April 20, 2020

Standard Chartered Investments and Loans (India) Ltd: Ratings reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD	500	500	[ICRA]AAA (Stable); reaffirmed
Commercial Paper	2,000	2,000	[ICRA] A1+; reaffirmed
Total	2,500	2,500	

Rationale

The ratings factor in Standard Chartered Investments and Loans (India) Ltd.'s (SCILL) parentage in the form of Standard Chartered Bank (UK) (SCB; rated A1 (Stable)/P1 by Moody's Investors Service) and the expectation that the parent will extend support as and when required. ICRA takes comfort from SCILL's adequate capitalisation with a gearing of 2.0x and a net worth of Rs. 893 crore as on December 31, 2019, along with the robust risk management systems that draws from SCB's global policies. ICRA takes note of SCILL's comfortable asset quality indicators with Nil gross and net NPAs as on December 31, 2019. Further from liquidity position standpoint, there were no cumulative mismatches in any of the buckets as per the structural liquidity statement (SLS) as on September 30, 2019. ICRA also draws additional comfort from the financial flexibility enjoyed by SCILL as part of the Standard Chartered Group and the line of credit from SCB India.

Any significant change in the credit profile of SCB or a reduction in the parent's support to SCILL could warrant a rating change for the company. ICRA also notes SCILL's dependence on short-term sources of funding, which exposes it to refinancing risk as well as volatility in the cost of funds. Further, ICRA has noted the relatively high credit concentration, given the wholesale nature of the loan book. However, the management's stated intention to increase the proportion of retail/SME loans in the portfolio over the medium term provides comfort. The ratings also factor in SCILL's modest profitability indicators owing to low margins, though some support is provided by the low operating expenses and credit costs. Going forward, the company's ability to increase the business volumes profitably, while maintaining a prudent capitalisation profile and keeping its asset quality intact, would be a key 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 on the operational and management front from the parent. Moreover, SCILL's risk management systems are in line with SCB's global risk management policies, thereby providing strength to the credit appraisal process. Further, a shared brand name with the parent supports SCILL's financial flexibility and ICRA expects the support from the parent to be forthcoming, as and when required.

Adequate capitalisation levels – SCILL has an adequate capitalisation profile with a net worth of Rs. 893 crore, gearing of 2.0x and CRAR of 34% as on December 31, 2019 (against Rs. 834 crore, 1.8x and 41%, respectively, as on March 31, 2019). Over the medium term, the company plans to grow at over 20%, primarily in the Retail/ SME loan against property (LAP) & loan against shares (LAS) segment to achieve its proposed portfolio mix of corporate to Retail/ SME of 50:50 from the existing mix of 69:31 as on December 31, 2019. As a result, SCILL may have to operate at a higher leverage over the medium term. At the same time, given the current challenges in the operating environment, the company might need to moderate its growth plans. Nevertheless, given the importance of SCILL to SCB Group, ICRA expects the company to receive timely capital support from the Group to maintain prudent capitalisation levels while growing the business volumes.

Comfortable asset quality indicators – SCILL's asset quality indicators were comfortable with Nil gross and net NPAs as on December 31, 2019 compared to 1.3% and 0.6%, respectively, as on March 31, 2019 (4.2% and 1.3%, respectively, as on March 31, 2018). The improvement in the reported asset quality ratios was on account of write-offs (Rs. 11 crore) and recoveries from legacy accounts (Rs. 13 crore). Further, there have not been any fresh slippages over the last four years. Going forward, SCILL's ability to maintain a comfortable asset quality, while scaling up its operations and diversifying into new segments where it has limited track record of operations, would be a key monitorable.

Credit challenges

Funding profile relatively short term– The company diversified its borrowing profile to include borrowings in the form of long-term NCDs in July 2019 and also long-term bank borrowings in March 2019 & July 2019. However, SCILL's funding profile remains relatively short term, albeit improving and consists of commercial papers (81% as on December 31, 2019 against 89% as on December 31, 2018) and long-term borrowings from banks (11% as on December 31, 2019) with the balance 8% being NCDs which exposes the company to refinancing risk. Nevertheless, the company's efforts towards diversification, the availability of sizeable cash and liquid securities and sanctioned and unutilised bank lines from SCB India provides comfort. Moreover, ICRA expects the SCB Group to provide timely additional support, if required.

Relatively high credit concentration – Owing to the wholesale nature of the loans, the company's credit concentration is relatively high, making the portfolio vulnerable to asset quality shocks. However, ICRA notes that the proportion of wholesale loans gradually reduced to 69% as on December 31, 2019 from 83% as on March 31, 2019 and so has the concentration of the top 25 borrowers, as percentage of the assets under management (AUM), to 78% as on December 31, 2019 (equivalent to 226% of the net worth) from 95% as on December 31, 2018 (equivalent to 137% of the net worth). The credit concentration is expected to reduce over the medium term with the company planning to expand its Retail/ SME portfolio.

Modest profitability indicators supported by low operating expenses, credit costs and margins: – SCILL's average yield declined to 8.07% in FY2019 from 11.69% in FY2018 due to prepayments in some of the higher-yielding accounts and on account of the base effect, given the major portfolio growth occurring in Q4 FY2019. Overall, the lending spreads for SCILL improved to 2.69% in FY2019 from 2.21% in FY2018 and remained stable at 2.74% in 9M FY2020. However, the NIMs declined to 3.97% in 9M FY2020 and 4.42% in FY2019 from 5.71% in FY2018 as the company increased its debt funding to grow the book and efficiently utilize its high capital base.

Due to SCILL's wholesale lending model and operational linkages with the parent, its operating expenses moderated as a percentage of the average total assets (ATA) to 1.24% in 9M FY2020 (1.78% in FY2019) from 1.83% in FY2018. Going forward, ICRA expects some increase in the operating expense ratio from the current levels as the company increases its Retail/ SME portfolio and focuses on establishing the necessary infrastructure. However, this is expected to be within 3% of ATA, with the wholesale portfolio expected to constitute around 50% of the overall portfolio in the medium term. Further, with a credit cost reversal of 0.26% in 9M FY2020 and no new slippages, the operating profit (net of credit provisions) increased to 5.1% of ATA in 9M FY2020 (3.27% in FY2019) from 4.44% in FY2018. Overall, the profitability metrics have improved though they remain modest with a return on assets (RoA) of 3.9% and a return on net worth (RoNW) of 12.2% in 9M FY2020 (2.29% and 5.29%, respectively, in FY2019) against 2.78% and 5.88%, respectively, in FY2018. ICRA expects the profitability indicators to remain at similar levels over the medium term, provided the company is able to control fresh slippages.

Liquidity position: Adequate

SCILL's liquidity profile is adequate with no cumulative mismatches in any of the buckets as per the structural liquidity statement (SLS) as on September 30, 2019. This is further supported by the availability of sufficient committed and unutilised bank lines of Rs. 600 crore from SCB India, drawable as required. Further, being a part of the Standard Chartered Group and with a shared brand name, ICRA expects support from the parent to be forthcoming, if required, to support the credit profile of the company.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – 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 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
Parent/Group Support	Standard Chartered Bank, UK (rated A1 (Stable)/P1 by Moody's Investors Service) The ratings are underpinned by SCILL's parentage in the form of SCB and the expectation of timely support from the parent, if required
Consolidation/Standalone	To arrive at the ratings, ICRA has considered the standalone financials of SCILL

About the company

SCILL was incorporated in October 2003 by Standard Chartered Bank, UK, as its wholly-owned subsidiary. SCILL was registered with the Reserve Bank of India as a non-banking finance company not accepting public deposits in February 2004. The Standard Chartered Group has management control over SCILL. SCILL's board of directors comprises among others, senior management personnel from the Group's senior management. The company is mainly a wholesale lender primarily extending loans to entities and high net worth individuals against shares and lease rental discounting.

SCILL's portfolio stood at Rs. 2,583 crore as on December 31, 2019 compared with Rs. 1,982 crore as on March 31, 2019. As on December 31, 2019, loans in the corporate and institutions segment accounted for 26% of the total portfolio, followed by the corporate borrower segment (43%), the private banking (largely loans against shares) segment (27%) and the retail segment (4%). SCILL reported a profit after tax of Rs. 79.3 crore on a total asset base of Rs. 3,016 crore in 9M FY2020 against a profit after tax of Rs. 44.0 crore on a total asset base of Rs. 2,382 crore in FY2019.

Key financial indicators (audited)

In Rs. Crore	FY2018	FY2019	9M FY2020*
PAT	46.9	44.0	79.3
Net Worth	827	834	893
Assets under Management	1,214	1,982	2,583
Total Assets^	1,455	2,382	3,016
Return on Average Assets	2.78%	2.29%	3.92%
Return on Average Equity	5.88%	5.29%	12.24%
Gearing (times)	0.6	1.8	2.0
CRAR	64%	41%	34%
Gross NPA%	4.2%	1.3%	0%
Net NPAs %	1.3%	0.6%	0%
Net NPA/Net Worth %	1.8%	1.2%	0%

** Unaudited and as per IGAAP*

^Total assets as per SCILL's financial statements are Rs. 2,360 crore and Rs. 1,414 crore at the end of FY2019 and FY2018, respectively

Source: SCILL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		FY2020	FY2019	FY2018
					Apr 20, 2020	Apr 30, 2019	Mar 14, 2018	Oct 9, 2017
1	Non-convertible Debenture	Long Term	500	150	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	N/A
2	Commercial Paper	Short Term	2,000	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: ICRA
NA: Not applicable

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
INE403G07061	NCD	25-Jul-2019	8.65%	25-Jul-2022	500	[ICRA]AAA (Stable)
N/A	Commercial Paper	N/A	N/A	7-365 days	2,000	[ICRA]A1+

Source: SCILL
NA: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

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