

August 06, 2024

## SMFG India Credit Company Limited: [ICRA]AAA (Stable) assigned for enhanced amount; rating withdrawn for unutilised limits

### Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based bank lines	17,000.0	25,000.0	[ICRA]AAA (Stable); assigned/outstanding
Principal protected market Linked Non-convertible debentures	844.5	0	PP-MLD [ICRA]AAA (Stable); withdrawn
Principal protected market Linked Non-convertible debentures	155.5	155.5	PP-MLD [ICRA]AAA (Stable); outstanding
Non-convertible debentures programme	6,694.0	6,694.0	[ICRA]AAA (Stable); outstanding
Subordinated debt programme	1,150.0	1,150.0	[ICRA]AAA (Stable); outstanding
Issuer rating	-	-	[ICRA]AAA (Stable); outstanding
Commercial paper programme	4,500.0	4,500.0	[ICRA]A1+; outstanding
Short-term Debt Programme	1,000.0	1,000.0	[ICRA]A1+; outstanding
Retail Non-convertible Debentures	2,000.0	2,000.0	[ICRA]AAA (Stable); outstanding
<b>Total</b>	<b>33,344.0</b>	<b>40,499.5</b>	

\*Instrument details are provided in Annexure I

### Rationale

For arriving at the ratings, ICRA has considered the consolidated business and financial profile of SMFG India Credit Company Limited (SMICC) and its wholly owned subsidiary, SMFG India Home Finance Company Limited (SMHFC), collectively referred to as the Group, as these entities have significant operational and management linkages and operate under the common SMFG brand.

The ratings factor in the Group's diverse product mix, the strong growth across segments over the past two years, high share of the retail loan book, the strong liquidity position, the diversified funding profile and the financial flexibility arising from being a part of the SMFG Group. ICRA also favourably notes the good asset quality indicators (consolidated gross stage 3 (GS3) and net stage 3 (NS3) of 2.5% and 1.3%, respectively, as on March 31, 2024). However, the relatively large proportion of unsecured loans in the managed portfolio (52% as of March 31, 2024) makes the asset quality vulnerable.

The ratings also factor in the relatively modest capitalisation profile (consolidated managed gearing of ~7.1 times as on March 31, 2024), aided by good internal accruals and capital support from SMFG. ICRA believes that a prudent capitalisation level is one of the key mitigants against delinquencies and the other credit risks associated with the lending business and expects that support from SMFG, if required, would be forthcoming considering the growth plans of the Group. The capitalisation has improved following the equity capital infusion of Rs. 1,300 crore by SMFG in April 2024. Further, the Group's ability to improve the cost to income ratio, manage recoveries, while arresting fresh slippages and thus keeping a check on the credit costs, will have a bearing on its overall earnings profile (3-year average RoMA of 1.2%).

The ratings for the Group continue to draw significant strength from its parentage, Sumitomo Mitsui Financial Group, Inc (SMFG; rated A1 /Stable by Moody's) holding a 100% stake in SMICC. SMFG has a track record of providing need based equity/debt capital support and representation in the board of directors.

The Stable outlook reflects ICRA's expectations that SMFG India group will continue to remain strategically important to the parent and support from parent would be forthcoming, as and when required. It also reflects ICRA's expectations that the

company will continue to report good asset quality while maintain a diverse product and funding mix and strong liquidity profile.

ICRA has withdrawn the rating assigned to the Rs. 844.5 crore principal protected market linked debenture non-convertible debenture programme with no amount outstanding against the rated instrument. The withdrawal is in accordance with ICRA's policy on withdrawal of credit ratings.

## Key rating drivers and their description

### Credit strengths

**Strong parentage and strategic importance to SMFG; supports financial flexibility** – SMICC is 100% held by SMFG as on March 31, 2024 (SMFG previously held a 74.9% stake since November 2021 and acquired balance 25.1% stake in March 2024). The ratings consider strong support from SMFG, one of the largest diversified financial groups in Japan. Sumitomo Mitsui Banking Corporation (SMBC), one of the core units of SMFG, is one of the largest Japanese banks, has a presence in India but is largely restricted to wholesale banking. SMFG is expected to expand its presence in the domestic retail segment through SMICC. SMFG has demonstrated track record of providing need based equity/debt capital support (latest equity capital infusion of Rs. 1,300 crore concluded in April 2024) and managerial representation in the board of directors. ICRA expects SMFG to continue to provide financial support to help SMICC maintain a comfortable capitalisation and liquidity profile. The Group maintains a diversified lender base with low reliance on short-term funding and adequate on-balance sheet liquidity.

The funding mix is fairly diversified across various sources such as bank loans (61% of borrowings as on March 31, 2024), capital market borrowings (26%), overseas borrowings (13%). The Group's financial flexibility is further supported by SMFG's vast network in domestic and international markets for raising debt funds, as reflected in the healthy share of overseas borrowings.

**Adequate capitalisation profile; maintaining capital buffers in view of growth plans is key** – The Group's capitalisation levels have remained adequate for the current scale of operations, mainly supported by improved internal accruals and supplemented by capital and perpetual debt support from SMFG. The consolidated AUM grew by 24% to 45,441 as on March 31, 2024 from Rs. 36,613 crore as on March 31, 2023 driven by growth in home loan, digital finance, urban loans against property (LAP) and rural group loans among other segments. Consequently, the gearing increased to 7.1 times on March 31, 2024 from 6.8 times on March 31, 2023. However, the gearing has declined following the latest capital infusion of Rs. 1,300 crore in April 2024 by SMFG; nevertheless, expected to increase with growth in business. SMICC on a standalone basis reported CRAR of 17.3% (Tier-I – 13.5%) compared to regulatory requirements of 15% (Tier I - 10%). Nonetheless, the Group may need external capital given the business growth plans, while maintaining prudent capitalisation level due to the higher risk weights associated with unsecured loans. ICRA expects capital support from the parent to be forthcoming, as and when required, to enable it to maintain an adequate capitalisation profile.

### Credit challenges

**Pressure on earnings profile due to modest, albeit improving, asset quality** – SMICC has a significant proportion of unsecured loans in the portfolio mix (52% as of March 2024), which makes the asset quality vulnerable. Nonetheless, the consolidated asset quality indicators for the Group improved over the past year to gross stage 3% and net stage 3% of 2.5% and 1.3%, respectively as on March 31, 2024 from 3.2% and 1.5% respectively as on March 31, 2023 on account of controlled slippages, recoveries and write-offs in the unsecured segments. Nonetheless, the solvency indicator (net stage 3/net worth) improved to 8.6% as on March 31, 2024 from 9.4% as on March 31, 2023 due to augmentation of net worth. ICRA notes that SMICC also has a 100% write-off policy on its unsecured loans at 120 days past due (dpd). The company incurred net write offs of Rs. 1,180 crore in FY2024 compared to Rs. 703 crore in FY2023 and Rs. 2,487 crore in FY2022. Overall, Group's ability to arrest fresh slippages while maintaining business volumes would have a bearing on its overall financial profile and would be a key monitorable.

The group’s net interest margins (NIMs) improved due to more than commensurate increase in yields compared with the rise in the cost of funds. At the same time, sizeable write-offs resulted in credit costs of 2.8% of AMA (average managed assets) in FY2024 against 3-year average of 2.6% during FY2022-24. Further, elevated levels of operating expenses primarily on account of branch expansion and technology upgradation resulted in decline in return on managed Assets (RoMA) to 1.4% in FY2024 from 2.0% in FY2023. Going forward, the Group’s ability to grow the loan book while maintaining the improved profitability profile through controlled slippages and operating expenses will be a key rating monitorable.

### Liquidity position: Strong

SMICC’s liquidity profile remains strong at the consolidated level. The Group’s cash flow from its short-term assets augurs well for its liquidity profile. As on April 30, 2024, total debt obligations (including interest) over the next six months stood at ~Rs. 6,700 crore against which the expected inflows from advances stood at ~Rs. 11,400 crore. Additionally, liquidity profile is supported by cash and liquid investments of Rs. 5,032 crore and unutilised bank lines of ~Rs. 4,000 crore as on April 30, 2024. The Group enjoys healthy financial flexibility for mobilising funding through diverse sources on the back of its strong parentage.

### Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – The ratings could be downgraded on a material change in the expected level of support or a material deterioration in the credit risk profile of SMFG. The ratings could also face pressure on a material deterioration in the asset quality or on a material increase in its managed gearing levels on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">ICRA’s Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">Policy on withdrawal of credit ratings</a>
Parent/Group support	Parent/Investor: Sumitomo Mitsui Financial Group, Inc ICRA factors in the shared brand name and support that the SMICC Group will receive from SMFG as it acts as its retail entry in India. The group enjoys strong financial and operational support from SMFG, which, in the past, has included access to capital, debt support and supervision.
Consolidation/Standalone	Consolidation. <i>Details are mentioned in Annexure II.</i>

### About the company

SMFG India Credit Company Limited (SMICC) commenced its operations in January 2006 catering primarily to self-employed borrowers. SMICC is wholly owned by SMFG. SMICC’s secured lending portfolio consists of mortgage loans to retail customers and small and medium enterprises (SMEs), commercial vehicle (CV) loans and secured rural loans such as two-wheeler loans, CV and mortgage loans. The unsecured portfolio comprises personal loans to salaried and self-employed individuals, and group and individual loans in the rural space.

As on March 31, 2024, the company is 100% held by SMFG. SMFG acquired 74.9% stake in November 2021, and balance 25.1% acquired from Angelica Investments Pte. Ltd. in March 2024.

Sumitomo Mitsui Financial Group, Inc (SMFG) is the holding company of one of the largest global banking and financial service groups, offering a diverse range of financial services, including commercial banking, leasing, securities and consumer finance. SMFG’s total assets stood at ~Rs. 162 trillion on March 31, 2024 with a net profit of Rs. 449 billion in FY2024. SMFG has a legacy of 4 centuries in Japan.

**Key financial indicators (audited)**

SMFG India Credit Company Limited (consolidated)	FY2022	FY2023	FY2024
Total income	4,093	5,714	8,083
Profit after tax	74	710	670
Total assets	27,244	40,845	48,411
Return on average managed assets	0.3%	2.0%	1.4%
Managed gearing (times)	5.0	6.8	7.1
Gross stage 3	6.7%	3.2%	2.5%

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

**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)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		
			Aug-06-24	Jun-13-24	Jun-13-2023	Dec-16-2022	Mar-04-2022	Jul-12-2021	Jun-30-2021
<b>1 Long-term bank lines</b>	Long Term	25,000	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA &	[ICRA]AAA (Stable)
<b>2 Commercial paper programme</b>	Short Term	4,500	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
<b>3 Retail non-convertible debenture</b>	Long Term	2,000	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA &	[ICRA]AAA (Stable)
<b>5 Non-convertible debenture</b>	Long Term	6,694	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA &	[ICRA]AAA (Stable)
<b>6 Issuer rating</b>	Long Term	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA &	-
<b>7 Subordinated debt programme</b>	Long Term	1,150	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA &	[ICRA]AAA (Stable)
<b>8 Short-term debt programme</b>	Short Term	1,000	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
<b>9 Principal protected market linked non-convertible debentures</b>	Long Term	155.5	PP-MLD [ICRA]AAA (Stable)*	PP-MLD [ICRA]AAA (Stable)	PP-MLD [ICRA]AAA (Stable)	PP-MLD [ICRA]AAA (Stable)	-	-	-

Source: Company; &: Under Watch with Developing Implications; \*withdrawn for Rs. 844.5 crore

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable
Long-term Fund-based Bank Lines	Simple
Non-convertible Debentures	Simple
Commercial Paper Programme	Very Simple
Short-term Debt Programme	Simple
Subordinated Debt Programme	Simple
Retail Non-convertible Debentures	Simple
Principal Protected Market Linked Non-convertible Debentures	Complex

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 June 30, 2024**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE535H07BM2	Non-convertible Debenture	28-Mar-2022	6.80%	28-Mar-2025	300	[ICRA]AAA (Stable)
INE535H07BN0	Non-convertible Debenture	02-May-2022	7.30%	02-May-2025	350	[ICRA]AAA (Stable)
INE535H07BQ3	Non-convertible Debenture	21-Jul-2022	Repo + 2.0%	21-Jul-2025	250	[ICRA]AAA (Stable)
INE535H07BR1	Non-convertible Debenture	28-Jul-2022	7.90%	28-Jul-2025	500	[ICRA]AAA (Stable)
INE535H07BM2	Non-convertible Debenture	22-Nov-2022	6.80%	28-Mar-2025	250	[ICRA]AAA (Stable)
INE535H07BS9	Non-convertible Debenture	15-Nov-2022	8.30%	15-Nov-2032	75	[ICRA]AAA (Stable)
INE535H07BS9	Non-convertible Debenture	6-Mar-2023	8.30%	15-Nov-2032	50	[ICRA]AAA (Stable)
INE535H07BY7	Non-convertible Debenture	24-Mar-2023	8.54%	24-Mar-2025	400	[ICRA]AAA (Stable)
INE535H07BZ4	Non-convertible Debenture	24-Mar-2023	8.54%	24-Feb-2025	300	[ICRA]AAA (Stable)
INE535H07BX9	Non-convertible Debenture	24-Mar-2023	8.54%	19-Feb-2025	300	[ICRA]AAA (Stable)
INE535H07CC1	Non-convertible Debenture	29-Jan-2024	8.31%	29-Jul-2025	200	[ICRA]AAA (Stable)
INE535H07CD9	Non-convertible Debenture	29-Jan-2024	8.30%	28-Feb-2025	360	[ICRA]AAA (Stable)
INE535H07CG2	Non-convertible Debenture	02-May-2024	8.30%	15-Sep-2025	500	[ICRA]AAA (Stable)
INE535H07CHO	Non-convertible Debenture	03-Jun-2024	8.28%	12-Mar-2027	525	[ICRA]AAA (Stable)
INE535H07CI8	Non-convertible Debenture	10-Jun-2024	8.30%	8-Jun-2029	50	[ICRA]AAA (Stable)
NA	Non-convertible Debenture*	-	-	-	2,284	[ICRA]AAA (Stable)
INE535H08587	Subordinated Debt	26-Dec-2014	9.60%	26-Dec-2024	50	[ICRA]AAA (Stable)
INE535H08637	Subordinated Debt	13-Oct-2015	9.50%	13-Oct-2025	100	[ICRA]AAA (Stable)
INE535H08751	Subordinated Debt	25-Jun-2021	7.70%	25-Jun-2031	150	[ICRA]AAA (Stable)
INE535H08769	Subordinated Debt	12-Aug-2021	7.60%	12-Aug-2031	100	[ICRA]AAA (Stable)
INE535H08777	Subordinated Debt	1-Oct-2021	7.60%	1-Oct-2031	50	[ICRA]AAA (Stable)
INE535H08793	Subordinated Debt	23-Dec-2022	8.40%	23-Dec-2032	50	[ICRA]AAA (Stable)
INE535H08793	Subordinated Debt	29-Mar-2023	8.40%	23-Dec-2032	100	[ICRA]AAA (Stable)
NA	Subordinated Debt*	-	-	-	550	[ICRA]AAA (Stable)
NA	Long-term Bank Lines	2018-2019	-	2028-2029	17,583.22	[ICRA]AAA (Stable)
NA	Long-term Bank Lines*	-	-	-	7,416.78	[ICRA]AAA (Stable)
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AAA (Stable)
NA	Retail Non-convertible Debenture Programme*	-	-	-	2,000	[ICRA]AAA (Stable)
NA	Short-term Debt Programme*	-	-	7-365 days	1,000	[ICRA]A1+
INE535H07BT7	Principal Protected Market Linked Non-convertible Debentures	16-Dec-2022	G-Sec linked	16-Dec-2025	103	PP-MLD [ICRA]AAA (Stable)
INE535H07BV3	Principal Protected Market Linked Non-convertible Debentures	25-Jan-2023	10-yr IGB price 7 point 26	24-Jan-2025	52.5	PP-MLD [ICRA]AAA (Stable)
NA	Principal Protected Market Linked Non-convertible Debentures*	-	-	-	844.5	PP-MLD [ICRA]AAA (Stable); withdrawn
INE535H14IW2	Commercial Paper Programme	25-Apr-2024	NA	24-Jul-2024	250	[ICRA]A1+
INE535H14IX0	Commercial Paper Programme	06-Jun-2024	NA	06-Jan-2025	200	[ICRA]A1+
INE535H14IY8	Commercial Paper Programme	24-Jun-2024	NA	23-Sep-2024	500	[ICRA]A1+
INE535H14IX0	Commercial Paper Programme	26-Jun-2024	NA	06-Jan-2025	250	[ICRA]A1+
NA	Commercial Paper Programme*	-	-	7-365 days	3,300	[ICRA]A1+

Source: Company; \*Unutilised

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**Annexure II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
SMFG India Credit Company Limited	Holding company	Full consolidation
SMFG India Home Finance Company Limited	100%	Full consolidation

Source: Company

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