May 29, 2023(Revised)

Standard Chartered Capital Limited (erstwhile Standard Chartered Investments and Loans(India) Ltd) : Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	850	850	[ICRA]AAA (Stable); reaffirmed
Non-convertible debentures**	150	0	[ICRA]AAA (Stable); reaffirmed and withdrawn
Commercial paper	3,500	4,500	[ICRA]A1+; reaffirmed/assigned
Total	**4,500**	**5,350**	

**Instrument details are provided in Annexure I; **Withdrawn as rated instrument has been fully repaid on maturity*

Rationale

The ratings factor in Standard Chartered Capital Limited's (SCCL) position as a wholly-owned subsidiary of Standard Chartered Bank (UK) (SCB UK; rated A1 (Stable)/P1 by Moody's Investors Service) and the expectation that the parent will extend support to SCCL as and when required. SCCL also benefits from the shared brand name and operational and management support and risk oversight from the parent. The ratings also consider SCCL's adequate capitalisation profile (net worth of Rs. 1,128 crore and gearing of 3.7x as on December 31, 2022), good financial flexibility by virtue of its parentage, and comfortable asset quality indicators. Moreover, the ratings take into account the company's ability to grow the business with a gross loan book of Rs. 5,137 crore as on December 31, 2022, up from Rs. 4,413 crore as on March 31, 2022. While the top 20 exposures constitute 195% of the total net worth as on December 31, 2022, indicating concentration risk, SCCL's track record of comfortable asset quality metrics over several years with gross and net stage 3% of 0.2% and 0.05%, respectively, as on December 31, 2022 provides comfort. Further the granularity of its portfolio is improving, given its focus on increasing the retail book (retail share increased to 49% as on December 31, 2022 from 45% as on March 31, 2022). As for borrowings, SCCL is highly dependent on short-term sources of funding {partly in line with the short-term nature of advances, mainly private banking and retail loan against securities (LAS)}, though the same is declining with the improved diversification of funds via bank lines, inter-corporate deposits (ICDS) and non-convertible debentures (NCDs). Nevertheless, the company would need to augment its long-term borrowings in line with the increase in long-term loans such as loans against property (LAP). Apart from sourcing funds from other banks and financial institutions, SCCL has a Rs. 600-crore credit line arrangement with Standard Chartered Bank, India (SCB India), to be used in case of exigencies, which supports its overall liquidity profile.

The ratings also factor in SCCL's adequate profitability (return on average assets (RoA) of 2.02% in 9M FY2023), supported by the relatively low operating expenses and controlled credit costs on account of comfortable asset quality indicators. Overall, a significant change in SCB UK's credit profile or a reduction in the parent's support to SCCL could warrant a rating change for the company. Also, its ability to grow its scale of operations while maintaining the asset quality would be a monitorable.

Key rating drivers and their description

Credit strengths

Strong parentage with operational and management support – The company benefits from being a part of the Standard Chartered Group with strong linkages with the parent on the operational and management front. Moreover, SCCL's risk management systems are in line with the Group's global policies. Further, considering the shared brand name and linkage with the SCCL Group, ICRA expects support from the parent to be forthcoming, as and when required.

Adequate capitalisation levels – SCCL's capitalisation profile is adequate for its current scale of operations, with a net worth of Rs. 1,128 crore and a gearing of 3.7x as of December 31, 2022 (Rs. 1,066 crore and 3.4x, respectively, as of March 31, 2022). Considering its importance to the SCB Group, ICRA expects SCCL to receive timely capital from the Group to deliver its strategy and planned loan book growth and any change in the likely support from the Group would be a key rating sensitivity. Though ICRA expects that growth capital from SCCL's parent is likely to be forthcoming, its timely infusion would be a key monitorable.

Comfortable asset quality indicators – SCCL's reported asset quality indicators are comfortable with gross stage 3% of 0.24% as on December 31, 2022 which represents a single account which became overdue in fiscal year 2021. ICRA notes that timely recoveries are being made from existing non-performing advances (NPAs) and there have not been any fresh slippages in the loan book since FY2021. While SCCL's track record of comfortable asset quality metrics over several years provides comfort, the evolving asset quality trajectory over the near to medium term, especially considering the changing portfolio mix, will remain a monitorable.

Adequate profitability indicators – ICRA expects SCCL's profitability to remain adequate, in line with past trends. With the increase in systemic interest rates and the consequent repricing of liabilities {largely commercial paper (CPs)}, SCCL's spreads and net interest margin (NIM) moderated in 9M FY2023. Despite reporting stable operating expenses and low credit costs with the improvement in the asset quality, the moderation in NIMs resulted in a decline in the RoA to 2.02% in 9M FY2023 from 2.3% in FY2022.

Going forward, while competitive intensity in SCCL's existing lines of business, especially the LAS and LAP segments, is expected to remain high and exert pressure on the yields, the overall lending spreads are expected to remain stable as the company can pass on the increase in the same to its clients through regular interest rate resets for a significant portion of the book. Also, operating expenses could go up with the higher share of the retail portfolio and consequently incremental investments in technology, infrastructure, and employee acquisition. However, this is likely to be offset by higher yields provided SCCL is able to maintain control on slippages, thus leading to stable return indicators.

Credit challenges

High, albeit reducing, reliance on short-term funding – SCCL has previously been highly dependent on short-term borrowings to meet the funding requirement of its loan book (mainly comprising short-tenured LAS), which exposes it to the market risks associated with such instruments. It has, however, diversified its borrowing profile to include borrowings in the form of long-term NCDs as well as long-term bank borrowings over the past few years. Subsequently, the share of CP in the borrowing base reduced significantly to 62% as on December 31, 2022 from 87% as of March 31, 2019. Nevertheless, further diversification into longer-tenured borrowings will be needed due to the higher incremental growth in the loan book, which is likely to come from longer-tenure assets (mainly LAP). However, with the relatively short-term private banking book and retail book (mainly comprising LAS) expected to continue accounting for a higher share, CP borrowings will still account for a major share of the borrowing mix. The company's efforts towards diversification, the availability of sizeable cash and liquid securities and the sanctioned and unutilised bank lines from SCB India support its overall liquidity profile.

High concentration risk arising from the wholesale book – SCCL's total loan book increased to Rs. 5,137 crore as on December 31, 2022 from Rs. 4,413 crore as on March 31, 2022. In terms of products, SCCL provides promoter financing, lease rental discounting, LAS, LAP and other secured loans. As on December 31, 2022, wholesale loans (Rs. 2,638 crore) constituted 51% of the total loan book with the balance comprising retail loans such as LAS and LAP. Traditionally, the loans have been wholesale in nature and hence the credit concentration has been relatively high, making the portfolio vulnerable to asset quality shocks. The top 20 exposures constitute 195% of the total net worth as on December 31, 2022, however, SCCL's track record of comfortable asset quality metrics over several years with gross and net stage 3% of 0.2% and 0.05%, respectively, as on December 31, 2022, provides comfort. ICRA also notes that the loan book remains diversified with respect to sectoral exposures and the granularity is expected to increase further with the growth in the retail book. The growth in the retail book is expected to be driven by both LAS and LAP.

Liquidity position: Adequate

SCCL's liquidity profile is adequate. As per the asset-liability management (ALM) statement as on December 31, 2022, the company has cash and liquid investments of Rs. 188 crore and unutilised bank lines of Rs. 1,137 crore against debt obligations of Rs. 3,762 crore over the next one year. Additionally, it has expected inflows from advances of Rs. 3,157 crore for the aforementioned period. The liquidity profile is also supported by SCCL's good financial flexibility by virtue of its parentage.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The ratings could be downgraded or put on a Negative outlook if there is a significant deterioration in the credit profile of the parent or a reduction in the support from the parent entity. Also, any significant deterioration in the company's asset quality and profitability metrics would remain a key monitorable.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Company Impact of Parent or Group Support on an Issuer's Credit Rating Policy on Withdrawal of Credit Ratings
Parent/Group support	Parent/Group Company: Standard Chartered Bank, UK The ratings derive significant strength from the company's ultimate parentage in the form of SCB, UK. SCCL also enjoys a high level of operational synergies with its parent, with access to senior management guidance and robust risk management systems and standards. ICRA expects liquidity support from the parent to be forthcoming, if required.
Consolidation/Standalone	Standalone

About the company

SCCL was incorporated in October 2003 by SCB, UK, as its wholly-owned subsidiary. SCCL was registered with the Reserve Bank of India (RBI) as a non-banking financial company not accepting public deposits in February 2004. The Standard Chartered Group has management control over SCCL. SCCL's board of directors comprises, among others, personnel from the Group's senior management.

SCCL's portfolio stood at Rs. 5,137 crore as on December 31, 2022. It reported a profit after tax (PAT) of Rs. 77.4 on a total asset base of Rs. 5,494 crore crore in 9M FY2023 compared to a PAT of Rs. 91 crore on a total asset base of Rs. 4,731 crore as on March 31, 2022. The share of Corporate and Institutions (C&I), Corporate Borrowers (CB), Private Banking (PB) and Retail stood at 16%, 35%, 24% and 24%, respectively, of the portfolio as on December 31, 2022.

Key financial indicators (audited)

Standard Chartered Capital Limited	Mar-20	Mar-21	Mar-22	9M FY2023
	Audited	Audited	Audited	Provisional*
Total income	270	255	307	337
Profit after tax	77	64	91	77
Net worth	911	975	1,066	1,128
Loan book	2,080	3,018	4,413	5,137
Total assets	2,528	3,309	4,731	5,494
Return on assets	3.1%	2.2%	2.3%	2.0%
Return on net worth	8.8%	6.8%	8.9%	9.3%
Managed gearing (times)	1.7	2.3	3.4	3.7
Gross NPA %	0%	0.49%	0.31%	0.24%
Net NPA %	0%	0.21%	0.16%	0.05%
Solvency (Net NPA/Net worth)	0%	0.66%	0.65%	NA
CRAR	40%	31%	24%	21%

Source: SCCL, ICRA Research
Note: Amount in Rs. crore; All calculations are as per ICRA Research
** Provisional numbers basis abridged financials as stated in entity's 9M FY2023 results*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of May 26, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 29, 2023	May 30, 2022 May 09, 2022	Sept 06, 2021 June 02, 2021	Apr 20, 2020
1	Non-convertible debentures	LT	150	0	[ICRA]AAA (Stable); Reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-convertible debentures	LT	850	245	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Commercial paper	ST	4,500	3,095	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

LT – Long term, ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Simple
Commercial paper programme	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 as on May 26, 2023

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE403G07079	NCD	May-29-2020	7.65%	May-29-2023	195	[ICRA]AAA (Stable)
INE403G07087	NCD	Mar-24-2023	8.80%	Apr-23-2024	50	[ICRA]AAA (Stable)
INE403G07061	NCD	Jul-25-2019	8.65%	Jul-25-2022	150	[ICRA]AAA (Stable); Reaffirmed and withdrawn
Yet to be placed*	NCD	NA	NA	NA	605	[ICRA]AAA (Stable)
INE403G14QX6	CP	May-18-2023	7.99	Oct-20-2023	50.00	[ICRA]A1+
INE403G14QR8	CP	Apr-05-2023	7.83	Jul-20-2023	205.00	[ICRA]A1+
INE403G14QE6	CP	Nov-16-2022	8.70	Sep-15-2023	100.00	[ICRA]A1+
INE403G14QQ0	CP	Mar-20-2023	8.05	Jun-19-2023	20.00	[ICRA]A1+
INE403G14QA4	CP	Sep-27-2022	7.99	Jun-09-2023	60.00	[ICRA]A1+
INE403G14QF3	CP	Nov-17-2022	8.70	Sep-08-2023	150.00	[ICRA]A1+
INE403G14QU2	CP	Apr-28-2023	7.60	Jul-26-2023	120.00	[ICRA]A1+
INE403G14QY4	CP	May-18-2023	7.55	Aug-17-2023	85.00	[ICRA]A1+
INE403G14QX6	CP	May-19-2023	7.99	Oct-20-2023	80.00	[ICRA]A1+
INE403G14PX8	CP	Sep-05-2022	7.75	May-26-2023	45.00	[ICRA]A1+
INE403G14PZ3	CP	Sep-23-2022	7.99	Jun-15-2023	20.00	[ICRA]A1+
INE403G14PZ3	CP	Sep-27-2022	7.99	Jun-15-2023	105.00	[ICRA]A1+
INE403G14QG1	CP	Nov-17-2022	8.80	Nov-14-2023	300.00	[ICRA]A1+
INE403G14QN7	CP	Feb-20-2023	8.45	Aug-22-2023	100.00	[ICRA]A1+
INE403G14QR8	CP	Apr-20-2023	7.53	Jul-20-2023	135.00	[ICRA]A1+
INE403G14QV0	CP	May-11-2023	7.60	Aug-10-2023	170.00	[ICRA]A1+
INE403G14QG1	CP	May-11-2023	7.99	Nov-14-2023	75.00	[ICRA]A1+
INE403G14QU2	CP	Apr-27-2023	7.60	Jul-26-2023	100.00	[ICRA]A1+
INE403G14QO5	CP	Mar-08-2023	8.30	Jun-07-2023	150.00	[ICRA]A1+
INE403G14QP2	CP	Mar-09-2023	8.65	Sep-05-2023	125.00	[ICRA]A1+
INE403G14QQ0	CP	Mar-23-2023	8.10	Jun-19-2023	130.00	[ICRA]A1+
INE403G14QT4	CP	Apr-21-2023	7.53	Jul-21-2023	210.00	[ICRA]A1+
INE403G14QI7	CP	Dec-08-2022	8.00	Jun-06-2023	25.00	[ICRA]A1+
INE403G14QI7	CP	Feb-13-2023	8.03	Jun-06-2023	25.00	[ICRA]A1+
INE403G14QA4	CP	Sep-27-2022	7.99	Jun-09-2023	60.00	[ICRA]A1+
INE403G14QN7	CP	Feb-20-2023	8.45	Aug-22-2023	110.00	[ICRA]A1+
INE403G14QN7	CP	Feb-21-2023	8.45	Aug-22-2023	75.00	[ICRA]A1+
INE403G14QE6	CP	Nov-16-2022	8.70	Sep-15-2023	50.00	[ICRA]A1+
INE403G14QX6	CP	May-18-2023	7.99	Oct-20-2023	75.00	[ICRA]A1+
INE403G14QW8	CP	May-11-2023	7.99	Oct-25-2023	75.00	[ICRA]A1+
INE403G14QQ0	CP	Mar-20-2023	8.05	Jun-19-2023	15.00	[ICRA]A1+
INE403G14QS6	CP	Apr-12-2023	8.00	Apr-11-2024	50.00	[ICRA]A1+
Yet to be placed*	CP	NA	NA	NA	1,405	[ICRA]A1+

*Source: SCCL *Proposed; CP – Commercial paper, NCD – Non-convertible debentures*

Annexure II: List of entities considered for consolidated analysis- Not Applicable

Corrigendum:

Document dated May 29, 2023, has been corrected with revision as detailed below:

- Rating history for the past 3 years (page 4): Rating date for FY2023 changed from May 30, 2023 and May 09, 2023 to May 30, 2022 and May 09, 2022 respectively.
- Analytical Approach (pg-3): Updated the link for withdrawal policy

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