January 19, 2024

Standard Chartered Capital Limited (erstwhile Standard Chartered Investments and Loans(India) Ltd) : Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	655	655	[ICRA]AAA (Stable); reaffirmed
Non-convertible debentures*	195	0	[ICRA]AAA (Stable); reaffirmed and withdrawn
Commercial paper	4,500	5,500	[ICRA]A1+; reaffirmed/assigned
Total	**5,350**	**6,155**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in Standard Chartered Capital Limited's (SCCL) position as a wholly-owned subsidiary of Standard Chartered Bank (UK) (SCB UK; rated A1 (Stable)/P1 by Moody's Investors Service) and the expectation that the parent will extend support to SCCL as and when required. The company also benefits from the shared brand name and operational and management support and risk oversight from the parent. The ratings also consider SCCL's adequate capitalisation profile (net worth of Rs. 1,568 crore and gearing of 3.7x as of September 30, 2023), good financial flexibility by virtue of its parentage, and comfortable asset quality indicators. ICRA notes that the company's loan book has grown significantly in FY2024 to Rs. 6,980 crore as on September 30, 2023 from Rs. 5,349 crore as on March 31, 2023 (Rs. 4,413 crore from March 31, 2022). The growth was aided by the capital infusion of Rs. 329 crore (USD 40 mn) by the parent in July 2023, indicating continued support. ICRA expects that the support from the parent to continue given that the company would need capital to grow as per business plans.

Given the larger share of wholesale exposures (54% of total book as on September 30, 2023) in the loan book, the concentration risk remains high (top 20 exposures constituted 202% of the total net worth as on September 30, 2023). In this regard, SCCL's track record of maintaining the collection efficiencies and reporting comfortable asset quality metrics with nil gross and net stage 3 as on September 30, 2023, provides comfort. Also, the granularity of the portfolio is expected to improve gradually, given the increased focus on growing the retail book. As for borrowings, SCCL is highly dependent on short-term sources of funding {partly in line with the short-term nature of advances, mainly private banking and retail loan against securities (LAS)}, though the same is declining with the improved diversification of funds via bank lines and inter-corporate deposits (ICDS). Nevertheless, it would need to augment its long-term borrowings, in line with the increase in long-term loans such as corporate loans and loan against property (LAP). Apart from sourcing funds from other banks and financial institutions, SCCL has a Rs. 600-crore credit line arrangement with Standard Chartered Bank, India (SCB India), to be used in case of exigencies, which supports its overall liquidity profile.

The ratings also factor in SCCL's adequate profitability (return on average assets (RoA) of 2.1% in H1 FY2024), supported by the relatively low operating expenses and controlled credit costs on account of the comfortable asset quality indicators. Overall, a significant change in SCB UK's credit profile or a reduction in the parent's support to SCCL could warrant a rating change for the company. Also, its ability to grow its scale of operations while maintaining the asset quality would be a monitorable.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 195-crore non-convertible debentures (NCDs) as they have been fully redeemed with no amount outstanding against the same. The rating was withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

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 with the parent on the operational and management front. Moreover, SCCL's risk management systems are in line with the Group's global policies. Further, considering the shared brand name and linkage with the Standard Chartered Group, ICRA expects support from the parent to be forthcoming, as and when required. Any change in the likely support from the Group would be a key rating sensitivity.

Adequate capitalisation levels – SCCL's capitalisation profile is adequate for its current scale of operations, with a net worth of Rs. 1,568 crore and a gearing of 3.7x as of September 30, 2023 (Rs. 1,172 crore and 3.8x, respectively, as of March 31, 2023). SCCL received growth capital of Rs. 329 crore from the parent in H1 FY2024, which supported the growth in the loan book to Rs. 6,980 crore as on September 30, 2023 from Rs. 5,349 crore as on March 31, 2023. ICRA expects timely capital support from the Group to be forthcoming, going forward as well, as internal capital generation is likely to remain lower than the projected loan book growth.

Comfortable asset quality indicators – SCCL's reported asset quality indicators were comfortable with nil gross stage 3 as on September 30, 2023 (0.2% as on March 31, 2023). Only one account became delinquent in FY2021, which was fully recovered by September 30, 2023. While SCCL's track record of comfortable asset quality metrics over several years provides comfort, the evolving asset quality trajectory over the near to medium term, especially considering the changing portfolio mix, will remain a monitorable.

Adequate profitability indicators – ICRA expects SCCL's profitability to remain adequate, in line with past trends. The increase in the yield on account of incremental disbursements made at a higher rate was offset by the surge in the borrowing costs, given the rise in systemic interest rates. Thus, the spreads and net interest margin (NIM) remained stable in H1 FY2024. This, coupled with stable operating expenses and credit costs, resulted in an RoA of 2.1% and a return on net worth (RoNW) of 9.9% in H1 FY2024 compared with 2.0% and 9.4%, respectively, in FY2023. Going forward, competitive intensity in SCCL's existing lines of business, especially the LAS and LAP segments, is expected to remain high, resulting in range-bound yields. Thus, the company's ability to pass on the rise in the cost of funds to the end borrowers would be important for maintaining the spreads. Also, operating expenses could go up with the higher share of the retail portfolio and consequently incremental investments in technology, infrastructure, and employee acquisition. However, this is likely to be offset by higher yields, provided SCCL is able to control its slippages, thus leading to stable return indicators.

Credit challenges

High, albeit reducing, reliance on short-term funding – SCCL has previously been highly dependent on short-term borrowings {largely commercial papers (CPs)} to meet the funding requirement of its loan book (mainly comprising short-tenured LAS), which exposes it to the market risks associated with such instruments. However, it has diversified its borrowing profile over the last couple of years to include borrowings in the form of long-term ICDs as well as long-term bank borrowings. Subsequently, the share of CP in the borrowing base reduced significantly to 59% as on September 30, 2023 from 62% as of March 31, 2023 (65% as on March 31, 2022), with the balance consisting of bank borrowings, ICDs and NCDs. Nevertheless, SCCL would need to increase the share of long-term funding in the overall mix as incremental growth in the loan book is likely to come from longer-tenure assets (corporate loans and LAP). However, with the relatively short-term private banking book and retail book (mainly comprising LAS) expected to continue accounting for a sizeable share, CP borrowings are likely to account for a significant share of the borrowing mix.

High concentration risk arising from wholesale book – SCCL's total loan book increased to Rs. 6,980 crore as on September 30, 2023 from Rs. 5,349 crore as on March 31, 2023. In terms of products, SCCL provides promoter financing, LAS, LAP and other corporate loans. As on September 30, 2023, wholesale loans constituted 54% of the total loan book with retail loans such as LAS and LAP accounting for the balance. Given the wholesale nature of loans, credit concentration has been relatively high for SCCL, making the portfolio vulnerable to asset quality shocks. The top 20 exposures constituted 202% of the total net worth as on September 30, 2023, though SCCL's track record of comfortable asset quality metrics over several years, with nil gross and net stage 3 as on September 30, 2023, provides comfort. ICRA also notes that the loan book remains diversified with respect to sectoral exposures and the granularity is expected to increase further with the growth in the retail book. The growth in the retail book is expected to be driven by both LAS and LAP.

Liquidity position: Adequate

SCCL's liquidity profile is adequate. As per the asset-liability management (ALM) statement as on September 30, 2023, the company had a cash and bank balance of about Rs. 121 crore and liquid investments of Rs. 117 crore[1] against debt obligations of Rs. 4,961 crore over the next one year. Additionally, it has expected inflows from advances of Rs. 3,624 crore for the aforementioned period and unutilised bank lines of Rs. 1,440 crore (including the Rs. 600-crore committed line from SCB India). The liquidity profile is also supported by SCCL's good financial flexibility by virtue of its parentage.

Rating sensitivities

Positive factors – Not applicable
Negative factors – Significant deterioration in the credit profile of the parent or a reduction in the support from the parent entity would be a credit negative for the company. Also, a significant deterioration in the company's asset quality and profitability metrics could exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Company ICRA's Credit Policy on Withdrawal of Credit Ratings
Parent/Group support	Parent/Group Company: Standard Chartered Bank, UK The ratings derive significant strength from the company's ultimate parentage in the form of SCB UK. SCCL also enjoys a high level of operational synergies with its parent, with access to senior management guidance and robust risk management systems and standards. ICRA expects liquidity support from the parent to be forthcoming, if required.
Consolidation/Standalone	Standalone

About the company

SCCL was incorporated in October 2003 by SCB UK, as its wholly-owned subsidiary. SCCL was registered with the Reserve Bank of India (RBI) as a non-banking financial company not accepting public deposits in February 2004. The Standard Chartered Group has management control over SCCL. SCCL's board of directors comprises, among others, personnel from the Group's senior management.

SCCL reported a profit after tax (PAT) of Rs. 68 crore in H1 FY2024 and Rs. 106 crore in FY2023 on a total asset base of Rs. 7,407 crore as on September 30, 2023 and Rs. 5,651 crore as on March 31, 2023 compared with a PAT of Rs. 91 crore in FY2022 on a total asset base of Rs. 4,731 crore as on March 31, 2022. SCCL's portfolio increased to Rs. 6,980 crore as on September 30, 2023 and Rs. 5,349 crore as on March 31, 2023 from Rs. 4,413 crore as on March 31, 2022. The share of Corporate and Institutions (C&I), Corporate Borrowers (CB), Private Banking (PB) and Retail stood at 14%, 40%, 23% and 23%, respectively, of the portfolio as on September 30, 2023.

[1] *Redemption value of liquid investments of Rs. 125 crore*

Key financial indicators (audited)

Standard Chartered Capital Limited	Mar-21	Mar-22	Mar-23	H1 FY2024*
Total assets	3,309	4,731	5,651	7,407
Profit after tax	64	91	106	68
Total income	255	307	466	321
RoA	2.2%	2.3%	2.0%	2.1%
Gearing (times)	2.3	3.4	3.8	3.7
Gross stage 3	0.49%	0.31%	0.23%	Nil
CRAR	31.3%	23.4%	20.5%	22.0%

Source: SCCL, ICRA Research
Amount in Rs. crore; All calculations are as per ICRA Research
** Provisional numbers, basis abridged financials, as stated in the company's H1 FY2024 results*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jan 12, 2024 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 12, 2024	May 29, 2023	May 30, 2022 May 09, 2022	Sep 06, 2021 Jun 02, 2021	Apr 20, 2020
1	Non-convertible debentures	LT	195	0	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-convertible debentures	LT	655	50	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Commercial paper	ST	5,500	3,390	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: ICRA Research; LT – Long term, ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Simple
Commercial paper programme	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 as on Jan 12, 2024

ISIN	Instrument Name	Date of Issuance	Coupon Rate (%)	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE403G07079	NCD	May-29-2020	7.65	May-29-2023	195	[ICRA]AAA (Stable) Reaffirmed and withdrawn
INE403G07087	NCD	Mar-24-2023	8.80	Apr-23-2024	50	[ICRA]AAA (Stable)
Yet to be placed	NCD	NA	NA	NA	605	[ICRA]AAA (Stable)
INE403G14RX4	CP	Dec-29-2023	8.40	Dec-04-2024	25	[ICRA]A1+
INE403G14RW6	CP	Dec-29-2023	8.40	Nov-27-2024	25	[ICRA]A1+
INE403G14RV8	CP	Dec-27-2023	9.00	Nov-20-2024	100	[ICRA]A1+
INE403G14RV8	CP	Dec-27-2023	9.00	Nov-20-2024	50	[ICRA]A1+
INE403G14RU0	CP	Dec-21-2023	9.00	Dec-20-2024	300	[ICRA]A1+
INE403G14RT2	CP	Dec-06-2023	8.90	Dec-05-2024	200	[ICRA]A1+
INE403G14RS4	CP	Nov-09-2023	8.45	May-23-2024	100	[ICRA]A1+
INE403G14RR6	CP	Nov-08-2023	8.45	May-30-2024	200	[ICRA]A1+
INE403G14RQ8	CP	Nov-07-2023	8.45	Jun-03-2024	25	[ICRA]A1+
INE403G14RO3	CP	Nov-06-2023	8.43	Apr-29-2024	250	[ICRA]A1+
INE403G14RP0	CP	Sep-18-2023	8.25	May-15-2024	65	[ICRA]A1+
INE403G14RP0	CP	Sep-18-2023	8.25	May-15-2024	100	[ICRA]A1+
INE403G14RP0	CP	Sep-18-2023	8.25	May-15-2024	100	[ICRA]A1+
INE403G14RO3	CP	Sep-15-2023	8.13	Apr-29-2024	75	[ICRA]A1+
INE403G14RN5	CP	Sep-11-2023	8.25	Sep-09-2024	25	[ICRA]A1+
INE403G14RM7	CP	Sep-07-2023	8.22	Jun-19-2024	125	[ICRA]A1+
INE403G14RM7	CP	Sep-07-2023	8.22	Jun-19-2024	75	[ICRA]A1+
INE403G14RL9	CP	Aug-30-2023	8.23	Aug-29-2024	100	[ICRA]A1+
INE403G14RK1	CP	Aug-22-2023	8.25	Aug-21-2024	175	[ICRA]A1+
INE403G14RK1	CP	Aug-22-2023	8.25	Aug-21-2024	50	[ICRA]A1+
INE403G14RK1	CP	Aug-22-2023	8.25	Aug-21-2024	10	[ICRA]A1+
INE403G14RK1	CP	Aug-22-2023	8.25	Aug-21-2024	50	[ICRA]A1+
INE403G14RI5	CP	Jul-21-2023	7.85	Jan-18-2024	50	[ICRA]A1+
INE403G14RI5	CP	Jul-21-2023	7.85	Jan-18-2024	100	[ICRA]A1+
INE403G14RI5	CP	Jul-21-2023	7.85	Jan-18-2024	35	[ICRA]A1+
INE403G14RJ3	CP	Jul-20-2023	7.85	Feb-08-2024	180	[ICRA]A1+
INE403G14RJ3	CP	Jul-20-2023	7.85	Feb-08-2024	50	[ICRA]A1+
INE403G14RH7	CP	Jun-28-2023	7.89	Jan-30-2024	130	[ICRA]A1+
INE403G14RG9	CP	Jun-27-2023	7.89	Jan-25-2024	125	[ICRA]A1+
INE403G14RG9	CP	Jun-26-2023	7.89	Jan-25-2024	100	[ICRA]A1+
INE403G14RF1	CP	Jun-19-2023	7.95	Feb-28-2024	170	[ICRA]A1+
INE403G14RE4	CP	Jun-15-2023	7.95	Feb-20-2024	150	[ICRA]A1+
INE403G14RD6	CP	Jun-15-2023	7.95	Feb-16-2024	25	[ICRA]A1+
INE403G14QS6	CP	Apr-12-2023	8.00	Apr-11-2024	50	[ICRA]A1+
Yet to be placed	CP	NA	NA	NA	2,110	[ICRA]A1+

Source: SCCL; CP – Commercial paper; NCD – Non-convertible debentures

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

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

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

Manushree Saggar
+91 124 4545 316
manushrees@icraindia.com

Niharika Tomar
+91 124 4545 324
niharika.tomar@icraindia.com

Sandeep Sharma
+91 22 6114 3419
sandeep.sharma@icraindia.com

RELATIONSHIP CONTACT

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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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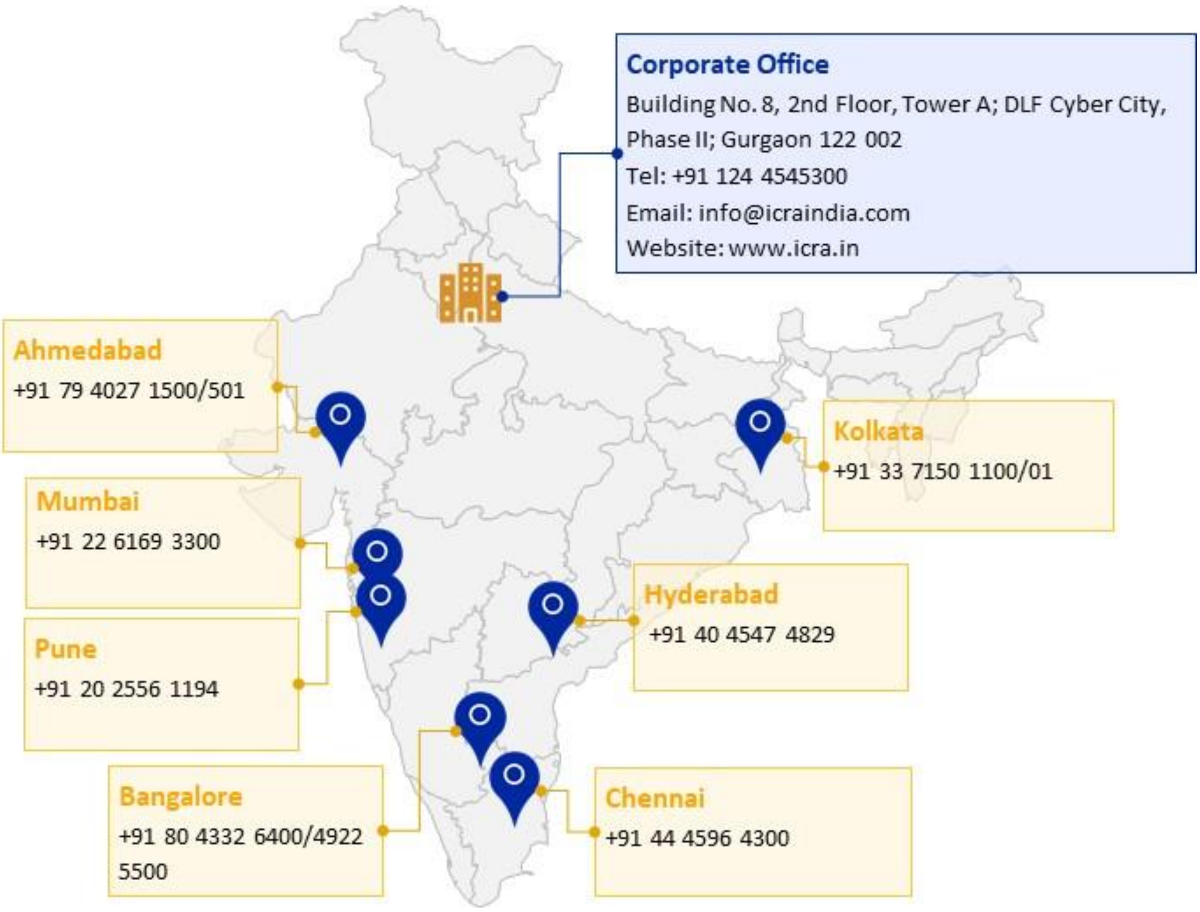

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