HY5	18 September 2014	10.25	18 September 2024	INR3,000.00	IND AA+/Stable
INE721A07IG0	10 October 2014	10.25	10 October 2024	INR4,680.00	IND AA+/Stable
INE721A07II6	31 October 2014	10.10	31 October 2024	INR250.00	IND AA+/Stable
INE721A07IO4	13 November 2014	10.00	13 November 2024	INR3,325.00	IND AA+/Stable
INE721A07IR7	28 November 2014	9.90	28 November 2024	INR1,000.00	IND AA+/Stable
INE721A07NO4	26 March 2018	8.72	26 May 2025	INR600.00	IND AA+/Stable
INE721A07JX3	18 March 2016	9.30	18 March 2026	INR1,000.00	IND AA+/Stable
INE721A07KB7	29 March 2016	9.30	27 March 2026	INR1,400.00	IND AA+/Stable
INE721A07KD3	13 April 2016	9.22	13 April 2026	INR1,790.00	IND AA+/Stable
INE721A07KE1	22 April 2016	9.20	22 April 2026	INR260.00	IND AA+/Stable
INE721A07LD1	8 August 2016	8.87	8 August 2026	INR1,100.00	IND AA+/Stable
INE721A07NU1	12 July 2018	9.03	12 July 2028	INR499.00	IND AA+/Stable
INE721A07NX5	12 July 2018	9.40	12 July 2028	INR5,323.00	IND AA+/Stable
INE721A07OC7	2 November 2018	9.30	2 November 2028	INR323.40	IND AA+/Stable
INE721A07OF0	2 November 2018	9.70	2 November 2028	INR389.80	IND AA+/Stable
INE721A07ON4	6 February 2019	9.30	6 February 2029	INR263.80	IND AA+/Stable
INE721A07OQ7	6 February 2019	9.70	6 February 2029	INR341.49	IND AA+/Stable
INE721A07OY1	22 August 2019	9.12	22 February 2023	INR422.28	IND AA+/Stable
INE721A07OZ8	22 August 2019	9.22	22 August 2024	INR343.455	IND AA+/Stable
INE721A07PA8	22 August 2019	9.31	22 August 2026	INR210.36	IND AA+/Stable
INE721A07PC4	22 August 2019	9.50	22 February 2023	INR558.073	IND AA+/Stable

INE721A07PD2	22 August 2019	9.60	22 August 2024	INR472.039	IND AA+/Stable
INE721A07PE0	22 August 2019	9.70	22 August 2026	INR261.903	IND AA+/Stable
INE721A07PF7	22 August 2019	Cumulative	22 February 2023	INR282.138	IND AA+/Stable
INE721A07PG5	22 August 2019	Cumulative	22 August 2024	INR175.741	IND AA+/Stable
INE721A07PH3	22 August 2019	Cumulative	22 August 2026	INR142.27	IND AA+/Stable
INE721A07PI1	28 January 2020	8.52	28 January 2023	INR293.209	IND AA+/Stable
INE721A07PJ9	28 January 2020	8.66	28 January 2025	INR162.997	IND AA+/Stable
INE721A07PK7	28 January 2020	8.75	28 January 2027	INR138.306	IND AA+/Stable
INE721A07PL5	28 January 2020	8.85	28 January 2023	INR505.097	IND AA+/Stable
INE721A07PM3	28 January 2020	9.00	28 January 2025	INR347.035	IND AA+/Stable
INE721A07PN1	28 January 2020	9.10	28 January 2027	INR130.231	IND AA+/Stable
INE721A07PO9	28 January 2020	Cumulative	28 January 2023	INR208.216	IND AA+/Stable
INE721A07PP6	28 January 2020	Cumulative	28 January 2025	INR151.58	IND AA+/Stable
INE721A07PZ5	29 October 2020	9.00	29 October 2030	INR 750.00	IND AA+/Stable
INE721A07QH1	30 April 2021	6.75 - first 6 months; 7.25 - Starting 7 month to end of 12 month; 8.25 - Starting 13 month to end of 18 month; 9.10 - Starting 19 month to end of 24 month	28 April 2023	INR 10000.00	IND AA+/Stable
INE721A07QJ7	17 June 2021	7.95% p.a	16 June 2023	INR 4200.00	IND AA+/Stable
INE721A07QK5	17 June 2021	(Benchmark + Spread) % XIRR for 2 years 7.50%	16 June 2023	INR 16000.00	IND AA+/Stable
INE721A07QM1	12 November 2021	8.37% p.a.	12 November 2031	INR 21000.00	IND AA+/Stable
INE721A07QN9	13 December 2021	7.0746% p.a.	13 September 2023	INR 2500.00	IND AA+/Stable
INE721A07QO7	28 December 2021	8.00 % p.a.	26 December 2031	INR 250.00	IND AA+/Stable
INE721A07QR0	4 February 2022	12M T Bill+Spread (6.80% pa)	2 February 2024	INR 5250.00	IND AA+/Stable
INE721A07QT6	21 February 2022	7.4008% p.a. (XIRR – 7.40%)	21 March 2025	INR 1500.00	IND AA+/Stable
INE721A07QS8	21 February 2022	7.0000% p.a. (XIRR – 7.00%)	21 February 2024	INR 2000.00	IND AA+/Stable
INE721A07QU4	25 February 2022	8.56 % p.a.	25 February 2032	INR 9000.00	IND AA+/Stable
INE721A07QW0	23 March 2022	7.4507% p.a. (XIRR – 7.45%)	23 April 2025	INR 2500.00	IND AA+/Stable
INE721A07QX8	18 April 2022	12M T Bill+Spread (6.80% pa)	18 April 2024	INR 7000.00	IND AA+/Stable
INE721A07QY6	25 April 2022	8.25% p.a.	25 April 2029	INR 1000.00	IND AA+/Stable
INE721A07RA4	17 August 2022	8.72% p.a.	17 August 2032	INR 33000.00	IND AA+/Stable
INE721A07RD8	8 September 2022	RBI Repo + 2.20%	6 September 2024	INR 2010.00	IND AA+/Stable
INE721A07RC0	8 September 2022	8.55% p.a.	8 September 2032	INR 2000.00	IND AA+/Stable
INE721A07RE6	18 October 2022	8.50% p.a.	18 October 2032	INR 270.00	IND AA+/Stable
INE722A07AU6*	28 February 2020	9.25	28 May 2024	INR5,000	IND AA+/Stable
INE722A07AF7	28 February 2020	9.25	28 February 2023	INR2,400	IND AA+/Stable
INE722A07AN1	8 February 2021	9.25	8 February 2030	INR100	IND AA+/Stable
INE722A07AO9	8 February 2021	9.50	7 February 2031	INR300	IND AA+/Stable
INE722A07AP6	22 February 2021	9.25	22 February 2030	INR200	IND AA+/Stable
INE722A07AQ4	22 February 2021	9.50	21 February 2031	INR4500	IND AA+/Stable
INE722A07AP6	25 March 2021	9.25	22 February 2030	INR300	IND AA+/Stable
INE722A07AQ4	25 March 2021	9.50	21 February 2031	INR300	IND AA+/Stable
INE722A07AY8	12 August 2021	7.95	12 August 2024	INR2,600	IND AA+/Stable
INE722A07BA6	21 September 2021	8.65	21 September 2031	INR1,890	IND AA+/Stable
INE722A07BB4	21 September 2021	7.70	21 December 2022	INR3,500	WD (Paid in full)
INE722A07BC2	21 September 2021	7.48	21 September 2024	INR3,000	IND AA+/Stable
INE722A07BE8	20 December 2021	9.05	20 December 2031	INR6,000	IND AA+/Stable
INE722A07BF5	22 February 2022	7.50	22 May 2023	INR4,400	IND AA+/Stable
INE722A07BG3	22 February 2022	9.00	22 February 2023	INR1,800	IND AA+/Stable
INE722A07BI9	31 May 2022	8.85	31 May 2032	INR2,000	IND AA+/Stable
Total utilised				**INR215,027.75**	
Unutilised NCD limit				**INR114,531.58**	

^ Zero coupon bond

PP-MLDs

ISIN	Date of Allotment	Coupon (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
INE722A07AM3	27 January 2021	-	27 January 2023	INR1,500	IND PP-MLD AA+emr/Stable
INE722A07AR2	1 March 2021	-	1 March 2023	INR4,910	IND PP-MLD AA+emr/Stable
INE722A07AR2	3 March 2021	-			IND PP-MLD AA+emr/Stable
INE722A07AR2	10 March 2021	-			IND PP-MLD AA+emr/Stable
INE722A07AS0	17 March 2021	-	17 May 2023	INR3,000	IND PP-MLD AA+emr/Stable
INE722A07AT8	30 March 2021	-	30 March 2023	INR2,000	IND PP-MLD AA+emr/Stable
INE722A07AZ5	1 September 2021	-	1 March 2024	INR2,000	IND PP-MLD AA+emr/Stable
INE722A07BD0	23 November 2021	-	23 May 2024	INR3,000	IND PP-MLD AA+emr/Stable
Utilised				INR16,410	
Unutilised				INR590	
Total limit				INR17,000	

*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

Complexity Indicator	Complexity Indicator
NCDs	Low
Bank loans	Low
Subordinated debt	Low
Short-term debt/CP programme	Low
Term deposit	Low
PP-MLDs	High

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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Non-Bank Finance Companies Criteria

Securities Firms Criteria

The Rating Process

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