

## Sundaram BNP Paribas Home Finance Limited

February 12, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Loans	500.00	750.00	[ICRA]AA+ (Stable); assigned/ outstanding
Non-Convertible Debentures	2,088.80	2,088.80	[ICRA]AA+ (Stable); outstanding
Subordinated Debt	170.00	170.00	[ICRA]AA+ (Stable); outstanding
Commercial Paper	1,000.00	1,000.00	[ICRA]A1+; outstanding
Fixed Deposits	-	-	MAA+ (Positive); outstanding
<b>Total</b>	<b>3,758.80</b>	<b>4,008.80</b>	

### Rating action

ICRA has assigned the [ICRA]AA+ (pronounced ICRA double A plus)<sup>1</sup> rating to the Rs. 750.00 crore (enhanced from Rs.500.00 crore) Long-term Bank loan programme of Sundaram BNP Paribas Home Finance Limited (SBPHFL).

ICRA has [ICRA]AA+ rating outstanding on the company's non-convertible debenture (NCD) programmes aggregating to Rs.2,088.80 crore and subordinated debt programmes aggregating to Rs.170.00 crore. The outlook on the long term rating is Stable. ICRA also has MAA+ (pronounced M double A plus) rating with a positive outlook outstanding on the fixed deposits programme of the company. ICRA also has [ICRA]A1+ rating outstanding on the commercial paper programme of the company.

### Rationale

The rating factors in SBPHFL's strong parentage with Sundaram Finance Limited (SFL; rated [ICRA]AAA(Stable)/MAAA(Stable)/[ICRA]A1+) and BNP Paribas Personal Finance (BNPPPF; rated Aa3(Stable)/P-1 by Moody's) holding 50.1% and 49.9% equity stake, respectively; and their demonstrated operational, managerial and financial support to SBPHFL. The rating also considers the company's established franchise in South India, its experienced management team, track record in housing finance, stable profitability and diversified funding profile. During 9MFY2018, the company's managed portfolio<sup>2</sup> grew by 5% on a y-o-y basis while the profitability (RoMA<sup>3</sup>) remained stable at 1.9% (in-line with 1.9%-2.0% reported during FY2014-2017) owing to stable interest margins, operating costs and credit costs. Modest portfolio growth supported the capital structure with managed gearing<sup>4</sup> improving from 7.5 times as on March 31, 2016 to 6.4 times as on December 31, 2017; ICRA expects the company's internal generation to adequately support the envisaged portfolio growth of 10-15% per annum over the next two years, without adversely impacting its capital structure. The rating however takes note of the company's modest asset quality with gross NPAs of 3.7% as on December 31, 2017 (4.1% in December 31, 2016) and its limited geographical and earnings diversity.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications.

<sup>2</sup> Managed portfolio – on-book portfolio + off-book portfolio (which includes assigned and securitized portfolio)

<sup>3</sup> Return on Managed Assets

<sup>4</sup> Debt includes securitised book and adjusted for cash collateral

## Outlook: Stable

ICRA believes that SBPHFL will continue to benefit from its strong ownership and the experienced management team. The outlook on the long term rating may be revised to 'Positive' if there is a sustained improvement in the company's asset quality while the company maintains an adequate portfolio growth and earnings profile. The outlook may be revised to 'Negative' if there is a significant deterioration in the asset quality and profitability indicators or if there is a downward revision in the rating of its parent entities.

## Key rating drivers

### Credit strengths

**Demonstrated and committed financial, managerial and operational support from the parent companies** – SBPHFL has an established track record in the housing finance segment. The company has a strong parentage with SFL (rated [ICRA]AAA(stable)/ MAAA(stable)/[ICRA]A1+) and BNPPPF (rated Aa3/stable/P-1 by Moody's), holding 50.1% and 49.9% equity stakes, respectively. SBPHFL enjoys significant operational benefits from the SFL group with access to the SFL group's infrastructure and risk management systems. The company derives significant managerial and financial support; both the parent companies have adequate board representation (two members each) and have demonstrated capital support to SBPHFL in the past.

**Stable profitability levels supported by steady operating and credit costs** - SBPHFL's net interest margin<sup>5</sup> improved from 3.2% in FY2016 to 3.4% in FY2017 (3.6% in 9MFY2018); a higher decline in the borrowing rates vis-a-vis business yields and lower leverage contributed to the margin expansion. The company's operating cost structure (0.9-1.1%) remains competitive, and its credit costs remained stable at 0.2% in FY2017 with limited fresh NPA generation and stable provision coverage during the year. The company's net profitability for 9MFY2018 remained stable at 1.9% (in-line with 1.9%-2.0% during FY2014-FY2017).

**Adequate capital structure on the back of moderate portfolio growth over the past three-four years** – SBPHFL's managed gearing improved from 7.5x as on March 31, 2016 to 6.5x as on December 31, 2017 because of the moderate portfolio growth while internal generation remained good (12.1% in FY2017 and 11.5% in 9MFY2018). ICRA does not envisage any significant external capital requirement for the company during the period FY2018-2020, since internal generation would be adequate to meet the targeted the portfolio growth of around 10-15%.

**Diverse funding sources and competitive cost of funds** - SBPHFL's funding profile is diversified with debentures and NHB refinance constituting 36% and 33% of the total borrowings respectively as on December 31, 2017, followed by fixed deposits, commercial paper and bank finance at 16%, 6% and 9%. The company's weighted average cost of funds reduced to about 8.1% for 9MFY2018 from 9.1% in FY2016 because of the moderation in the systemic rates. The company's access to diverse funding sources coupled with its strong franchise provides comfort on the financial flexibility.

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<sup>5</sup> on a managed asset basis

## Credit challenges

**Modest asset quality indicators; critical to undertake effective recoveries in the non-housing loan segment** - SBPHFL's asset quality has moderated over the past few years, with gross NPAs increasing from 2.5% as on March 31, 2015 to 2.9% as on March 31, 2017. The Gross NPAs stood at 3.7% as on December 31, 2017 (4.1% in December 2016). The modest asset quality is largely on account of delinquencies in the non-housing loan segment. The company's gross NPAs in the NHL segment stood at 6.6% while those in the housing loan segment also stood high at 2.3% as on December 31, 2017. ICRA however takes comfort from the company's prudent LTVs, initiatives taken for loans recovery and its focus on the housing loans segment, an asset class with good credit quality. The company's provision coverage remained stable at 67% as on March 31, 2017 (66% in March 2016).

**Regional concentration risk; portfolio likely to remain concentrated in South India over the medium term** - The company has a regional presence, with a network of 110 branches, mostly located in South India. The five southern states accounted for 95% of the portfolio as on December 31, 2017; Tamil Nadu accounted for 52% of the loan book, with Andhra Pradesh and Telangana, Karnataka and Kerala accounting for 21%, 10% and 12% respectively, indicating considerable concentration in Tamil Nadu. Over the medium term, the company aims to continue to focus on the southern states and increase penetration in its existing areas of operations, particularly where SFL has an established presence.

**Analytical approach:** The rating factors in SBPHFL's strong parentage (SFL and BNPPPF) and the committed operational, managerial and financial support from the parent entities. For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria:

[Rating Methodology for Housing Finance Companies](#)

## About the company:

Incorporated in 1999, Sundaram BNP Paribas Home Finance Limited (SBPHFL) 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 December 31, 2017, SBPHFL operated a total of 112 branch offices.

In FY2017, SBPHFL reported a net profit of Rs.153.6 crore on a managed asset base of Rs. 8,358 crore compared with a net profit of Rs.152.7 crore on a total asset base of Rs.8,166 crore in FY2016. In 9MFY2018, SBPHFL reported a profit after tax of Rs 122.2 crore on a managed asset base of Rs 8,724 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. The company is one of the large NBFCs in the country with an AUM of Rs. 24,338 crore as on December 31, 2017. The company's primary focus is on financing of commercial vehicles and cars. Of the company's total AUM as on December 31, 2017, CVs accounted for 53%, followed by cars (30%) while others including tractors, construction equipment, and plant & machinery accounted for the remaining 17%.

During FY2017, SFL reported a standalone net profit of Rs. 495.4 crore on a managed asset base of Rs. 24,243.0 crore compared with a net profit of Rs. 477.3 crore on a managed asset base of Rs. 21,012.8 crore during FY2016. The company's networth stood at Rs. 3,745.6 crore with reported gearing at 3.8 times. On a consolidated basis, SFL reported a net profit of Rs. 677.1 crore on a total asset base of Rs. 30,658.1 crore in FY2017 compared with a net profit of Rs. 551.0 crore on a total asset base of Rs. 27,959.5 crore in FY2016.

### Key financial indicators (audited)

	FY 2016*	FY 2017*	9MFY2018^
Total Income	933.5	929.4	692.5
PAT	152.7	153.6	122.2
Net Worth	874.8	1,028.4	1,108.0
Total Managed Portfolio	7,512.7	7,664.1	8,100.0
Total Managed Assets	8,166.0	8,357.8	8,723.6
Return on Managed Assets	1.9%	1.9%	1.9%
Return on Net worth	18.6%	16.1%	15.2%
Gearing	7.5	6.6	6.4
Gross NPA%	2.8%	2.9%	3.7%
Net NPA%	1.0%	1.0%	1.8%
CAR%	23.9%	24.8%	24.3%

Amount in Rs. crore; \*- audited, ^ - provisional

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Feb 2018	Sep 2017	FY2017 Nov 16	FY2016 Dec 15	FY2015 Aug 14	
1	NCD	2,088.80	2,088.80	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
2	Subordinated debt	170.00	170.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
3	Fixed deposits	-	-	MAA+ (Positive)	MAA+ (Positive)	MAA+ (Positive)	MAA+ (Positive)	MAA+ (Stable)	
4	Long-term Bank Limits	750.00	750.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
5	Commercial Paper	1000.00	1000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

### 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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working capital loan 1	-	-	-	25.00	[ICRA]AA+(Stable)
NA	Working capital loan 2	-	-	-	25.00	[ICRA]AA+(Stable)
NA	Working capital loan 3	-	-	-	50.00	[ICRA]AA+(Stable)
NA	Working capital loan 4	-	-	-	20.00	[ICRA]AA+(Stable)
NA	Working capital loan 5	-	-	-	0.00	[ICRA]AA+(Stable)
NA	Working capital loan 6	-	-	-	100.00	[ICRA]AA+(Stable)
NA	Term loan 1	28-Jan-16	-	28-Jan-19	33.33	[ICRA]AA+(Stable)
NA	Term loan 2	5-Feb-16	-	02-May-19	16.67	[ICRA]AA+(Stable)
NA	Term loan 3	18-Feb-16	-	18-Feb-19	25.00	[ICRA]AA+(Stable)
NA	Term loan 4	24-Feb-16	-	24-Feb-19	10.00	[ICRA]AA+(Stable)
NA	Term loan 5	29-Nov-17	-	29-Nov-19	100.00	[ICRA]AA+(Stable)
NA	Term loan 6	12-Jun-17	-	01-Jun-20	100.00	[ICRA]AA+(Stable)
NA	Term loan 7	22-Dec-17	-	22-Jun-20	200.00	[ICRA]AA+(Stable)
NA	Term loan - unallocated	-	-	-	45.00	[ICRA]AA+(Stable)
INE667F07FF2	NCD	13-Mar-15	9.04%	25-Apr-18	16.20	[ICRA]AA+(Stable)
INE667F07FG0	NCD	16-Mar-15	9.04%	23-Mar-18	20.00	[ICRA]AA+(Stable)
INE667F07FH8	NCD	20-Mar-15	9.00%	22-Mar-18	20.00	[ICRA]AA+(Stable)
INE667F07FJ4	NCD	8-Apr-15	8.90%	9-Apr-18	40.00	[ICRA]AA+(Stable)
INE667F07FK2	NCD	13-Apr-15	8.95%	13-Apr-20	25.00	[ICRA]AA+(Stable)
INE667F07FN6	NCD	25-May-15	8.80%	29-May-18	6.60	[ICRA]AA+(Stable)
INE667F07FO4	NCD	25-May-15	8.80%	22-May-18	32.00	[ICRA]AA+(Stable)
INE667F07FP1	NCD	3-Jul-15	8.92%	10-Jul-18	10.00	[ICRA]AA+(Stable)
INE667F07FQ9	NCD	10-Jul-15	8.92%	12-Jul-18	69.00	[ICRA]AA+(Stable)
INE667F07FR7	NCD	8-Oct-15	8.70%	9-Oct-18	10.00	[ICRA]AA+(Stable)
INE667F07FR7	NCD	8-Oct-15	8.70%	9-Oct-18	10.00	[ICRA]AA+(Stable)
INE667F07FR7	NCD	8-Oct-15	8.70%	9-Oct-18	5.00	[ICRA]AA+(Stable)
INE667F07FS5	NCD	9-Oct-15	8.70%	9-Oct-20	20.00	[ICRA]AA+(Stable)
INE667F07FT3	NCD	14-Oct-15	8.70%	15-Oct-18	20.00	[ICRA]AA+(Stable)
INE667F07FU1	NCD	30-Nov-15	8.65%	16-Apr-18	10.00	[ICRA]AA+(Stable)
INE667F07FV9	NCD	14-Dec-15	8.70%	14-Dec-18	15.00	[ICRA]AA+(Stable)
INE667F07FW7	NCD	2-Mar-16	8.97%	1-Mar-19	25.00	[ICRA]AA+(Stable)
INE667F07FX5	NCD	11-Mar-16	8.85%	11-Mar-19	4.50	[ICRA]AA+(Stable)
INE667F07FY3	NCD	19-May-16	8.71%	17-May-19	10.00	[ICRA]AA+(Stable)
INE667F07FZ0	NCD	24-May-16	8.60%	28-Jun-19	3.00	[ICRA]AA+(Stable)
INE667F07GB9	NCD	12-Jul-16	8.75%	12-Jul-19	25.00	[ICRA]AA+(Stable)
INE667F07GC7	NCD	12-Jul-16	8.75%	12-Jul-19	10.00	[ICRA]AA+(Stable)
INE667F07GC7	NCD	12-Jul-16	8.75%	12-Jul-19	10.00	[ICRA]AA+(Stable)

INE667F07GC7	NCD	12-Jul-16	8.75%	12-Jul-19	15.00	[ICRA]AA+(Stable)
INE667F07GA1	NCD	12-Jul-16	8.75%	12-Sep-19	50.00	[ICRA]AA+(Stable)
INE667F07GD5	NCD	12-Jul-16	8.75%	10-Jul-20	50.00	[ICRA]AA+(Stable)
INE667F07GE3	NCD	12-Jul-16	8.70%	23-Jul-19	5.90	[ICRA]AA+(Stable)
INE667F07GF0	NCD	15-Jul-16	8.65%	15-Jul-19	15.00	[ICRA]AA+(Stable)
INE667F07GG8	NCD	2-Aug-16	8.42%	2-Aug-18	100.00	[ICRA]AA+(Stable)
INE667F07GH6	NCD	9-Sep-16	7.96%	9-Mar-18	35.00	[ICRA]AA+(Stable)
INE667F07GI4	NCD	16-Sep-16	8.15%	3-Jul-20	11.00	[ICRA]AA+(Stable)
INE667F07GJ2	NCD	26-Sep-16	8.05%	15-Mar-19	75.00	[ICRA]AA+(Stable)
INE667F07GK0	NCD	5-Oct-16	8.00%	15-Mar-19	75.00	[ICRA]AA+(Stable)
INE667F07GL8	NCD	28-Nov-16	7.60%	28-Nov-19	100.00	[ICRA]AA+(Stable)
INE667F07GM6	NCD	1-Dec-16	7.60%	29-Nov-19	100.00	[ICRA]AA+(Stable)
INE667F07GN4	NCD	8-Feb-17	7.75%	8-Feb-19	100.00	[ICRA]AA+(Stable)
INE667F07GO2	NCD	27-Feb-17	7.80%	28-Aug-18	25.00	[ICRA]AA+(Stable)
INE667F07GO2	NCD	27-Feb-17	7.80%	28-Aug-18	25.00	[ICRA]AA+(Stable)
INE667F07GP9	NCD	27-Mar-17	7.80%	27-Mar-19	25.00	[ICRA]AA+(Stable)
INE667F07GQ7	NCD	30-Mar-17	7.80%	29-Mar-19	100.00	[ICRA]AA+(Stable)
INE667F07GR5	NCD	12-Jun-17	7.70%	30-Jun-20	30.00	[ICRA]AA+(Stable)
INE667F07GS3	NCD	16-Jun-17	7.67%	14-Jun-19	100.00	[ICRA]AA+(Stable)
INE667F07GT1	NCD	30-Jun-17	7.47%	28-Jun-19	100.00	[ICRA]AA+(Stable)
INE667F07GU9	NCD	30-Aug-17	7.40%	28-Aug-20	35.00	[ICRA]AA+(Stable)
INE667F07GV7	NCD	4-Sep-17	7.40%	4-Sep-20	75.00	[ICRA]AA+(Stable)
INE667F07GW5	NCD	29-Nov-17	7.75%	27-Nov-20	100.00	[ICRA]AA+(Stable)
NA	NCD-unallocated	-	-	-	325.60	[ICRA]AA+(Stable)
INE667F08053	Sub-debt	19-Jan-12	10.25%	18-Jan-19	10.00	[ICRA]AA+(Stable)
INE667F08061	Sub-debt	8-Feb-12	10.35%	8-Feb-19	10.00	[ICRA]AA+(Stable)
INE667F08079	Sub-debt	22-Feb-12	10.35%	22-Feb-19	10.00	[ICRA]AA+(Stable)
INE667F08087	Sub-debt	28-Jun-12	10.50%	28-Jun-22	25.00	[ICRA]AA+(Stable)
INE667F08095	Sub-debt	29-Jun-12	10.50%	28-Jun-19	5.00	[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)
	Sub-debt -					
NA	Unallocated	-	-	-	5.00	[ICRA]AA+(Stable)
	Commercial					
NA	Paper	-	-	7-365 days	1000.00	[ICRA]A1+

Source: SBPHFL

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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](http://www.icra.in)

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