

STCI Finance Limited

Instrument	Amount (in INR Crore)	Rating Action (April 2016)
Long term debt programme	1,200	Revised to [ICRA]AA- (stable) from [ICRA]AA (stable)
Long term debt programme	300	Revised to [ICRA]AA- (stable) from [ICRA]AA (stable) and withdrawn
Long term bank lines	200	Revised to [ICRA]AA- (stable) from [ICRA]AA (stable)
Short term debt programme	1,500	[ICRA]A1+/ reaffirmed

ICRA has revised the rating of Rs. 1,200 crore Long Term Debt programme and Rs. 200 crore Long Term Bank Lines of STCI Finance Ltd (STCIFL) to [ICRA]AA- (pronounced as ICRA double A minus) from [ICRA]AA (pronounced as ICRA double A). The outlook on the ratings is stable. ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced as ICRA A one plus) to the Rs. 1,500 crore short term debt programme of STCIFL. ICRA has also withdrawn the [ICRA]AA- (Stable) rating assigned to the Rs. 300 crore Long Term Debt programme of STCI Finance Limited, as the company has fully redeemed the instrument on maturity. There is no amount outstanding against the rated instrument.

The rating revision primarily follows the multi notch revision in long term ratings of its largest shareholder, Bank of India (BOI), which holds ~30% stake in the company and also provides operational and managerial support. The ratings for senior debt for BOI, majority shareholder of STCIFL were revised from [ICRA]AAA(stable) to [ICRA]AA+ (stable) and further to [ICRA]AA (stable) over the last four months. STCIFL's ratings would remain sensitive to STCIFL's importance for BOI as well as BOI's credit profile and rating. STCIFL's ratings continue to factor in STCI Finance Limited's (STCIFL) strong capitalization profile, good profitability indicators and modest leverage. The ratings however remain constrained by the wholesale nature of STCIFL's products and moderate asset quality indicators with limited recoveries in the past one year. ICRA also takes note of the planned diversification of the entity into retail lending over the medium term and performance of this segment will remain a key monitorable. Going forward, STCIFL's rating would continue to be sensitive to its ability to maintain a comfortable asset quality while diversifying and growing its lending operations.

STCIFL has been steadily scaling up its lending book in the past few years and during FY15, the loan book grew by ~31% to Rs. 3,634 crore as on Mar-15 as compared to Rs. 2,780 crore as on Mar-14 driven by an increased in Corporate Book of the company (primarily Loan against Property and Construction Finance Loans). In line with the company's changed strategy to focus more on corporate book and reduce Loan against Shares book due to better risk-adjusted return in the former, there was reduction in LAS book during H1FY16, which resulted in de-growth in overall book during the period to Rs. 3,222 crore as on Sep-15. The company's lending mix has changed to 64:36 as on Sep-15 in favor of LAS (primarily promoter funding) as compared to 83:17 as on Mar-14. Going ahead, the management plans to focus on building up its Corporate Loans book in non-real estate segments and restrict the LAS book and Real Estate book at the current levels. Also, in the medium term, the company has plans of entering into Retail Lending segment.

With ~31% growth in Loan book during FY15 to Rs. 3,634 crore from Rs 2,799 crore as on Mar-14, there was ~34% growth in the Interest Income on lending portfolio during the period to Rs. 390 crore in FY15 from Rs. 290 crore in FY14. Net Interest Income of the company grew by ~11% during FY15 to Rs. 168 crore from Rs. 151 crore in FY14. The operating expenses of the company remained flat during the year and were reported at Rs. 14 crore in FY15. Consequently, the cost to income ratio of the company declined to ~7.48% in FY15 from ~8.28% in FY14. The company also reported a gain of ~Rs. 32 crore on exceptional items during FY15 which was due to surrendering shares of STCI Primary Dealer Ltd. in the buyback offer and due to settlement by arbitration of an old account. With increase in revenues and stable expenses, the company's net profit grew to Rs. 153.76 crore in FY15 (RoE of ~16%) from Rs. 91.44 crore in FY14 (RoE of ~10%). During 9MFY16, the company's income levels increased with an improvement in the average yields due to increase in share of high yield corporate loans in the overall portfolio. However, the company reported higher expenses in 9MFY16 due to many provisioning done aggressively during the first nine months of the year. However, as per the management, the yearend figures are expected to remain stable for the company. The company reported a net profit of Rs. 90.21 crore in 9MFY16.

During FY15, the asset quality of the company deteriorated due to slippage of a few lumpy accounts. While there have not been any sizable recoveries in any of these accounts, the company's incremental slippages during H1FY16 remained NIL. With the reduction in book size, the reported Gross and Net NPA % increased to 5.18% and 4.54% as on Sep-15 as compared to 4.70% and 4.12% as on Mar-15 and 1.11% and 0.89% as on Mar-14. Going forward, the ability of the company to manage its asset quality will be a key monitorable.

STCIFL has a comfortable capitalization with a net worth of Rs. 1,015.14 crore as on Mar-15 (Rs. 900.05 crore as on Mar-14) with capital adequacy ratio of 23.68% as on Mar-15. The company reported a net worth of Rs. 1,105.35 crore as on Dec-15. The gearing level of the company remains comfortable at 2.40 times as on Dec-15 (3.08 times as on Mar-15 and 2.88 times as on Mar-14). The company had higher reliance on short-term borrowings in the form Commercial Papers; however, the proportion of long term borrowings in total borrowings has increased during the past 18-21 months and was at ~32% as on Dec-15 as compared to ~19% as on Mar-14 thus improving the ALM profile. ICRA draws comfort from the unutilized bank lines of the company and the liquid nature of the investment book with investments primarily being in Government Securities and highly rated corporate bonds.

Company Profile

STCIFL is a systemically important non deposit taking non bank finance company engaged in activities like loan against shares, corporate loan against properties and construction finance. Bank of India is the largest shareholder with ~30% equity stake in the STCIFL and the rest of the shareholding is distributed among Infrastructure Development Finance Company Limited, State Bank of India & Associate banks, various financial institutions, and public sector banks. STCIFL has a wholly owned subsidiary, STCI Primary Dealer Limited which is a Primary Dealer.

During FY15, on a standalone basis, STCIFL reported a net profit of Rs. 153.76 crore on a total income base of Rs. 463.22 crore as compared to a net profit of Rs. 91.44 crore on a total income base of Rs. 352.67 crore in FY14. During 9MFY16, the company reported a net profit of Rs. 90.21 crore on a total income base of Rs. 347.10 crore.

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