October 31, 2019

SBI Funds Management Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Bank Lines	20,000.00	20,000.00	[ICRA]AAA (Stable); reaffirmed
Total	**20,000.00**	**20,000.00**	

Rationale

The rating factors in the strong market position of SBI Funds Management Private Limited (SBIFM) as one of the top three asset management companies (AMCs) in terms of the assets under management (AUM). The rating also factors in the shared brand name and managerial support from State Bank of India (SBI; rated [ICRA]AAA(Stable)/[ICRA]A1+), one of the promoter entities. ICRA expects SBIFM to continue to benefit from its strong parentage (SBI and Amundi[1]) with ongoing operational and managerial support and access to SBI's strong retail franchise, which facilitates AUM growth. ICRA draws comfort from the healthy profile of SBIFM's short-term debt and liquid schemes, for which the rated facility serves as a tool to meet any temporary liquidity requirements (for repurchase, redemption of units or payment of interest or dividend to the unitholders). The peak utilisation of the bank facilities over the past 12 months was ~38% (in March 2019) for a limited period (only for ~6-7 days), indicating healthy cashflows at the scheme level and a sound liquidity policy. ICRA also notes that the returns to the unitholders are dynamically adjusted, taking into account the cost of using the bank lines. Therefore, the lender has priority to the claims over the unitholders.

Key rating drivers and their description

Credit strengths

Strong market position as one of the top three AMCs in India in AUM terms – SBIFM's quarterly average assets under management (AAUM) increased to Rs. 2,83,807 crore in Q4 FY2019 from Rs. 2,17,649 crore in Q4 FY2018, registering a YoY growth of 30%, and increased further to Rs. 3,20,662.84 crore in Q2 FY2020. SBIFM is among the leading AMCs in the domestic market with a market share of nearly 12% (third largest AMC) in terms of AUM as on September 30, 2019 (11.59% as on March 31, 2019 compared to 9.44% as on March 31, 2018). The growth in AUM was driven by the equity schemes (retail and non-retail segment). Consequently, the share of equity in the total portfolio increased to ~60% as on March 31, 2019 from ~56% as on March 31, 2018. The portfolio comprised equity (60%), debt (25%) and liquid funds (15%) as on March 31, 2019. ICRA expects the share of equity schemes to remain high with the fund house launching more equity schemes in FY2020.

Part of SBI Group with shared brand name and managerial support from parent; access to SBI's strong retail franchise facilitates AUM growth – SBIFM is a joint venture between SBI (63% stake) and Amundi (27%), the asset management arm of the Credit Agricole Group and a leading AMC in the world. SBIFM derives significant operational and managerial

[1] *Amundi is a subsidiary of Credit Agricole (rated Aa3 (stable) by Moody's Investors Service)*

support from SBI. The Managing Director and CEO of SBIFM is of the rank of the Deputy Managing Director of SBI. The shared brand name, coupled with access to SBI's strong retail franchise, has helped facilitate AUM growth.

Healthy scheme profile – The asset profile of the short-term debt and liquid schemes remains comfortable, as reflected by the mutual fund rating of [ICRA]A1+mfs for SBIFM's key debt mutual fund schemes such as SBI Magnum Low Duration Fund, SBI Magnum Ultra Short Duration Fund and SBI Liquid Fund (these three schemes accounted for ~50% of SBIFM's liquid and debt AUM as of September 2019). This implies a very strong degree of safety regarding the timely receipt of payments from the investments that they have made. The liquidity maintained at the scheme level and the healthy scheme profile have aided SBIFM in managing redemption requirements in the past. The overall utilisation of the sanctioned bank lines remained low over the past year with the peak utilisation being ~38% in March 2019. ICRA also draws comfort from the conservative internal policies outlining the usage of the rated facility and the presence of stringent regulatory stipulations regarding debt drawdown by AMCs. The regulations allow access to bank lines for the express purpose of meeting temporary liquidity requirements (for repurchase, redemption of units or payment of interest or dividend to the unitholders) and not for the AMC's corporate requirements.

Credit challenges

Ability to grow AUMs while maintaining diversity and liquidity of investments – The competition in the industry remains high, given the numerous schemes being offered in the market by various mutual fund houses. The increasing prominence of the portfolio management services being offered by wealth advisors has further enhanced the competitive intensity. In this context, SBIFM's ability to consistently receive inflows in its various schemes and also to maintain a healthy asset profile under its schemes becomes critical. SBIFM has hitherto maintained healthy liquidity levels across its schemes.

Liquidity position: Strong

The company's funding requirement would largely be for meeting the redemption obligations under various schemes. At the scheme level, SBIFM maintains 3-5% of the scheme's AUM as liquidity, which will help meet the regular redemption requirements. SBIFM has total bank lines (intra-day borrowing limit) of Rs. 23,300 crore (with Rs. 12,000 crore being available as cash credit with a tenor of six months) to meet any large redemption requirements (typically observed in liquid and short-term debt schemes at quarter ends). The peak utilisation of the bank limits over the past 12 months was ~38% (in March 2019) and utilisation was only for ~6-7 days, indicating healthy cashflows at the scheme level and the sound liquidity policy.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Pressure on SBIFM's rating could arise if there is a significant deterioration in the AMC's market position. The rated facility is primarily used to meet the redemption requirement of liquid and short-term debt schemes. Any deterioration in the asset profile of these schemes, which would impact the AMC's ability to liquidate the assets in a timely manner to meet redemption requirements, will be a key rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

SBI Funds Management Private Limited (SBIFM), the asset management company for SBI Mutual Fund (SBI MF), was established in February 1992. It is a joint venture between SBI and Amundi, with 63% and 37% stakes, respectively, as on September 30, 2019. SBIFM's AAUM was Rs. 3,20,662.84 crore in Q2 FY2020. As on March 31, 2019, SBIFM operated through 222 branches across India and had one overseas point of presence. SBIFM has a fully-owned foreign subsidiary, SBI Funds Management (International) Private Limited, which is based in Mauritius and manages an offshore fund. SBIFM also provides portfolio management services (PMS) and alternative investment funds (AIFs).

SBIFM reported a net profit of Rs. 428 crore on a total income of Rs. 1,520 crore in FY2019 compared to a net profit of Rs. 336 crore on a total income of Rs. 1,258 crore in FY2018.

Key financial indicators

SBIFM (standalone)	FY2018 IndAS	FY2019 IndAS
Total income	1,258	1,520
Operating profit	488	608
Profit before tax	510	647
Profit after tax*	336	428
Net worth	1,061	1,374
Total assets	1,332	1,631
RoA	44.0%	43.6%
RoE	36.6%	35.2%

Amount in Rs. crore; Source: SBIFM and ICRA research; All ratios are as per ICRA calculations
RoA: Return on assets (profit before interest and tax/average total assets)
RoE: Return on equity (PAT/average net worth)
**After other comprehensive income*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2020	FY2019		FY2018	FY2017
					31-Oct-2019	05-Jul-2018	14-Jun-2018	12-Apr-2017	08-Dec-2016
1	Fund-based bank lines	Long term	20,000	0.00	[ICRA]AAA (stable); reaffirmed	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Bank Lines	NA	8.65% p.a.	NA	20,000.00	[ICRA]AAA (stable)

Source: SBIFM

Analyst Contacts

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Samriddhi Chowdhary
+91 22 6114 3400
samriddhi.chowdhary@icraindia.com

Jui Kulkarni
+91 22 6114 3427
jui.kulkarni@icraindia.com

Shreekiran Rao
+91 22 6114 3469
shreekiran.rao@icraindia.com

Relationship Contact

Mr. L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999