

May 22, 2024

Shriram Housing Finance Limited: Update on material event

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|------------------|--------------------------------------|-------------------------------------|------------------------|
| Commercial paper | 100.00 | 100.00 | [ICRA]A1+; outstanding |
| Total | 100.00 | 100.00 | |

*Instrument details are provided in Annexure I

Rationale

On May 13, 2024, Shriram Housing Finance Limited (SHFL) announced that Shriram Finance Limited (SFL) and Valiant Mauritius Partners FDI Limited (Valiant) have, by way of a share purchase agreement, agreed to sell and transfer all their equity shares in SHFL to Mango Crest Investment Ltd (an affiliate of Warburg Pincus LLP), subject to the receipt of applicable regulatory approvals. The proposed transaction is valued at Rs. 4,630 crore for SHFL's equity and convertible instruments. SFL has a controlling stake (83.8% as on March 31, 2024) in SHFL while private equity, Valiant, holds 14.8%. As a part of this transaction, Valiant will also divest its entire equity stake to Warburg Pincus. Pursuant to the transaction, SHFL will cease to operate as a subsidiary of SFL.

At present, ICRA has a consolidated view on the credit profiles of SFL (erstwhile Shriram Transport Finance Company Limited {STFC}) and SHFL, hereafter together referred to as the SFL Group or the Group, given the shared brand name, common promoters, business-level synergies and financial interlinkages. Since SHFL will cease to operate as SFL's subsidiary pursuant to the transaction, ICRA notes that SHFL's standalone credit profile is characterised by its fairly geographically diversified operations and assets under management (AUM) of Rs. 13,762 crore as on March 31, 2024, focused on the affordable housing finance segment. The company's asset quality remains comfortable with gross non-performing assets (NPAs) and net NPAs of 1.0% and 0.8%, respectively, as on March 31, 2024. However, the long-term performance is yet to be seen considering the limited vintage of a significant part of the portfolio, as with most affordable housing finance companies (AHFCs). SHFL's earnings profile remains adequate with a net profit of Rs. 217 crore in FY2024, translating into a return of 1.8% on average managed assets¹ and 13.5% on average net worth (Rs. 138 crore, 1.8% and 11.2%, respectively, in FY2023). Given the high pace of growth, SHFL's capitalisation has moderated with the managed gearing increasing to 6.6 times as on March 31, 2024 from 5.9 times as on March 31, 2023.

ICRA takes note of the proposed equity infusion by Warburg Pincus pursuant to the transaction, which shall help improve the company's capitalisation profile. As on March 31, 2024, SHFL's funding profile included loans from banks (51%), refinance from National Housing Bank (14%), debt capital markets including CPs (17%), external commercial borrowings (9%) and pass-through certificates (9%). Given the proposed change in the shareholding, the impact on funding and liquidity will be a key monitorable though ICRA expects funding support to be forthcoming from the parent (SFL) in the interim. ICRA does not expect the above-mentioned change in the shareholding to affect its short-term rating outstanding on commercial paper (CP) programme.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: [Click here](#)

¹ Managed Assets = Total Assets + Impairment Loss Allowance + Off-book portfolio

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Rating Methodology for Non-banking Finance Companies |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | Consolidated |

About the company

Shriram Housing Finance Limited (SHFL), which is a part of Shriram Group, is a housing finance company registered with National Housing Bank (NHB). On August 4, 2011, the company received its Certificate of Registration from NHB, as required under Section 29A of the National Housing Bank Act, 1987. SHFL primarily provides loans for the purchase or construction of residential space and loan against property. As on March 31, 2024, its assets under management stood at Rs. 13,762 crore, with the company catering to more than 2.1 lakh borrowers across 16 states in India through a network of 155 branches.

Key financial indicators (audited)

| Shriram Housing Finance Limited (standalone) | FY2022 | FY2023 | FY2024* |
|--|--------|--------|---------|
| Total income | 549 | 794 | 1,430 |
| Profit after tax | 80 | 138 | 217 |
| Total managed assets (grossed up for provisions) | 6,001 | 9,108 | 14,854 |
| Return on average managed assets | 1.5% | 1.8% | 1.8% |
| Reported gearing (times) | 3.4 | 4.9 | 5.1 |
| Gearing (managed; times) | 4.1 | 5.9 | 6.6 |
| Gross stage 3 | 1.7% | 0.9% | 1.0% |
| Capital to risk (weighted) assets ratio | 30.9% | 25.5% | 25.0% |

Source: Company, ICRA Research; *Limited review; All ratios as per ICRA's calculations; Amount in Rs. crore

Shriram Finance Limited

Shriram Finance Limited [SFL; erstwhile Shriram Transport Finance Company Limited (STFC)], incorporated in 1979, is a part of the Shriram Group of companies and an upper layer non-banking financial company (NBFC). Based on the National Company Law Tribunal (NCLT) order dated November 14, 2022, the operations of Shriram City Union Finance Limited (SCUF) and Shriram Capital Limited were merged with STFC, which was rechristened Shriram Finance Limited on November 30, 2022.

SFL enjoys a leadership position in preowned commercial vehicle finance and has a pan-India presence with 3,700+ branches and other offices. As of March 31, 2024, its assets under management (consolidated) stood at Rs. 2.39 lakh crore comprising commercial vehicle finance (45%), passenger vehicle finance (18%), small and medium-sized enterprise (SME) lending (11%), construction equipment and farm equipment finance (9%), housing loans (6%; through its subsidiary – Shriram Housing Finance Limited), two-wheeler loans (5%), personal loans (4%), and gold loans (3%).

Key financial indicators

| Shriram Finance Limited (consolidated) | FY2022 | FY2023 | FY2024* |
|--|--------|--------|---------|
| Total income | 19,274 | 30,508 | 36,413 |
| PAT | 2,721 | 6,011 | 7,391 |
| Return on managed assets | 1.9% | 2.8% | 3.0% |
| Managed gearing (times) | 4.5 | 4.0 | 4.2 |
| Gross stage 3 assets | 7.1% | 6.0% | 5.2% |
| CRAR | 23.0% | 22.6% | 20.3% |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Limited review

With the scheme of arrangement and amalgamation of STFC, SCUF and Shriram Capital Limited becoming effective, figures for the year ended March 31, 2023 are not comparable with the figures for the year ended March 31, 2022

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Current Rating (FY2025) | | | | Chronology of Rating History for the Past 3 Years | | | |
|--------------------|-------------------------|--------------------------|---|-------------------------|---|-------------------------|-------------------------|--|
| | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Feb 28, 2023 (Rs. crore) | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 | |
| | | | | May 22, 2024 | Mar 28, 2024 | Mar 13, 2023 | - | |
| 1 Commercial paper | Short term | 100.00 | -- | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | - | |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|------------------|----------------------|
| Commercial paper | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-------------------------------------|------------------|-------------|------------|--------------------------|----------------------------|
| NA | Commercial paper – Yet to be issued | NA | NA | 7-365 days | 100.00 | [ICRA]A1+ |

Source: Company

Annexure II: List of entities considered for consolidated analysis

| Company Name | March 31, 2024 | Consolidation Approach |
|---------------------------------|----------------|------------------------|
| Shriram Finance Limited | 100.00% | Full Consolidation |
| Shriram Housing Finance Limited | 83.78% | Full Consolidation |
| Shriram Automall India Limited | 44.56% | Equity Method |

Note: ICRA has taken a consolidated view of the parent (SFL) and the aforementioned subsidiaries and associates while assigning the rating

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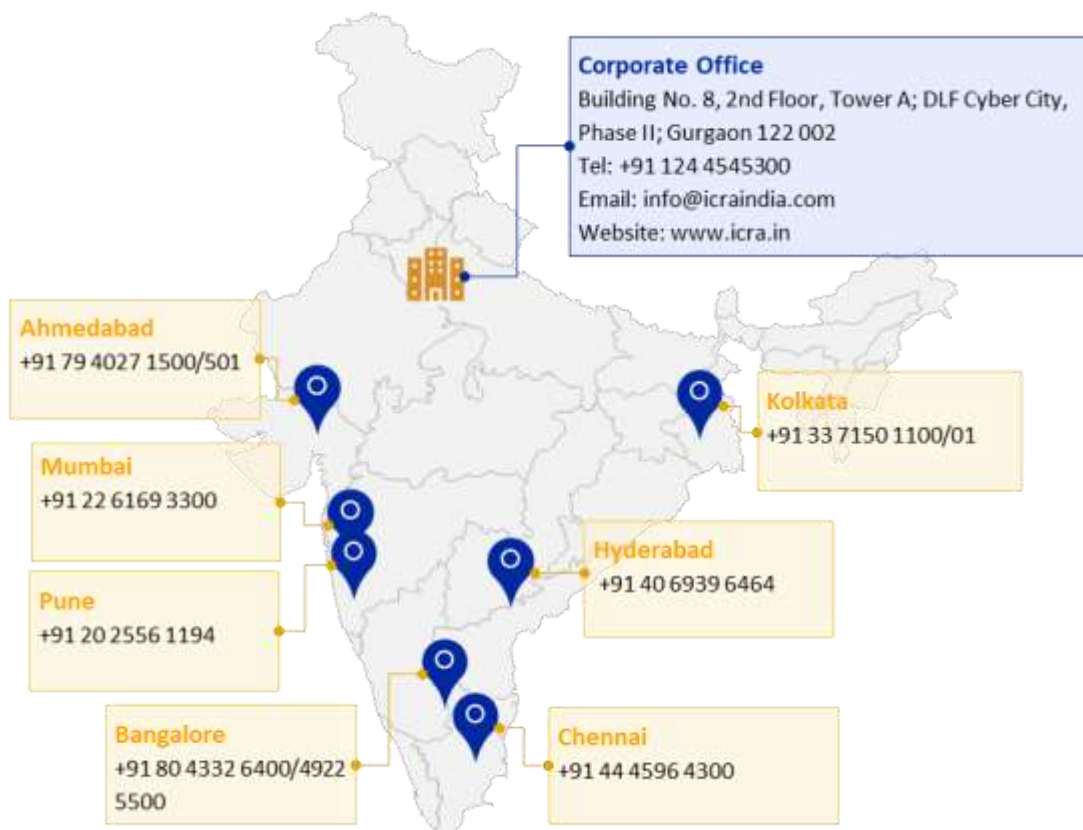


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Branches



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