

October 20, 2022

Sundaram Asset Management Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	0.00	100.00	[ICRA]AA (Stable); Reaffirmed
Long-term bank facilities – Unallocated	75.36	-	-
Short-term bank facilities	30.00	5.36	[ICRA]A1+; Reaffirmed
Total	105.36	105.36	

*Instrument details are provided in Annexure I

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Sundaram Asset Management Company Limited (SAMCL) and its wholly-owned subsidiaries, namely Sundaram Alternate Assets Limited (SAAL), Sundaram Asset Management Singapore Pte. Ltd (SAMS), SAMC Support Services Private Limited (erstwhile Principal Asset Management Private Limited), SAMC Services Private Limited (erstwhile Principal Retirement Advisors Private Limited) and SAMC Trustee Private Limited (erstwhile Principal Trustee Company Private Limited), given the strong operational and financial linkage between the entities. Henceforth, these entities are together referred to as the SAMCL Group/the Group.

The reaffirmation of the ratings considers the strong operational, financial and managerial support from its parent, Sundaram Finance Limited (SFL; rated [ICRA]AAA (Stable)/MAAA (Stable)/[ICRA]A1+), which has a 100% stake in SAMCL. The ratings also factor in the Group's track record in the asset management business, its established distribution franchisee and its experienced management team. The SAMCL Group is also expected to get timely support from the SFL Group for meeting any operational and regulatory capital or liquidity requirements.

The ratings take cognizance of the moderate AAUM¹ (including SAMS) of Rs. 46,630 crore in FY2022 (Rs. 36,962 crore in FY2021 and Rs. 36,916 crore in FY2020), including the schemes transferred from Principal AMC, post the acquisition, in December 2021. The acquisition was funded through a debt-equity mix of 52:48, which impacted the debt metrics of the Group in FY2022. As a result, the Group's total debt/OPBDITA and net cash accruals (NCA)/total debt weakened to 1.1x and 58%, respectively, as of March 31, 2022 from 0.7x and 73%, respectively, as of March 31, 2021. However, the same is expected to improve in subsequent years.

The ratings also factor in the improvement in the net profitability indicators of the SAMCL Group with a net profit of Rs. 71.6 crore in FY2022 vis-à-vis Rs. 56.1 crore in FY2021. This was largely because of the reduction in brokerage expense due to the lower amortisation of the upfront commission and the increase in the operating income due to the AUM growth. The ability to contain the operating costs on a sustained basis, post the acquisition, would be crucial from an earnings perspective.

Key rating drivers and their description

Credit strengths

Support from Sundaram Finance Group – The SAMCL Group benefits from the strong operational, financial and managerial support from the parent, SFL. SFL, which is a sponsor of some of the mutual fund (MF) schemes and the debt and equity-oriented alternative investment fund (AIF) schemes of SAAL, has demonstrated adequate support over and above the

¹ AAUM – Average assets under management

regulatory requirement². Both SAMCL and SAAL leverage the SFL Group's established business presence and systems for business growth and operations and have representatives from the parent on their boards. Group entities such as Sundaram Fund Services Limited help render registrar and transfer agent services and fund accounting services for SAMC as well as SAAL.

SAMCL had raised funds via redeemable preference shares from a Group entity in the past. The SFL Group had also supported SAMCL in the acquisition of Principal Group through an equity infusion and short-term loans. The SFL Group provides a diverse range of financial services including vehicle finance, housing finance, asset management, non-life insurance, etc. Given that asset management is of strategic importance to the SFL Group, ICRA expects support from the SFL Group, as and when required.

Demonstrated track record in asset management business; supported by experienced management team – SAMCL has a demonstrated track record of over 26 years in the asset management business. The company has a wide geographical footprint with 86 customer care centres in 20 states along with offices in Singapore and Dubai. This provides it with access to a large client base (~50 lakh customer folios). SAAL, which manages the portfolio management services (PMS) and AIF schemes, benefits from the in-house capabilities of SAMCL for its research, information technology (IT) infrastructure, risk and administrative functions. It also leverages SAMCL's distribution network to cater to investors including high-net-worth individuals (HNIs), corporates and family offices, among others. The Group's senior management personnel have more than two decades of experience in the asset management business, headed by Mr. Sunil Subramanian (Managing Director; SAMCL) and Mr. Vijayendiran Rao (Chief Executive Officer; SAAL).

On a consolidated basis, the AAUM (excluding SAMS) stood at Rs. 39,517 crore in FY2022, with MFs comprising 91.0%, followed by PMS and AIF at 5.0% and 4.0%, respectively. Within MFs, the share of the equity segment improved to 77% as of March 2022 (69% of June 2021) while at the MF industry level, the share of the equity segment was ~49% as of March 2022. SAMCL's wholly-owned subsidiary, i.e. SAMS, manages four funds currently and had an AUM of Rs. 6,807 crore as of June 2022.

Credit challenges

Moderate AUM; high competitive intensity – The AAUM of the Group increased and stood at Rs. 46,630 crore in FY2022 (Rs. 36,962 crore in FY2021 and Rs. 36,916 crore in FY2020) partly due to the post-acquisition transfer of schemes from Principal AMC. The overall growth in the AAUM was also supported by the PMS segment, which grew by 58% year-on-year (YoY) in FY2022. SAMC is a medium-sized asset management company (AMC) with a market share of ~1%, while the top 5 players held a market share of ~55% in Q1 FY2023. Given the intense competition in the operating environment, AAUM growth is expected to be moderate in the near term. SAAL, which manages the PMS and AIF segments, is also exposed to intense competition from established AMCs.

Earnings susceptible to regulatory changes; impact of earnings, post-merger, remains a monitorable – On a consolidated basis³, the operating income increased by ~20% in FY2022 and the net profitability increased and stood at Rs. 71.6 crore in FY2022 (Rs. 55.1 crore in FY2021). This was largely due to lower brokerage expense on account of the moderation in the amortisation of the upfront commission paid earlier in the MF segment and the increase in the operating income due to the portfolio growth. The cost-to-income ratio improved to 72% in FY2022 (76% in FY2021 and 86% in FY2020). The Principal Group cumulatively reported a net loss of Rs. 45.6 crore in FY2022 (provisional) largely because of higher manpower costs due to the takeover of the business by SAMC. The ability to keep the costs under control on a sustained basis, post the acquisition, would be crucial.

ICRA notes that the acquisition of the Principal Group for a consideration of Rs. 308.45 crore was funded through a mix of own funds, Group funding in the form of equity shares and short-term loans, and external borrowings. This impacted the debt metrics such as total debt/OPBDITA and NCA/total debt in FY2022 (1.1x and 58%, respectively, as of March 31, 2022). While ICRA notes that the debt metrics, post the acquisition, had weakened in FY2022, they are expected to improve in subsequent

² 2.5% of the fund size or Rs. 5 crore, whichever is lower, for Category I and II AIF, and 5% of the fund size or Rs. 10 crore, whichever is lower, for Category III AIF

³ Consolidated with effect from December 31, 2021

years. Further, the amortisation of the asset management rights (Rs. 222.9 crore as of March 2022) and finance charges due to higher debt levels would impact the net profitability, going forward. The Group's performance would remain vulnerable to regulatory changes, which could impact its revenue and earnings, going forward.

Liquidity position: Adequate

On a consolidated basis, the liquidity position is adequate with cash and liquid investments of Rs. 77.5 crore as of June 30, 2022 against debt repayments obligations of ~Rs. 14 crore in the next six months. Given the recently concluded acquisition, the Group's debt outstanding increased over the last 12 months. However, the expected cash flow from operations, the long-term nature of the liabilities and funding from Group companies would support the liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade the rating in case of a steady increase in the market position along with an improvement in the capitalisation profile. A healthy earnings profile on a sustained basis would also positively impact the rating.

Negative factors – Pressure on the ratings could arise in case of lower-than-expected support from the SFL Group or any adverse change in the shareholding. Considerable weakening in its financial performance or a deterioration in the risk profile of SFL would also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Sundaram Finance Limited (parent)
Consolidation/Standalone	While arriving at the ratings, ICRA has considered the consolidated financials of the SAMCL Group

About the company

Incorporated in 1996, SAMCL is a wholly-owned subsidiary of SFL, providing asset management services. The company is the investment manager of Sundaram Mutual Fund, with average assets under management of Rs. 42,267 crore in FY2022. SAMCL has 86 customer care centres spread across 20 states in India along with offices in Singapore and Dubai. It has five wholly-owned subsidiaries, India-based SAAL, Singapore-based SAMS and three Principal Group companies that were acquired in FY2022. SAMS is an investment management company regulated by the Monetary Authority of Singapore.

Sundaram Alternate Assets Limited

Incorporated in January 2018, SAAL provides investment management and advisory services. It is a wholly-owned subsidiary of SAMCL. SAMCL had hived off the management of the AIF and PMS segments to SAAL, post receipt of necessary approvals, in January 2019. SAAL's total AAUM (including advisory services and PMS) was about Rs. 3,983 crore as of March 31, 2022.

Key financial indicators (audited)

SAMCL consolidated	FY2020	FY2021	FY2022
Operating income	300.5	288.2	345.0
PAT	32.7	55.1	71.6
OPBDITA/OI	19.1%	29.1%	37.6%
PAT/OI	10.9%	19.1%	20.8%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	0.6
Total debt/OPBDITA (times)	0.6	0.7	1.1
Interest coverage (times)	10.1	17.1	19.7

Source: SAMCL, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
				Oct 20, 2022	Aug 30, 2021	Feb 08, 2021	Nov 30, 2020	May 13, 2019
1 Long-term fund based – Term loan	Long term	100.00	100.00	[ICRA]AA (Stable)	-	-	-	-
2 Long-term bank facilities – Unallocated	Long term	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3 Short-term bank facilities	Short term	5.36	5.36	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Term loan	Simple
Short-term bank facilities	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan	Jun 01, 2022	-	FY2027	100.00	[ICRA]AA (Stable)
-	Short term bank facilities – Unallocated	NA	-	NA	5.36	[ICRA]A1+

Source: SAMCL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sundaram Alternate Assets Limited	100.00%	Full consolidation
Sundaram Asset Management Singapore Pte. Ltd	100.00%	Full consolidation
SAMC Support Services Private Limited (erstwhile Principal Asset Management Private Limited)	100.00%	Full consolidation
SAMC Services Private Limited (erstwhile Principal Retirement Advisors Private Limited)	100.00%	Full consolidation
SAMC Trustee Private Limited (erstwhile Principal Trustee Company Private Limited)	100.00%	Full consolidation

Source: SAMCL

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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.

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