

February 07, 2020

Sundaram Home Finance Limited: [ICRA]AA+(Stable) assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Cash Credit	200.00	200.00	[ICRA]AA+ (Stable); outstanding
Long-term Term Loan	450.00	733.33	[ICRA]AA+ (Stable); assigned/outstanding
Long-term Unallocated	100.00	100.00	[ICRA]AA+ (Stable); outstanding
Non-convertible Debentures (NCDs)	1,771.60	1,771.60	[ICRA]AA+ (Stable); outstanding
Subordinated Debt	135.00	135.00	[ICRA]AA+ (Stable); outstanding
Fixed Deposits	-	-	MAAA (Stable); outstanding
Commercial Paper	1,500.00	1,500.00	[ICRA]A1+; outstanding
Total	4,156.60	4,439.93	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in the support from the Sundaram Finance Group, with Sundaram Home Finance Limited (SHFL) being a 100% subsidiary of Sundaram Finance Limited (SFL; rated [ICRA]AAA(Stable)/MAAA(Stable)/[ICRA]A1+). The ratings also consider SHFL's established franchise in South India, by leveraging the Sundaram Finance brand, and SHFL's comfortable capitalisation profile.

The ratings, however, take note of the company's moderate asset quality with a 90+ dpd of 3.9% as of December 2019 (3.7% as of December 2018), the decline in its core profitability indicators and its limited earnings and geographical diversity.

Key rating drivers and their description

Credit strengths

Support from Sundaram Finance Group – SHFL is a wholly-owned subsidiary of SFL and has an established track record in the housing finance segment for over 15 years. It enjoys operational support from the Sundaram Finance Group with access to the Group's loan sourcing infrastructure, customer base, risk management and IT system/MIS. ICRA expects timely financial and management support from SFL, as and when required, and expects the Group to hold a majority stake in the company going forward.

Comfortable capital structure on the back of moderate portfolio growth – The capitalisation profile is comfortable with a capital adequacy ratio of 22.4% (provisional, Tier-1 at 20.3%) as of December 2019. The managed gearing remained in the range of 6.4-6.5x over the last two years due to moderate portfolio growth (10% on a YoY basis) and steady internal generation. However, the gearing increased modestly to 6.8x as of December 2019, partly due to the excess liquidity maintained in the balance sheet. ICRA does not envisage any significant external capital requirement for the company during FY2020-FY2022, as the internal generation would be adequate to meet the envisaged portfolio growth of around 10-15% while capping the gearing at about 6-7x.

Credit challenges

Moderate asset quality – SHFL's asset quality is characterised by a 90+ dpd of 3.9% in December 2019 vis-à-vis 3.7% in December 2018 (3.0% in March 2019). The asset quality witnessed some improvement in FY2019 because of limited slippages and higher resolution of NPAs. ICRA notes that about 38% of the 90+ dpd (about Rs. 261 crore), as of March 31, 2019, was repossessed by the company. The 90+ dpd in the non-housing segment (accounting for 30% of the overall portfolio) remained high at 7.5% while it was 2.5% in the housing loan segment as of December 2019. Going forward, the company's ability to achieve better and timely resolutions, especially in the non-housing segment, and contain incremental slippages would be crucial.

Decline in core profitability; net profitability supported by lower tax – The net interest margin (on a managed basis) contracted to 3.1% in Q3 FY2020 (annualised) from 3.5% in FY2019 (3.8% in FY2018) as the company reduced its overall lending rates from August 2019. This was also on account of the excess liquidity (cash and liquid assets of 8.8% of total assets in December 2019 vis-à-vis 4.5% in March 2019) maintained in the balance sheet. The credit costs were in the range of 0.4-0.5% during FY2019-9M FY2020 (0.7% in FY2018). While the operating costs remained rangebound at 1.0-1.1%, the pre-tax profitability (PBT/AMA) dipped to 2.2% (provisional) as of December 2019 (2.4% in FY2019 and 2.5% in FY2018). ICRA notes that the company's net profitability stood at 1.8% (provisional) as of December 2019, supported by the reduction in the corporate tax rate. Going forward, SHFL's ability to improve the margins and undertake effective recoveries would be critical to improve profitability.

Regional concentration risk; portfolio likely to remain concentrated in South India over the medium term – The company has a regional presence in South India with a network of 115 branches. The five southern states accounted for 94% of the total portfolio as of June 2019. Tamil Nadu accounted for 50% of the overall loan book, followed by Andhra Pradesh (19%), Kerala (13%) and Karnataka (12%), indicating considerable concentration in Tamil Nadu. Over the medium term, SHFL aims to focus on the southern states and increase penetration in its existing area of operations, particularly where SFL has an established presence.

Liquidity position: Adequate

SHFL's asset liability maturity (ALM¹) profile, as of December 2019, is characterised by a negative cumulative mismatch of 14% in relation to the total assets in the less-than-one-year bucket. While housing finance companies have inherent asset-liability mismatches, ICRA notes that the company's unavailed credit/funding lines of about Rs. 1,300 crore as of December 2019, coupled with its ability to regularly access funds from diverse sources, would be adequate to meet business growth while maintaining adequate liquidity.

SHFL's funding profile is diverse with banks constituting 29% of the total borrowings followed by National Housing Bank (NHB) refinance (24%), debentures (20%), deposits (18%) and commercial paper (8%) as of December 2019.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating if SHFL is able to significantly reduce its asset liability mismatches, scale up its operations, while keeping the leverage under control, and bring down the GNPA's to less than 1% on a sustained basis.

¹ Excluding committed advances and sanctioned borrowings

Negative triggers – Pressure on the ratings could arise in case of a weakening in the credit risk profile of SFL, lower-than-expected support from the Group or sustained weakening of the ALM profile from the current levels or further deterioration in the asset quality with the GNPA's increasing beyond 4% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating methodology for housing finance companies Impact of Parent or Group Support on an Issuer's Credit Rating
Group Support	ICRA expects that SFL would continue to extend financial support to SHFL, given the high strategic importance held by SHFL for meeting the Group's diversification objectives. SHFL and SFL also share a common name, which, in ICRA's opinion, would persuade SFL to provide financial support to SHFL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	NA

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. 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 on June 30, 2019, SHFL had 115 branch offices.

In FY2019, SHFL reported a net profit of Rs. 145 crore on a managed asset base of Rs. 9,460 crore compared with a net profit of Rs. 144 crore on a managed asset base of Rs. 8,728 crore in FY2018. In Q3 FY2020, SHFL reported a net profit of Rs. 136 crore (provisional) on a managed asset base of Rs. 10,505 crore.

Key financial indicators

SHFL	FY2018	FY2019	Q3 FY2020*
Total Income (Rs. crore)	935	1,006	808
Profit after Tax (Rs. crore)	144	145	136
Net Worth (Rs. crore)	1,149	1,252	1,331
Total Managed Portfolio (Rs. crore)	8,358	9,064	9,482
Total Managed Assets (Rs. crore)	8,728	9,460	10,505
Return on Managed Assets %	1.7%	1.6%	1.8%
Return on Net Worth (times)	NA	12.1%	14.1%
Gearing (reported)	6.4	6.4	6.8
Gross NPA%	3.2%	2.9%	3.9%
Net NPA%	1.2%	0.9%	NA
CAR%	24.2%	23.5%	22.4%

As per Ind-AS; Source: SHFL; * Provisional

Sundaram Finance Limited

SFL is the flagship company of the T. S. Santhanam arm of the TVS Group. The Group's association with the Indian automotive industry covers financing, trading and manufacturing. SFL is one of the large NBFCs in the country with assets under management (AUM) of Rs. 28,984 crore as of March 2019. Its primary focus is on the financing of commercial vehicles (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 (Sundaram Asset Management Company Limited; SAMCL).

SFL reported a standalone net profit of Rs. 1,126 crore (including Rs. 522 crore towards an exceptional item on account of the sale of its shares in Royal Sundaram) in FY2019 on a managed asset base of Rs. 31,768 crore compared with a net profit of Rs. 533 crore on a managed asset base of Rs. 28,982 crore in FY2018.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)						Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating	Earlier Rating	Earlier Rating	FY2019	FY2018	FY2017
					07-Feb-20	01-Nov-19	09-Jul-19	13-Aug-18	05-July-17	11-Nov-16
1	NCD	Long Term	1,771.60	1,771.60	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Subordinated debt	Long Term	135.00	135.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3	Fixed deposits	Medium Term	-	-	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable); upgraded from MAA+(Positive)	MAA+ (Positive)	MAA+ (Positive)
4	Long-term cash credit	Long Term	200.00	200.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
5	Long-term term loans	Long Term	733.33	733.33	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
6	Long-term unallocated	Long Term	100.00	100.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	-	-
7	Commercial paper	Short Term	1,500.00	1,500.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed deposits	-	-	-	-	MAAA (Stable)
NA	Cash credit	-	-	-	200.00	[ICRA]AA+(Stable)
NA	Term loan 1	29-Nov-17	-	29-Nov-19	33.33	[ICRA]AA+(Stable)
NA	Term loan 2	22-Dec-17	-	22-Jun-20	180.00	[ICRA]AA+(Stable)
NA	Term loan 3	27-Sep-19	-	30-Sep-22	500.00	[ICRA]AA+(Stable)
NA	Term loan 4	30-Dec-19	-	30-Nov-22	20.00	[ICRA]AA+(Stable)
Unallocated	Term loan	-	-	-	100.00	[ICRA]AA+(Stable)
INE667F07FK2	NCD	13-Apr-15	8.95%	13-Apr-20	25.00	[ICRA]AA+(Stable)
INE667F07FS5	NCD	09-Oct-15	8.70%	09-Oct-20	20.00	[ICRA]AA+(Stable)
INE667F07GD5	NCD	12-Jul-16	8.75%	10-Jul-20	50.00	[ICRA]AA+(Stable)
INE667F07GI4	NCD	16-Sep-16	8.15%	03-Jul-20	11.00	[ICRA]AA+(Stable)
INE667F07GL8	NCD	28-Nov-16	7.60%	28-Nov-19	100.00	[ICRA]AA+(Stable)
INE667F07GM6	NCD	01-Dec-16	7.60%	29-Nov-19	100.00	[ICRA]AA+(Stable)
INE667F07GR5	NCD	12-Jun-17	7.70%	30-Jun-20	30.00	[ICRA]AA+(Stable)
INE667F07GU9	NCD	30-Aug-17	7.40%	28-Aug-20	35.00	[ICRA]AA+(Stable)
INE667F07GV7	NCD	04-Sep-17	7.40%	04-Sep-20	75.00	[ICRA]AA+(Stable)
INE667F07GW5	NCD	29-Nov-17	7.75%	27-Nov-20	100.00	[ICRA]AA+(Stable)
INE667F07GY1	NCD	15-Nov-18	N.A.	27-Dec-21	50.00	[ICRA]AA+(Stable)
INE667F07GZ8	NCD	07-Dec-18	N.A.	11-Dec-19	100.00	[ICRA]AA+(Stable)
INE667F07HA9	NCD	20-Dec-18	N.A.	07-Mar-22	75.00	[ICRA]AA+(Stable)
INE667F07HB7	NCD	24-Dec-18	9.11%	24-Dec-20	70.00	[ICRA]AA+(Stable)
INE667F07HD3	NCD	21-Jan-19	9.10%	21-Jan-22	30.00	[ICRA]AA+(Stable)
INE667F07HE1	NCD	22-Jan-19	N.A.	22-Apr-20	35.00	[ICRA]AA+(Stable)
INE667F07HF8	NCD	08-Feb-19	8.78%	07-May-21	25.00	[ICRA]AA+(Stable)
INE667F07HH4	NCD	11-Apr-19	8.40%	11-Apr-22	70.00	[ICRA]AA+(Stable)
INE667F07HI2	NCD	13-Jun-19	8.36%	30-Nov-20	75.00	[ICRA]AA+(Stable)
INE667F07HJ0	NCD	18-Jun-19	8.40%	18-Jun-21	70.00	[ICRA]AA+(Stable)
INE667F07HK8	NCD	18-Jun-19	8.60%	17-Jun-22	25.00	[ICRA]AA+(Stable)
INE667F07HL6	NCD	17-Jul-19	8.40%	16-Jul-21	100.00	[ICRA]AA+(Stable)
INE667F07HM4	NCD	13-Sep-19	8.15%	13-Sep-22	35.00	[ICRA]AA+(Stable)
INE667F07HN2	NCD	25-Oct-19	7.42%	23-Mar-21	25.00	[ICRA]AA+(Stable)
INE667F07HO0	NCD	05-Dec-19	8.10%	05-Dec-22	200.00	[ICRA]AA+(Stable)
INE667F07HP7	NCD	20-Dec-19	8.15%	20-Mar-23	42.00	[ICRA]AA+(Stable)
Unallocated	NCD	-	-	-	198.60	[ICRA]AA+(Stable)
INE667F08087	Sub-debt	28-Jun-12	10.50%	28-Jun-22	25.00	[ICRA]AA+(Stable)
INE667F08111	Sub-debt	28-Feb-13	9.90%	28-Feb-23	40.00	[ICRA]AA+(Stable)
INE667F08129	Sub-debt	16-Dec-14	9.45%	16-Dec-24	20.00	[ICRA]AA+(Stable)
INE667F08137	Sub-debt	24-Feb-15	9.25%	24-Feb-25	45.00	[ICRA]AA+(Stable)
Unallocated	Sub-debt	-	-	-	5.00	[ICRA]AA+(Stable)
NA	Commercial paper	-	-	7-365 days	1,500.00	[ICRA]A1+

Source: SHFL

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