

SBI Funds Management Private Limited

June 14, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Bank Lines Programme	16,000.00	16,000.00	[ICRA]AAA (stable); reaffirmed
Total	16,000.00	16,000.00	

Rating action

ICRA has reaffirmed the rating of [ICRA]AAA (pronounced ICRA triple A) for the Rs. 16,000 crore fund based bank lines of SBI Funds Management Private Limited (SBIFM or the asset management company, AMC). The borrowing under these bank lines are to be used only for non-guaranteed mutual fund schemes and in accordance with SEBI guidelines. The outlook on the long-term rating is Stable.

Rationale

The rating factors in the SBIFM's strong parentage with State Bank of India (SBI, rated [ICRA]AAA(Stable)/[ICRA]A1+), the largest public-sector bank in the country, holding 63% stake in the AMC with the balance being held by Amundi¹ the asset management arm of the Credit Agricole Group. The rating also factors in the AMC's strong position in the Indian mutual fund industry, being the fifth largest player in terms of asset under management (AUM), and operational and management support received by the AMC from SBI. ICRA draws comfort from the low utilization level for the rated facility over the last few quarters, the company's conservative internal policies outlining the usage of this facility and presence of firm regulatory stipulations regarding debt drawdown by AMCs. SEBI guidelines allows schemes to borrow only to meet redemption pressures up to be 20% of the AUM for a maximum period of 6 months, which limits the debt drawdown by the AMCs. Moreover, the regulations allow access of bank-lines for the express purpose of meeting temporary liquidity requirements (for repurchase, redemption of units or payment of interest or dividend to the unitholders) and not to the AMC for its corporate requirements.

ICRA also notes that the returns to the unit holders are dynamically adjusted which takes into account the cost of using the bank lines, thereby the lender having priority to claims rather than the unit holders.

Outlook:

ICRA believes the AMC will continue to benefit from strong parentage and the operational and managerial support received from the parent. The outlook may be revised to 'Negative' in the event of a downturn in the industry or any changes in regulatory environment which may have an impact on the business operations and consequently financial performance of the company. Also, the ratings remain linked to the credit profile of the parent, SBI.

¹ Subsidiary of Credit Agricole (rated A1 by Moody's Investors Services)

Key rating drivers

Credit strengths

Strong parentage under pins the rating; company derives managerial and operational support from SBI- The rating factors in the strong parentage with State Bank of India (SBI, rated [ICRA]AAA(Stable)/[ICRA]A1+) holding 63% of the AMC with the balance being held by Amundi. The AMC derives significant operational and managerial support from SBI. The Managing Director of SBI is the Chairman of the Board of the company. The AMC also leverages the franchise network of SBI to acquire new customers. Any dilution in the level of support from the parent to the AMC or a change in the credit profile of its parent would be a key rating sensitivity. The AMC has access to financial flexibility being a part of the SBI group.

Strong market position; Healthy growth in assets under management- SBIFM's average assets under management (AUM) increased to Rs 1,95,559 crore as on March 31, 2018 from Rs 1,37,822 crore as on March 31, 2017, registering a growth of 42% Y-o-Y. SBIFM is the 5th largest AMC in the country with a consistent increase in the market share which grew from 8.58% in FY2017 to 9.44% in FY2018. The growth in AUM has been driven by the equity schemes. Consequently, the share of equity in the total portfolio increased from 48% as on March 31, 2017 to 56% as on March 31, 2018. The portfolio comprised equity (56%), debt (31%) and liquid funds (13%) as on March 31, 2018. ICRA expects the share of equity schemes to remain high with the fund house launching more equity schemes in FY2019.

Strong IT and risk management system- The AMC has the necessary internal control systems and risk management mechanism to invest in and manage assets on a continuous basis. With the growth in AUM the ability of the AMC to maintain and upgrade its systems will remain important from a credit perspective.

Limited utilization of debt limits - ICRA draws comfort from the stringent SEBI guidelines which allows AMCs to borrow only to meet redemption pressures up to 20% of the AUM for a maximum period of 6 months, which limits the debt drawdown by the AMCs. Moreover, the regulations allow access of bank lines for the express purpose of meeting temporary liquidity requirements and not for its corporate requirements. ICRA draws comfort from the low levels of utilization of the bank lines over the last few quarters, the internal policies that allow utilisation of the rated facilities only as a last resort for meeting any repurchase needs, dividend or interest payments to unit holders. ICRA also notes that the returns to unit holders are dynamically adjusted which takes into account the cost of using the bank lines, resulting in the lender having priority to claims over the unit holders.

Credit weaknesses

Ability to meet redemption pressure during adverse market conditions – In the event of downturn in the capital markets, the AMC remains exposed to redemption pressure and ability of the AMC to meet the liquidity requirement during such period remains important from a credit perspective. The sound liquidity policies have ensured that the AMC has sufficient credit lines to meet the redemption pressure. The rating also derives comfort from the fact that even in case of an extreme dip in the net assets value (NAV) of a scheme when losses to the lender may be triggered, the parent is likely to bail out the scheme to salvage its brand as a prominent mutual fund industry player.

Ability to grow the AUM and maintain good profitability – The competitive intensity in the industry remains high given numerous schemes being offered in the market by mutual funds. The increasing prominence of portfolio management services being offered by wealth advisors has further enhanced the competitive intensity. Going forward the ability of the company to increase its AUM while maintaining profitability given the competitive dynamics of the industry will be a key rating consideration.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the company:

SBI Funds Management Private Limited (SBIFM), the asset management company for the SBI Mutual Fund (SBI MF) was established in February 1992. It is a joint venture between State Bank of India (SBI) and Amundi with 63% and 37% stake respectively as on March 31, 2018. SBI MF had average assets under management of Rs 2,17,649.24 crore during Q4FY2018. As on March 31, 2018, SBI MF operated through 222 branches across India and one overseas point of presence.

The company reported a net profit of Rs. 331.03 crore on a total income base of Rs. 1,272.02 crore in FY2018 compared with a net profit of Rs. 224.32 crore on a total income base of Rs. 777.87 crore in FY2017.

Key Financial Indicators:

	FY2017	FY2018
Total Income	777.87	1272.02
Operating Profit	291.59	471.18
PBT	329.90	503.22
PAT	224.32	331.03
Net worth	770.98	1018.80
Total assets	985.05	1290.96
ROA	25.39%	29.09%
ROE	32.00%	36.99%

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Jun 2018	FY2018 Apr 2017	FY2017 Dec 2016	FY2016 Nov 2015
1 Fund based bank lines programme	Long term	16,000	0.00	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term Bank Lines	23/03/2018	8.35% p.a.	21/03/2019	16,000.00	[ICRA]AAA(Stable)

Source: SBI Funds Management Pvt. Ltd.

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