

September 18, 2024

Sundaram Home Finance Limited: Ratings reaffirmed/assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term bank facilities	5,759.16	6,009.16	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed/assigned for enhanced amount
Non-convertible debentures	3,153.60	3,153.60	[ICRA]AAA (Stable); reaffirmed
	495.00	0.00	[ICRA]AAA (Stable); reaffirmed and withdrawn
	0.00	2,000.00	[ICRA]AAA (Stable); assigned
Subordinated debt	70.00	70.00	[ICRA]AAA (Stable); reaffirmed
	0.00	200.00	[ICRA]AAA (Stable); assigned
Fixed deposits	-	-	[ICRA]AAA (Stable); reaffirmed
Commercial paper	1,500.00	1,500.00	[ICRA]A1+; reaffirmed
Total	10,977.76	12,932.76	

*Instrument details are provided in Annexure I

Rationale

To arrive at the ratings of Sundaram Home Finance Limited (SHFL), ICRA has taken a consolidated view of the Sundaram Finance Limited (SFL) Group (SFL Group/the Group), given the business-level synergies, financial interlinkages, and the management overlap between the Group entities.

The ratings consider the SFL Group's demonstrated track record of steady and profitable growth across business cycles, its experienced senior management team and its established franchise. The ratings factor in the Group's comfortable funding and strong liquidity profile, backed by its ability to raise funds from diverse sources at competitive rates. The ratings also take into consideration the Group's comfortable capitalisation profile, with SFL and SHFL having a Tier I capital of 16.2% and 19.3%, respectively, as of June 2024.

At the consolidated level, the SFL Group has a presence in the vehicle and mortgage (housing and non-housing) financing segments and offers various other financial services, including insurance and asset management. Its consolidated loan assets under management (AUM) stood at Rs. 59,882 crore as of June 2024, with vehicle finance (including construction equipment), mortgage finance and others accounting for 67%, 24% and 9%, respectively. The Group's growth has been driven by its focus on maintaining good asset quality while generating stable business returns.

The SFL Group's gross stage 3 (GS3) was stable at 1.2% as of March 2024 and 1.8% as of March 2023, improving from 2.4% as of March 2022 and the peak of 5.0% as of June 2021, as performance improved steadily post the impact of the Covid-19 pandemic. It had moderated to 1.5% as of June 2024. The standard restructured book was 0.6% of the AUM as of June 2024. SFL had augmented its consolidated provisions steadily during the pandemic. With the improvement in the asset quality since Q2 FY2022, provisions/AUM moderated to 1.2% as of June 2024 as well as March 2024 from 2.1% as of March 2022.

The Stable outlook reflects the diverse business segments of the Group with stable profitability and comfortable capitalisation, which should support the growth, going forward.

ICRA has also withdrawn the long-term rating on the Rs. 495.00-crore non-convertible debentures (NCDs) in accordance with its policy on the withdrawal of credit ratings as the instruments have matured and have been fully repaid.

Key rating drivers and their description

Credit strengths

Established track record in lending and financial services businesses; presence in diverse segments – The SFL Group provides a wide range of financial services, including vehicle finance, housing finance, asset management and insurance among others. The Group, with its operational history of almost seven decades, has a demonstrated track record across business cycles without a significant deterioration in its overall risk profile, supported by its good understanding of the target segments and experienced management team. It has established relationships with its customers [a sizeable share of the commercial vehicle (CV) borrowers comprises repeat customers], which, along with the conservative underwriting norms and robust collection and recovery mechanism, have supported its business risk profile over the past six decades. The consolidated AUM of the lending businesses stood at Rs. 59,882 crore as of June 2024, up by 22.3% year-on-year (YoY). The Group envisages to grow its loan portfolio by around 15% in the medium term.

SFL's portfolio mix broadly remained range-bound over the past three years with CVs accounting for 46.4% of the AUM as of June 2024, followed by cars (24.0%), construction equipment (10.7%), tractors (7.3%) and others (11.5%, including commercial lending of 6.6%). The share of used vehicles increased to 18.6% as of June 2024 and 18.3% as of March 2024 from 13.7% as of March 2018.

SHFL, SFL's wholly-owned subsidiary, is involved in housing finance. It reported an AUM of Rs. 14,533 crore as of June 2024, up 20.9% in Q1 FY2025 and 23.5% in FY2024 vis-à-vis 17.8% in FY2023 and 3.5% in FY2022. Housing loans (HLs) and non-housing loans contributed ~61% and ~39%, respectively, to the AUM as of June 2024. Sundaram Asset Management Company Limited {SAMCL; rated [ICRA]AA (Stable)} reported an AUM of Rs. 70,883 crore as of March 2024 vis-à-vis Rs. 54,719 crore as of March 2023.

In the lending business (SFL & SHFL), the Group is expected to focus on the existing target segments for its near-to-medium-term growth.

Adequate profitability indicators; margins to remain under pressure in the near term – The SFL Group's net profitability has remained range-bound with profit after tax (PAT)¹/average managed assets (AMA) of 2.4% in Q1 FY2025, 2.3% in FY2024 and 2.4% in FY2023. The net interest margin stood at 4.2% in Q1 FY2025 and 4.6% in FY2024 vis-à-vis 4.4% in FY2023, while credit costs stood at 0.3% in Q1 FY2025 and 0.4% in FY2024 vis-à-vis 0.3% in FY2023. The Group's profitability is expected to remain stable, notwithstanding the pressure on its margin in the near term.

On a standalone basis, SHFL reported net profitability 1.8% in Q1 FY2025 as well as FY2024 vis-à-vis 1.9% in FY2023, supported largely by lower credit costs.

Comfortable capitalisation profile – SFL's consolidated gearing stood at 4.7 times as of June 2024 and 4.7 times as of March 2024 (4.3 times as of March 2023²). The capitalisation profiles of SFL and SHFL look comfortable with the Tier I at 16.2% and 19.3%, respectively, as of June 2024. ICRA notes that the Group's internal accruals are expected to keep the capital structure at a comfortable level, sufficient for its medium-term growth expectations.

Comfortable asset quality – SFL has a track record of keeping its asset quality under control across business cycles. The Group's GS3 was adversely impacted by the pandemic, but it improved steadily since Q2 FY2022 to 1.2% as of March 2024 (1.8% as of March 2023) from 2.4% as of March 2022 and the peak of 5.0% as of June 2021. As of June 2024, it stood at 1.5%. The outstanding restructured book reduced significantly to 0.9% (standard restructured: 0.6%) of the AUM as of June 2024. With the improvement in the asset quality in the recent past, provisions/AUM moderated to 1.2% as of June 2024 as well as March 2024 from 2.1% as of March 2022 and the peak of 2.5% as of December 2021 due to provision reversals and write-offs. Overall,

¹ Before adjustment of non-controlling interest in associates and joint ventures

² Net worth excluding minority interest

the Group's current provision coverage is adequate, with some cushion for incremental slippages and write-offs from its restructured/stressed portfolio.

On a standalone basis, SHFL's GS3 was 1.4% as of June 2024 vis-à-vis 1.2% as of March 2024 (2.3% as of March 2023). The overall provision cover stood at 1.6% of the portfolio as of June 2024. Also, SHFL's outstanding restructured book moderated to 2.3% as of June 2024 from 3.9% as of March 2023.

Credit challenges

Competitive business environment; regionally concentrated portfolio – The SFL Group has a concentrated portfolio with the southern region accounting for ~61% as of June 2024. SFL and SHFL face competition from banks and other non-banking financial companies (NBFCs) in their key target asset segments, namely CV, passenger vehicle (PV) and HL, which could lead to margin pressure. While the Group's earnings profile has remained stable, its ability to maintain the profitability indicators in a competitive business environment and keep the asset quality under control would be critical from a rating perspective.

Environmental and social risks

Given the service-oriented business of the SFL Group, its direct exposure to environmental risks/material physical climate risks is not significant. While lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, such risks are not material for the SFL Group as its incremental lending operations encompass a well-diversified portfolio of products. Nevertheless, there is increasing interest from policymakers towards identifying the exposure of financing companies to carbon emissions through their financing activities. This process is, however, in an early stage and ICRA expects any adverse implications to manifest only over a longer time horizon, giving financing companies adequate time to adapt and minimise the credit implications.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for lending institutions as material lapses could be detrimental to their reputation and invite regulatory censure. The Group has not faced such lapses over the years, which highlights its sensitivity to such risks. Also, the disclosures made by the Group outline the key policies, processes, and investments made by it to mitigate the occurrence of such instances. ICRA also notes that customer preferences are increasingly shifting towards digital modes, providing the opportunity to reduce the operating costs. In this regard, the SFL Group is enhancing its processes backed by digitisation and is making investments to improve its digital interface with its customers. Moreover, while the company contributes towards promoting financial inclusion by lending to underserved segments, its lending practices remain prudent as reflected by the healthy asset quality numbers in this segment compared with its peers.

Liquidity position: Strong

On a consolidated basis (SFL and SHFL combined), the cash and liquid investments stood at Rs. 3,122 crore with undrawn bank lines of Rs. 7,105 crore, as on June 30, 2024, against debt repayment obligations of Rs. 6,592 crore (including Rs. 733 crore of securitisation payments by SFL) during July-September 2024. ICRA draws comfort from the diverse funding profile of the lending business, including NCDs and subordinated debt (33% of borrowings as of June 2024), bank loans (33%), fixed deposits (15%), commercial paper (CP; 5%), portfolio sell-down (10%) and National Housing Bank (NHB; 4%).

While a sustained improvement in collections remains monitorable, access to funds from diverse sources and the ability to secure funding at competitive rates provide good financial flexibility to the SFL Group.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The ratings could be adversely impacted if there is a deterioration in the asset quality or profitability, with a rise in the GS3 beyond 3.5% or a decline in PAT/AMA to less than 1.7% on a sustained basis. A significant weakening in the Tier I capital adequacy ratio below 12%, on a consistent basis, could exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Ratings
Parent/Group support	NA
Consolidation/Standalone	The ratings are based on SFL's consolidated financial statements

About the company

Incorporated in 1999, Sundaram Home Finance Limited (SHFL) is a medium-sized housing finance company. It primarily provides housing loans and loan against property (LAP). SHFL is a wholly-owned subsidiary of Sundaram Finance Limited (SFL). As an operational strategy, SHFL is focussed largely on the five southern states where SFL has a strong retail customer base. As of June 2024, SHFL had 143 branches.

SHFL reported a net profit of Rs. 236 crore on a managed asset base of Rs. 14,417 crore in FY2024 against a net profit of Rs. 215 crore on a managed asset base of Rs. 12,036 crore in FY2023. It reported a net profit of Rs. 66 crore in Q1 FY2025 on a managed asset base of Rs. 15,421 crore

Sundaram Finance Limited

SFL is the flagship company of the T S Santhanam Group. It is one of the large NBFCs in the country with AUM of Rs. 45,671 crore as of June 2024. Its primary focus is on the financing of CVs and cars. SFL has invested in various entities to provide a gamut of financial services like housing finance (SHFL), insurance (Royal Sundaram) and mutual funds (SAMCL).

SFL reported a standalone net profit of Rs. 1,454 crore in FY2024 on a managed asset base of Rs. 50,999 crore compared with a net profit of Rs. 1,088 crore on a managed asset base of Rs. 41,140 crore in FY2023. It reported a net profit of Rs. 308 crore in Q1 FY2025 on a managed asset base of Rs. 54,338 crore.

Key financial indicators (IndAS)

SFL – Consolidated	FY2023	FY2024	Q1 FY2025
Total income	5,544	7,286	1,960
PAT	1,282	1,422	402
Total managed assets	56,193	64,920	69,096
Return on managed assets (%)	2.4%	2.3%	2.4%
Managed/Adjusted/Reported gearing (times)	3.4	4.8	4.9
Gross stage 3 [^] (%)	1.8%	1.2%	1.5%

Source: Company, ICRA Research; [^]Combined gross stage 3 of SFL and SHFL; Amount in Rs. crore

SHFL – Standalone	FY2023	FY2024	Q1 FY2025
Total income [#]	1,116	1,398	371
Profit after tax	215	236	66
Total managed assets	12,036	14,417	15,421
Return on managed assets (%)	1.9%	1.8%	1.8%
Managed gearing* (times)	5.5	6.5	6.7
Gross stage 3 (%)	2.3%	1.2%	1.4%
CRAR (%)	23.5%	20.3%	19.7%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Managed gearing= (On-book borrowings + Off-book)/ Net worth #excluding recovery of bad debts

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	18-SEP-2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short term	1,500.00	[ICRA]A1+	30-JUN-2023	[ICRA]A1+	21-JUN-2022	[ICRA]A1+	16-SEP-2021	[ICRA]A1+
				15-DEC-2023	[ICRA]A1+	15-NOV-2022	[ICRA]A1+	04-MAR-2022	[ICRA]A1+
Subordinated debt	Long term	270.00	[ICRA]AAA (Stable)	30-JUN-2023	[ICRA]AAA (Stable)	21-JUN-2022	[ICRA]AAA (Stable)	16-SEP-2021	[ICRA]AA+ (Stable)
				15-DEC-2023	[ICRA]AAA (Stable)	15-NOV-2022	[ICRA]AAA (Stable)	04-MAR-2022	[ICRA]AA+ (Stable)
Fixed deposit	Long term	-	[ICRA]AAA (Stable)	30-JUN-2023	[ICRA]AAA (Stable)	21-JUN-2022	[ICRA]AAA (Stable)	16-SEP-2021	MAAA (Stable)
				15-DEC-2023	[ICRA]AAA (Stable)	15-NOV-2022	[ICRA]AAA (Stable)	04-MAR-2022	MAAA (Stable)
Non-convertible debentures	Long term	5,153.60	[ICRA]AAA (Stable)	30-JUN-2023	[ICRA]AAA (Stable)	21-JUN-2022	[ICRA]AAA (Stable)	16-SEP-2021	[ICRA]AA+ (Stable)
				15-DEC-2023	[ICRA]AAA (Stable)	15-NOV-2022	[ICRA]AAA (Stable)	04-MAR-2022	[ICRA]AA+ (Stable)

Current (FY2025)			Chronology of rating history for the past 3 years						
			FY2024		FY2023		FY2022		
Instrument	Type	Amount rated (Rs. crore)	18-SEP-2024	Date	Rating	Date	Rating	Date	Rating
Long term/Short term-bank facilities	Long term/Short term	6,009.16	[ICRA]AAA (Stable)/[ICRA]A1+	30-JUN-2023	[ICRA]AAA (Stable)	21-JUN-2022	[ICRA]AAA (Stable)	16-SEP-2021	[ICRA]AA+ (Stable)
				15-DEC-2023	[ICRA]AAA (Stable)/[ICRA]A1+	15-NOV-2022	[ICRA]AAA (Stable)	04-MAR-2022	[ICRA]AA+ (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debenture	Simple
Long-term/Short-term bank facilities	Simple
Subordinated debt	Very Simple
Fixed deposits	Very Simple
Commercial paper	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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE667F07IB5	NCD	Aug-06-2021	3M T-bill + 160 bps	Aug-06-2024	145.00	[ICRA]AAA (Stable); withdrawn
INE667F07ID1	NCD	Dec-21-2021	5.75%	Dec-22-2023	150.00	[ICRA]AAA (Stable); withdrawn
INE667F07IE9	NCD	Jul-22-2022	3M T-bill + 155 bps	Jul-22-2024	200.00	[ICRA]AAA (Stable); withdrawn
INE667F07IC3	NCD	Sep-29-2021	3M T-bill + 150 bps	Sep-27-2024	225.00	[ICRA]AAA (Stable)
INE667F07IF6	NCD	Sep-02-2022	7.55%	Sep-02-2025	250.00	[ICRA]AAA (Stable)
INE667F07IG4	NCD	Oct-31-2022	8.18%	Oct-27-2027	175.00	[ICRA]AAA (Stable)
INE667F07IH2	NCD	Nov-24-2022	8.03%	Nov-22-2024	200.00	[ICRA]AAA (Stable)
INE667F07II0	NCD	Dec-08-2022	8.08%	Dec-08-2027	200.00	[ICRA]AAA (Stable)
INE667F07IJ8	NCD	Feb-03-2023	7.97%	Feb-03-2026	175.00	[ICRA]AAA (Stable)
INE667F07IK6	NCD	Mar-20-2023	8.31%	Mar-20-2026	150.00	[ICRA]AAA (Stable)
INE667F07IO8	NCD	Oct-27-2023	7.99%	Oct-27-2026	300.00	[ICRA]AAA (Stable)
INE667F07IP5	NCD	Dec-20-2023	8.15%	Dec-19-2025	230.00	[ICRA]AAA (Stable)
INE667F07IR1	NCD	Mar-28-2024	7.95%	Mar-28-2034	500.00	[ICRA]AAA (Stable)
INE667F07IS9	NCD	Jun-12-2024	8.05%	Jun-12-2029	200.00	[ICRA]AAA (Stable)
INE667F07IT7	NCD	Aug-05-2024	7.98%	Sep-04-2026	300.00	[ICRA]AAA (Stable)
INE667F07IU5	NCD	Aug-28-2024	7.9123%	Nov-27-2026	245.00	[ICRA]AAA (Stable)
Unallocated	NCD	-	-	-	2,003.60	[ICRA]AAA (Stable)
INE667F08129	Sub-debt	Dec-16-2014	9.45%	Dec-16-2024	20.00	[ICRA]AAA (Stable)
INE667F08137	Sub-debt	Feb-24-2015	9.25%	Feb-24-2025	45.00	[ICRA]AAA (Stable)
Unallocated	Sub-debt	-	-	-	205.00	[ICRA]AAA (Stable)
INE667F14GJ8	Commercial paper	Dec-04-2023	7.99%	Dec-03-2024	100.00	[ICRA]A1+
INE667F14GK6	Commercial paper	28-May-2024	7.90%	28-May-2025	200.00	[ICRA]A1+
INE667F14GL4	Commercial paper	16-Jul-2024	7.79%	18-Jun-2025	400.00	[ICRA]A1+
Yet to be placed	Commercial paper	-	-	7-365 days	800.00	[ICRA]A1+
NA	Fixed deposits	-	-	-	-	[ICRA]AAA (Stable)
NA	Cash credit	-	-	-	175.00	[ICRA]AAA (Stable)
NA	Term loan 1	Dec-27-2023	-	Dec-27-2028	225.00	[ICRA]AAA (Stable)
NA	Term loan 2	Sep-27-2022	-	Sep-27-2027	130.00	[ICRA]AAA (Stable)
NA	Term loan 3	Jun-30-2022	-	Jun-30-2027	150.00	[ICRA]AAA (Stable)
NA	Term loan 4	Jan-31-2023	-	Jan-31-2028	288.90	[ICRA]AAA (Stable)
NA	Term loan 5	Mar-14-2023	-	Mar-14-2028	187.50	[ICRA]AAA (Stable)
NA	Term loan 6	Mar-24-2023	-	Mar-24-2028	112.44	[ICRA]AAA (Stable)
NA	Term loan 7	Nov-28-2023	-	Nov-28-2028	90.00	[ICRA]AAA (Stable)
NA	Term loan 8	Apr-11-2014	-	Apr-01-2034	2028.89	[ICRA]AAA (Stable)
NA	Term loan 9	Jul-30-2024	-	Apr-30-2029	50.00	[ICRA]AAA (Stable)
NA	Short-term bank facilities	Aug-02-2024	-	Jan-28-2025	250.00	[ICRA]A1+
NA	Short-term bank facilities	Dec-14-2023	-	Jan-19-2025	250.00	[ICRA]A1+
Unallocated	Long-term/Short-term bank facilities	-	-	-	2,071.43	[ICRA]AAA (Stable)/[ICRA]A1+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis as of June 30, 2024

Company Name	Ownership	Consolidation Approach
SHFL	100.0%	Full consolidation
SAMCL	100.0%	Full consolidation
Sundaram Alternate Assets Limited[®]	100.0%	Full consolidation
Sundaram Asset Management Singapore Pte Limited[®]	100.0%	Full consolidation
Sundaram Trustee Company Limited	100.0%	Full consolidation
LGF Services Limited	100.0%	Full consolidation
Sundaram Fund Services Limited (SFSL)	100.0%	Full consolidation
Sundaram Finance Employee Welfare Trust	100.0%	Full consolidation
Royal Sundaram General Insurance Company Limited	50.0%	Equity method

[®] SFL has ownership in these entities through SAMCL

ANALYST CONTACTS

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

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

R Srinivasan
+91 44 4596 4315
r.srinivasan@icraindia.com

Shaik Abdul Saleem
+91 40 4547 4829
shaik.saleem@icraindia.com

Richardson Xavier
+91 44 4596 4310
richardson.xavier@icraindia.com

RELATIONSHIP CONTACT

Mr. L Shivakumar
+91 098 2108 6490
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

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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