

December 29, 2023

Sundaram Alternate Assets 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	39.00	39.00	[ICRA]AA (Stable); Reaffirmed
Short-term bank facilities	5.00	5.00	[ICRA]A1+; Reaffirmed
Total	44.00	44.00	

*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) and SAMC Services Private Limited (SSPL; erstwhile Principal Retirement Advisors 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 the parent, Sundaram Finance Limited (SFL; rated [ICRA]AAA (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 Sundaram Finance (SFL) Group for meeting any operational and regulatory capital or liquidity requirements.

The ratings take cognizance of the moderate average assets under management (AAUM; including SAMS) of Rs. 55,648 crore in FY2023 (Rs. 46,630 crore in FY2022 and Rs. 36,962 crore in FY2021), 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 Group's debt metrics in FY2022. However, the Group's total debt/OPBDITA and net cash accruals (NCA)/total debt improved to 0.8x and 64%, respectively, as of March 31, 2023 from 1.2x and 51%, respectively, as of March 31, 2022, supported by healthy internal accruals and reducing debt levels.

The ratings factor in the improvement in the Group's net profitability indicators with a net profit of Rs. 73.1 crore in FY2023 vis-à-vis Rs. 71.6 crore in FY2022 (Rs. 55.1 crore in FY2021). The Group has benefitted from the acquisition of Principal AMC, supported by the increase in the scale of operations, which led to better operating efficiency, though it was impacted by the sizeable amortisation of goodwill recognised during the acquisition. The ability to maintain the operating costs on a sustained basis would be crucial from an earnings perspective.

Key rating drivers and their description

Credit strengths

Support from SFL Group – The 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 regulatory requirement¹. Both SAMCL and SAAL leverage the SFL Group's established business presence and systems for business growth and operations and have

¹ 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

representatives from the parent on their boards. Group entities such as Sundaram Fund Services Limited (SFSL) help render registrar and transfer agent services and fund accounting services for SAMCL as well as SAAL. SFSL's fund account business is to be merged with SAMCL while SSPL will be merged with SAAL, which would strengthen the financial performance of the company, going forward.

SAMCL had raised funds via redeemable preference shares from a Group entity in the past. The SFL Group had also supported SAMCL for the acquisition of the 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. As 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 – SAMCL has a demonstrated track record of over 27 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, and 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 (MD); SAMCL) and Mr. Vikas M Sachdeva (MD; SAAL).

On a consolidated basis, the AAUM (excluding SAMS) stood at Rs. 47,135 crore in FY2023, with MFs comprising 91%, followed by PMS and AIF at 5.0% and 4.0%, respectively. Within MFs, the share of the equity segment improved to 83% as of March 2022 (77% of March 2022) while it was 52% as of March 2023 at the MF industry level. SAMCL's wholly-owned subsidiary, i.e. SAMS, manages four funds currently and had an AUM of Rs. 8,224 crore as of September 2023.

Credit challenges

Moderate AUM; intense competition – The Group's AAUM increased to Rs. 55,648 crore in FY2023 (Rs. 46,630 crore in FY2022 and Rs. 36,962 crore in FY2021), partly supported by new fund launches and the improvement in the overall market performance. The overall growth in the AAUM was also supported by the AIF segment, which grew by 11% year-on-year (YoY) in FY2023. 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 ~56% in September 2023. Given the intense competition in the operating environment, the 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 – On a consolidated basis, the operating income increased by ~9% in FY2023 and the net profitability increased to Rs. 73.1 crore (Rs. 71.6 crore in FY2022²). The Group has benefitted from the acquisition of Principal AMC, supported by the increase in the scale of operations, which led to better operating efficiency, though it was impacted by the sizeable amortisation of goodwill recognised during the acquisition. ICRA notes that MFs have significant regulatory restrictions regarding fee/commission payments to their sponsor AMCs as well as the other costs that can be incurred by them. As such, the ability to scale up the AUM and keep the operating costs under control would be crucial to maintain healthy profitability metrics on a sustained basis. Further, ICRA notes the recent regulatory changes in the AIF industry; the impact of the same on the growth would be a monitorable.

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 the last few years (0.8x and 64%, respectively, as of March 2023 and 1.1x and 58%, respectively, as of March 2022). While ICRA notes that the debt metrics, post the acquisition, had improved in FY2023, they are expected to improve further in subsequent years. Moreover, the amortisation of the asset management rights (Rs. 206.0 crore as of March 2023) and finance charges due to higher debt levels would impact the net profitability, going

² Consolidated with effect from December 31, 2021

forward. As the asset management industry, including the AIF business, is dynamic from a regulatory perspective, 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. 130 crore as of September 30, 2023 against debt repayment obligations of ~Rs. 19 crore in the next six months. Further, the healthy cash flow from operations, the long-term nature of the liabilities and funding support from Group companies, if required, would support the liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade the rating in case of a steady increase in the Group’s market position. 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 the SAMCL Group’s financial performance or a deterioration in SFL’s risk profile would also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA’s Corporate Credit Rating Methodology Rating Approach – Consolidation Rating Approach – Implicit Support from Parent or Group
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

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. 4,861 crore as of March 31, 2023.

Sundaram Asset Management Company Limited

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 net assets under management of Rs. 43,285 crore in March 2023. SAMCL has 86 customer care centres spread across 20 states in India along with offices in Singapore and Dubai. It has three wholly-owned subsidiaries, India-based SAAL, SSPL & Singapore-based SAMS. In FY2024, two of the three Principal Group companies that were acquired in FY2022 were liquidated while SSPL is to be merged with SAAL.

Key financial indicators (audited)

SAMCL consolidated	FY2021	FY2022	FY2023
Operating income	288.2	342.2	372.3
PAT	55.1	71.6	73.1
OPBDITA/OI	29.1%	34.9%	38.5%
PAT/OI	19.1%	20.9%	19.6%
Total outside liabilities/Tangible net worth (times)	0.4	0.6	0.5
Total debt/OPBDITA (times)	0.7	1.2	0.8
Interest coverage (times)	17.1	18.1	11.0

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 (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Dec 29, 2023	Oct 20, 2022	Aug 30, 2021	Feb 08, 2021	Nov 30, 2020
1 Long-term fund based – Term loan	Long term	39.00	39.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2 Long-term bank facilities – Unallocated	Long term	-	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3 Short-term bank facilities	Short term	5.00	5.00	[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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan	April-2023	-	April-2026	25.00	[ICRA]AA (Stable)
-	Term loan- unallocated	NA	-	NA	14.00	[ICRA]AA (Stable)
-	Short-term bank facilities	NA	-	NA	5.00	[ICRA]A1+

Source: SAAL

[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*Until FY2023, liquidated in FY2024; #To be merged with SAAL with effect from FY2022

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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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