

Sundaram BNP Paribas Home Finance Limited

Instrument Rated	Amount (In Rs crore)	Rating Action
Non-Convertible Debentures	1,190.00	[ICRA]AA+(Stable); reaffirmed
Subordinated Debt	370.00	[ICRA]AA+(Stable); reaffirmed
Fixed Deposits	-	MAA+(Positive); reaffirmed
Long-term Bank Limits	1,119.07	[ICRA]AA+(Stable); reaffirmed
Commercial Paper	500.00	[ICRA]A1+; reaffirmed

ICRA has reaffirmed the [ICRA]AA+ (pronounced ICRA double A plus) ¹ rating with a stable outlook for the Rs. 1,190.00 crore² non-convertible debentures, Rs.370.00 crore subordinated debt and Rs. 1,119.07 crore bank facilities of Sundaram BNP Paribas Home Finance Limited (SBPHFL). ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating for the Rs.500 crore commercial paper and the MAA+ (pronounced M double A plus) rating with a positive outlook for the fixed deposit programmes of the company.

The rating reaffirmations take into consideration the company's strong parentage with Sundaram Finance Limited (SFL; rated [ICRA]AA+(positive)/MAAA(Stable)/[ICRA]A1+) and BNP Paribas Personal Finance (BNPPPF; rated A1(Stable)/P-1 by Moody's) holding equity; and their demonstrated operational, managerial and financial support to SBPHFL. The ratings continue to factor in SBPHFL's established franchise in South India, its experienced management team, track record in housing finance, fairly diversified funding profile and its competitive cost of funds. The company also has access to credit tested customers of the SFL group. The ratings however take cognisance of the deterioration in company's asset quality over the past 2 financial years, its limited geographical and earnings diversity, and the mismatches in its asset liability profile.

SBPHFL's disbursements declined by 10% in FY2016 (22% decline in FY 2015), and grew (YoY) by a modest 1% during Q1FY2017 as it moderated its focus on the non-housing loans (NHL) and self-employed segment. Disbursements are expected to growth to over 15% in FY2017 on the back of various initiatives takes by the company and also the lower base. Some to the key initiatives to support disbursement growth include, offering competitive interest rates and diversification in business sourcing. The company's focus is expected to remain on the housing loan segment. The company's portfolio (on-book) growth was moderate at 3% in FY2016 (7% in FY2015) on account of the moderation in disbursements and the high prepayment rate of 16% of the opening portfolio, because of the loan take-over by competitors. The share of housing portfolio increased to 69% as on March 31, 2016 from 59% as on March 31, 2014 (70% as on March 31, 2015).

The company's asset quality deteriorated further during FY2016 with gross NPAs increasing to 2.8% as on March 31, 2016 from 2.5% as on March 31, 2015 (1.5% in March 2014), largely on account of delinquencies in the NHL segment. Gross NPAs in the NHL segment were about 5.2% while those in the housing loan segment stood at 1.8% as on March 31, 2016. The gross NPAs as on June 30, 2016 remained stable at 3.6% vis-a-vis 3.7% as on June 30, 2016. ICRA takes comfort from the moderate LTVs and company's recovery initiatives, which are likely to lead to low eventual losses from these accounts. ICRA factors in the company's renewed focus on the housing loans segment, an asset class with good credit quality. It however, takes cognisance of reduction in the company's provision coverage to 66% as on March 31, 2016 from 70% in March 2015. ICRA expects the provision cover to moderate further to about 60% by end FY2017, following a revision in the company's provision policy.

SBPHFL's managed gearing³ improved to 7.2x as on June 30, 2016 from 8.6x as on March 31, 2015 (7.6x as on March 31, 2016) because of the moderate portfolio growth while internal generation remained good (13% in FY2016). The gearing is likely to increase with higher business volumes; ICRA expects the company's promoters to infuse adequate capital to maintain a comfortable risk adjusted capital profile going forward.

¹ For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

² 100 lakh = 1 crore = 10 million

³ Including securitised book as debt and net of cash collateral held

ICRA takes note of SBPHFL's good earnings profile with net interest margins⁴ of 3.2% for FY2016. The company's operating cost structure (0.9-1.0%) remains competitive, and its credit costs reduced to 0.2% in FY2016 from 0.6% in FY2015 with lower fresh NPAs and provision coverage during the year. The company's net profitability⁵ continues to be supported by non-interest income, and was healthy at 1.9% in FY2016.

SBPHFL funding profile is fairly diversified with non-convertible debentures, refinance from NHB, bank finance, fixed deposits and commercial papers constituting about 33%, 29%, 13%, 16% and 8% respectively of the total borrowings as on March 31, 2016. The company's weighted average cost of funds reduced to about 9.1% for FY2016 from 9.6% in FY2015 with a moderation in overall systemic rates. Similar to most other housing finance companies, SBPHFL carries an asset-liability mismatch in the <1 year term bucket (about 7% of the assets as on March 31, 2016); access to diverse funding sources coupled with its strong franchise is likely to partially mitigate refinance and liquidity related risks.

Company Profile

Sundaram BNP Paribas Home Finance Limited

Incorporated in 1999, Sundaram Home Finance is a medium-sized housing finance company. SFL and BNPPPF hold 50.1% and 49.9% of the equity in the company. As an operational strategy, SBPHFL is focussed largely on the four southern states, where SFL has a strong retail customer base. As on March 31, 2016 SBPHFL operated a total of 111 branch offices; about 55% of its disbursements were in Tamil Nadu.

In FY2016, SBPHFL reported a net profit of Rs.153 crore on a total asset base of Rs. 7,673 crore compared with a net profit of Rs.146 crore on a total asset base of Rs.7,503 crore in FY2015. In Q1FY2017, SBPHFL reported a provisional net profit of Rs.43 crore on a total asset base of Rs.7,722 crore.

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 largest NBFCs in the country with a total asset base of Rs. 22,480.5 crore as on June 30, 2016. The company's primary focus is on financing of commercial vehicles and cars to the retail segment. CVs and cars business constituted more than 85% of the total assets of SFL as on June 30, 2016; the company also has a healthy portfolio of investments (a large part being strategic) which accounted for 9% of its total assets. During FY2016, SFL's total disbursements grew by 15%, with M&HCV disbursements growing by 34%. Of the total disbursements in Q1FY2017, M&HCVs accounted for 43%, followed by cars (29%), LCVs (12%), and tractors (4%).

During Q1FY2017, SFL reported a standalone net profit of Rs. 90.2 crore (provisional) on a managed asset base of Rs. 22,480.5 crore (provisional). The company's networth stood at Rs.3,403.3 crore (provisional) with reported gearing at 4 times (provisional) as on June 30, 2016.

During FY2016, SFL reported a standalone net profit of Rs. 477.3 crore on a managed asset base of Rs. 21,136 crore compared with a net profit of Rs.454.1 crore on a managed asset base of Rs.19,208 crore during FY2015. On a consolidated basis, SFL reported a net profit of Rs.583 crore on a total asset base of Rs.28,027 crore in FY2016 compared with a net profit of Rs.576 crore on a total asset base of Rs.25,785 crore in FY2015.

September 2016

⁴ On managed assets

⁵ Return on average managed assets



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