

January 02, 2022

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalai Street, Fort,
Mumbai 400 001

Dear Sir/ Ma'am,

Sub.: Disclosure under Regulation 51 of the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 in respect of Credit Rating- Revision of Credit Rating

Pursuant to Regulation 51 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with Part B of Schedule III we hereby inform that India Ratings and Research Private Limited ("Ind Ra") has revised its rating and outlook on the debt instruments and bank facilities of Shriram Housing Finance Limited ("SHFL") to 'IND AA+' (Stable Outlook) from 'IND AA/Positive' as follows:

Facilities/Instrument	Amount (INR in crore)	Revised Rating	Rating Action
Long Term bank facilities	2,000	IND AA+/Stable	Upgraded from IND AA/Positive
Non-Convertible Debentures (NCDs)	540	IND AA+/Stable	Upgraded from IND AA/Positive
PP-MLDs	200	IND PP-MLD AA+emr/ Stable	Upgraded from IND AA/Positive

Revision in rating of SHFL factors in the change in the parentage of SHFL with Shriram Finance Limited (SFL; rated 'IND AA+/Stable') holding 85.02% stake in SHFL post completion of the Composite Scheme of Arrangement and Amalgamation (Scheme) involving various Shriram group entities.

The upgrade reflects the completion of merger. SHFL is expected to benefit from the stronger credit profile of SFL than Shriram City Union Finance Limited. SHFL (housing finance company) has not been a part of the merger scheme so that it can continue to benefit from operating as a housing finance company. There is no change in terms of business operations.

We request you to kindly take the same on record.

Yours Faithfully,

For **Shriram Housing Finance Limited**

Puja Shah
Company Secretary and Compliance Officer

Encl.: As Above.





India Ratings Upgrades Shriram Housing Finance's NCDs and other Debt to 'IND AA+' / Stable

Jan 02, 2023 | Housing Finance Company

India Ratings and Research (Ind-Ra) has taken the following rating actions on Shriram Housing Finance Limited's (SHFL) debt instruments:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Non-convertible debentures* (NCDs)	-	-	-	INR5.4	IND AA+/Stable	Upgraded
Principal protected -market linked debentures (PP-MLD)s^	-	-	-	INR2.0	IND PP-MLD AA+emr/Stable	Upgraded
Bank loans	-	-	-	INR20	IND AA+/Stable	Upgraded

*Details in Annexure

^Yet to be issued

The suffix 'emr' denotes the exclusion of the embedded market risk from the rating. The rating of MLDs 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 (to be detailed in the information memorandum of the issue).

Analytical Approach: Ind-Ra continues to factor into the ratings the support SHFL receives from its parent, Shriram Finance Limited (SFL; 'IND AA+' / Stable), which has been formed post the merger of the erstwhile Shriram Transport Finance Company Limited, Shriram City Union Finance Limited (SCUF) and Shriram Capital Limited since 30 November 2022, and also the latter's credit strength. SHFL provides housing loans across segments and leverages the Shriram group's ecosystem.

The upgrade reflects the completion of merger. Post-merger, SFL now holds 85.02% in SHFL. Ind-Ra expects SHFL to benefit from the stronger credit profile of SFL than SCUF's. SHFL (housing finance company) has not been a part of the merger scheme so that it can continue to benefit from operating as a housing finance company. There is no change in terms of business operations.

The merger has been effective since the record date of 30 November 2022. The management control, monitoring of business and funding strategy along with board supervision have remain unchanged post the merger; Ind-Ra understands that the contours of support and supervision from SFL towards SHFL would largely be unchanged from the earlier support structure that existed between

SCUF and SHFL. SHFL had a history of support from the group with access to funding lines worth INR3 billion from its erstwhile parent SCUF in the form of short-term bridge lines and equity infusion of INR5 billion in FY22. Ind-Ra expects unequivocal support from SFL towards SHFL to continue on an ongoing basis and extend beyond the existing funding lines. SHFL would be looking for a strategic investor over the medium term; however, Ind-Ra expects SFL to keep holding the majority stake in SHFL over the next one to two years.

Key Rating Drivers

Support-driven Rating as part of Larger Shriram Group: Chennai-based Shriram group has close to five decades of experience in commercial vehicle financing, SME loans etc; it also has presence in the insurance segment. Its flagship company, SFL, is one of the largest private sector non-bank finance company (NBFC) in India with assets under management (AUM; including erstwhile SCUF's) of INR1,714 billion as on 30 September 2022 and 2,875 branches across India. At end-1HFY23, SHFL contributed around 3.8% to AUM (FY22: 2.3%) and 2.2% (1.8%) to the profit of SFL in Ind-Ra's estimates. However, given increasing contribution of SHFL to the secured book of the group and encouraging early delinquencies in the home loans, SHFL leverages the Shriram group ecosystem and remains an important part of the Shriram Group. The erstwhile parent, SCUF, infused equity of INR5 billion during FY22 (INR2 billion in May 2021 and INR3 billion in October 2021) in SHFL.

Comfortable Leverage: SHFL's leverage (debt/equity) was comfortable at 4.1x in 1HFY23 (FY22: 3.4x; FYE21: 5.6x), supported by the equity infusion of INR5 billion in FY22. Also, the company is adequately capitalised to meet its aggressive plans to grow its AUM to INR8 billion by FY23. The company looks to maintain its leverage at 5x-6x in the medium term. The company plans INR5 billion of capital infusion by FYE24 and is looking to tap a strategic investor for the same. However, Ind-Ra expects SFL to keep holding the majority stake in SHFL over the next one to two years.

Low Dependence on Capital Market Borrowings: Banks have been the predominant source of funding for SHFL, with a 68% share of in the funding mix (including 11% funding from National Housing Bank (NHB; 'IND AAA/Stable) in 1HFY23. 13% was contributed by capital market borrowings in the form of NCDs and the balance 19% was in the form of pass through certificates and direct assignments. Moreover, the company has borrowing relationships with 26 lenders, and its dependence on capital market borrowings is among the lowest among the AA rated peers. Ind-Ra does not foresee any major challenge for the company in raising debt funds incrementally to meet its aggressive growth plans over FY23-FY24. The company plans to increase the proportion of funding from NHB, as it is cheaper than the overall cost of funds of the company.

Liquidity Indicator - Adequate; Supported by Parent: The behavioural asset liability management for September 2022 showed a positive cumulative gap up to one-year bucket with the cumulative surplus (excess of short-term assets over short-term liabilities) at 2.3% of the total assets. At end-September 2022, SHFL had cash and cash equivalents of INR3.9 billion and unutilised bank lines of INR1.1 billion. As against this, the debt outflows (principal and interest) stood at INR3.9 billion during October-December 2022. As per the management, the company plans to maintain minimum on-balance sheet liquidity to meet one to two months of disbursements, expenses and debt obligations. SHFL has not utilised the INR3 billion line from its erstwhile parent for over three years. Ind-Ra expects it benefit from the group linkages in terms of liquidity and capital support.

Improving Asset Quality; Seasoning of New Book to be Monitored: At 1HFYE23, 79% of SHFL's borrowers were self-employed. Its gross stage-3 loans reduced to 1.05% in 1HFY23 (FY22: 1.1%; FY21: 1.9%), due to the 36.3% yoy growth in gross loans to INR53.5 billion and improved underwriting under the new management. The provision coverage ratio stood at 68% as on 30 September 2022. The agency believes that the company has sufficient pre-provision operating profit buffer (1HFY23: PPOP/total assets of 4.2%) and COVID-19-related provisions (INR582 million) to cover the credit costs that it could suffer in FY23. Restructured book stood low at INR1.4 billion (2.1% of AUM) as on 30 September 2022.

At end-September 2022, the newer originations from 4QFY19 (from when new strategies began to be implemented and new management was onboarded subsequently) constituted 90% of the total AUM, and the gross stage-3 loans (90+days past due) in the new book originated under the new strategy were 0.38%. While the newer originations that have been subjected to the new risk and pricing frameworks may fare better, Ind-Ra believes the performance of originations before FY19 (currently 10% of AUM) would be sub-par.

Rating Sensitivities

Positive: A rating upgrade for the parent's rating could lead to a similar action on SHFL.

Negative: The following factors could, individually or collectively, lead to a negative rating action:

- the support stance or shareholding of SFL is materially diluted from the agency's expectations
- inability to access funding adequately for growth and liquidity support
- gross stage-3 assets exceeding 5% and leverage exceeding 6x, on a sustained basis, for SHFL

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 SHFL, 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

SHFL was registered as a housing finance company with NHB in August 2011 and started lending operations in December 2011. SHFL is promoted by SFL, a flagship company of the Shriram Group. The company has a network of 112 branches across 15 states and union territories.

FINANCIAL SUMMARY

Parameters	1HFY23	FY22	FY21
Total assets (INR billion)	63.2	51.7	38.3
Total equity (INR billion)	12.2	11.6	5.7
Net income (INR billion)	0.6	0.8	0.6
Return on average assets (%)	2.4	1.8	2.0
Tier 1 capital (%)	27.3	29.8	22.1
Source: SHFL, 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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook					
	Rating Type	Rated Limits (billion)	Rating	13 December 2022	20 July, 2022	20 December 2021	3 December 2021	8 December 2020	4 May 2020
Bank loan	Long-term	INR20.0	IND AA+/Stable	IND AA/Positive	IND AA/Positive	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/RWN
NCDs	Long-term	INR5.4	IND AA+/Stable	IND AA/Positive	IND AA/Positive	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/RWN
PP-MLDs	Long-term	INR2.0	IND PP-MLD AA+emr/Stable	IND PP-MLD AAemr/Positive	-	-	-	-	-

Annexure

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE432R07117	29 April 2016	9.00	29 April 2023	INR0.25	IND AA+/Stable
NCDs	INE432R07125	2 May 2016	9.00	2 May 2023	INR0.15	IND AA+/Stable
NCDs	INE432R07257	11 December 2020	9.60	11 December 2030	INR0.17	IND AA+/Stable
NCDs	INE432R07265	15 January 2021	9.42	15 January 2031	INR0.21	IND AA+/Stable
NCDs	INE432R07273	03 May 2021	9.32	2 May 2031	INR0.1	IND AA+/Stable
NCDs	INE432R07281	30 November 2021	3 month T-bill + 400bp	30 June 2023	INR1.0	IND AA+/Stable
NCDs	INE432R07299	4 March 2022	3month T-bill + 375bp	4 March 2025	INR1.0	IND AA+/Stable
NCDs	INE432R0737	22 July 2022	8.25	21 July 2025	INR1.0	IND AA+/Stable
NCDs	INE432R08040	30 September 2022	8.65	30 September 2037	INR0.35	IND AA+/Stable
NCDs		Total utilised			INR4.23	
NCDs		Unutilised			INR1.17	
		Total			INR5.4	

Bank wise Facilities Details

[Click here to see the details](#)

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Bank loans	Low
NCDs	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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APPLICABLE CRITERIA

Evaluating Corporate Governance**Financial Institutions Rating Criteria****Rating FI Subsidiaries and Holding Companies****Non-Bank Finance Companies Criteria****DISCLAIMER**

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