

October 06, 2020

Sundaram Home Finance Limited: [ICRA]AA+(Stable) assigned to Rs. 500-crore NCDs

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	-	500.00	[ICRA]AA+ (Stable); assigned
Long-term Cash Credit	200.00	200.00	[ICRA]AA+ (Stable); outstanding
Long-term Term Loan	733.33	733.33	[ICRA]AA+ (Stable); outstanding
Long-term Unallocated	100.00	100.00	[ICRA]AA+ (Stable); outstanding
Non-convertible Debentures	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	4,439.93	4,939.93	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings factors in the support from the Sundaram Finance Group as Sundaram Home Finance Limited (SHFL) is 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 its comfortable capitalisation profile, which is characterised by a gearing of 6.0x (provisional) as of June 2020.

The ratings, however, take note of the moderate asset quality indicators with a 90+ dpd of 4.0% as of June 2020 (3.8% as of March 2020). The 90+dpd remained higher in March and inched up further in June 2020 as the Covid-19-related lockdown impacted the borrower-level cash flows and collections of the company. ICRA, however, notes that SHFL is taking initiatives to keep the 90+dpd under control by undertaking recoveries from the overdue book or by selling the repossessed assets (~28% of the 90+dpd book as of March 2020). The ratings also factor in the decline in the profitability indicators (profit after tax/average managed assets (PAT/AMA) of 1.3% (provisional) in Q1 FY2021 vis-à-vis 1.6%¹ in FY2020) and the regionally concentrated operations.

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.

¹ Excluding the exceptional gain due to reversal of DTL on Special Reserve

Comfortable capital structure on the back of moderate portfolio growth – The capitalisation profile is comfortable with a capital adequacy ratio of 23.5% (provisional; Tier-1 at 21.8%) as of June 2020. The managed gearing improved to 6.0x (provisional) as of June 2020 from 6.4-6.5x during FY2018-FY2019 due to the moderate portfolio growth (10% on a YoY basis). ICRA does not expect any significant external capital requirement over the near term as the portfolio growth is likely to remain muted.

Credit challenges

Moderate asset quality; impact of Covid-19-related disruptions remains a monitorable – SHFL's asset quality is characterised by a 90+ dpd of 4.0% as of June 2020 vis-à-vis 3.4% as of June 2019 (3.8% as of March 2020). The 90+ dpd in the non-housing loan segment (about 30% of the portfolio) remained high at 7.7% while it stood at 2.4% in the housing loan segment as of June 2020 (7.3% and 2.3%, respectively, as of March 2020). ICRA notes that SHFL has a share of portfolio in the 61-90 bucket (~1.0% of the portfolio as of July 2020), wherein the collections had remained subdued on account of the Covid-19-related disruptions and the moratorium offered by the company. Going forward, keeping incremental slippages and overall overdues under control while undertaking recoveries would be crucial from a rating perspective. ICRA also notes that ~28% of the 90+ dpd (about Rs. 351 crore), as of March 31, 2020, was in the form of repossessed assets and it has started disposing of the same, which could result in a reduction in the NPAs. However, losses, if any, due to the disposal would remain a monitorable.

Decline in profitability due to increase in the credit costs – The net interest margin (on a managed basis) stood at 3.1% (annualised; provisional) in Q1 FY2021 (3.2% in FY2020 and 3.5% in FY2019). The contraction in the margins was due to the decline in the yields amid increased competitive pressure and partly due to the excess liquidity maintained in the balance sheet (6.8% of the total assets as of June 2020 vis-à-vis 4.6% as of March 2020). The pre-provision operating profitability also moderated in FY2020 to 2.4% (from 2.7% in FY2019) and remained stable in Q1 FY2021. The credit costs (as a percentage of AMA) increased to 0.9% in Q1 FY2021 (0.5% during FY2019-FY2020) due to the higher overdues and provisions made by the company. Overall, the net profitability reduced to 1.3% (provisional) in Q1 FY2021 from 1.6%² in FY2020 and FY2019. Going forward, SHFL's ability to contain its credit costs through effective recoveries and improve its margins would be crucial for improving its 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 2020. Tamil Nadu accounted for 48% of the overall loan book, followed by Andhra Pradesh (20%), Kerala and Karnataka (13% each), indicating considerable concentration in Tamil Nadu. Over the medium term, SHFL aims to focus on the southern states and increase penetration in the existing area of operations, particularly where SFL has an established presence.

Liquidity position: Adequate

SHFL had cash and liquid investments of ~Rs. 750 crore as of September 28, 2020, while its debt repayment obligations stood at ~Rs. 1,056 crore during October-December 2020. SHFL did not avail a moratorium from any of its lenders while it had extended moratorium benefits to its customers as a part of the RBI's COVID-19 – Regulatory Package. The collection efficiency improved only moderately vis-à-vis April 2020 as ~53-54% of the portfolio was

² Excluding the exceptional gain due to reversal of DTL on Special Reserve

under moratorium as of August 2020. However, the liquidity profile remained adequate, supported by fresh funding and the company's access to funds from diverse sources.

SHFL's funding profile is diverse with National Housing Bank (NHB) refinance comprising 29% of the overall borrowings followed by banks (24%), debentures (23%), deposits (19%) and commercial paper (4%) as of June 2020.

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.

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 support SHFL, given the high strategic importance of SHFL in 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, 2020, SHFL had 115 branch offices.

In FY2020, SHFL reported a net profit of Rs. 158 crore on a managed asset base of Rs. 10,186 crore compared with a net profit of Rs. 145 crore on a managed asset base of Rs. 9,460 crore in FY2019. In Q1 FY2021, SHFL reported a net profit of Rs. 34 crore (provisional) on a managed asset base of Rs. 10,417 crore.

Key financial indicators (Ind-AS)

SHFL	FY2019	FY2020	Q1 FY2021 (P)*
Total Income (Rs. crore)	1,006	1,079	266
Profit after Tax (Rs. crore)	145	158 [#]	34
Net Worth (Rs. crore)	1,252	1,421	1,462
Total Managed Portfolio (Rs. crore)	9,064	9,456	9,412
Total Managed Assets (Rs. crore)	9,460	10,186	10,417
Return on Managed Assets %	1.6%	1.6% [#]	1.3%
Return on Net Worth	12.1%	11.8% [#]	9.4%
Gearing (reported; times)	6.4	6.1	6.0
Gross NPA%	2.9%	3.8%	4.0%
Net NPA%	0.9%	1.6%	1.7%
CRAR%	23.5%	23.0%	23.5%

Source: SHFL; * Provisional; [#] Excluding the exceptional gain due to reversal of DTL on Special Reserve

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 non-banking financial companies (NBFCs) in the country with assets under management (AUM) of Rs. 29,936 crore as of March 2020. 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 (SAMCL³).

SFL reported a standalone net profit of Rs. 724 crore (includes Rs. 53 crore towards profit on the sale of shares in Sundaram Finance Holdings Limited (net of tax)) in FY2020 on a managed asset base of Rs. 34,804 crore compared with a net profit of Rs. 1,126 crore (includes Rs. 522 crore towards an exceptional item on account of the sale of shares in Royal Sundaram (net of tax)) on a managed asset base of Rs. 32,034 crore in FY2019.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

³ Sundaram Asset Management Company Limited

Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years									
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2020			FY2019			FY2018			
						06-Oct-20	07-Feb-20	01-Nov-19	09-Jul-19	28-Sep-18	13-Aug-18	06-Jul-18	12-Feb-18	25-Sep-17	05-Jul-17
1	NCD	Long Term	500.00	500.00	[ICRA]AA+ (Stable)	-	-	-	-	-	-	-	-	-	
2	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)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
3	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)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
4	Fixed deposits	Medium Term	-	-	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable); upgraded from MAA+ (Positive)	MAA+ (Positive)	MAA+ (Positive)	MAA+ (Positive)	MAA+ (Positive)	
5	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)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+	
6	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)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+	
7	Long-term unallocated	Long Term	100.00	100.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	-	-	-	-	-	

8	Commercial paper	Short Term	1,500.00	1,500.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
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Amount in Rs. crore

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)
INE667F07HQ5	NCD	03-Feb-20	7.75%	03-Feb-22	100.00	[ICRA]AA+(Stable)
Unallocated	NCD	-	-	-	98.60	[ICRA]AA+(Stable)
Unallocated	NCD	-	-	-	500.00	[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

Analyst Contacts

Karthik Srinivasan

+91-22-6114 3444

karthiks@icraindia.com

A M Karthik

+91-44-4596 4308

a.karthik@icraindia.com

Subhashree Ravi

+91-44-4297 4324

subhashree.ravi@icraindia.com

Shaik Abdul Saleem

+91-44-4596 4325

shaik.saleem@icraindia.com

Relationship Contact

Mr. L. Shivakumar

+91 22 6114 3406

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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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