

November 01, 2019

Sundaram BNP Paribas Home Finance Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Cash Credit	200.00	200.00	[ICRA]AA+ (Stable); reaffirmed
Long-term Term Loan	550.00	450.00	[ICRA]AA+ (Stable); reaffirmed
Long-term Unallocated	0.00	100.00	[ICRA]AA+ (Stable); reaffirmed
Non-convertible debentures (NCDs)	1,771.60	1,771.60	[ICRA]AA+ (Stable); reaffirmed
Non-convertible debentures (NCDs)	1,058.40	-	[ICRA]AA+ (Stable); withdrawn
Subordinated Debt	135.00	135.00	[ICRA]AA+ (Stable); reaffirmed
Subordinated Debt	35.00	-	[ICRA]AA+ (Stable); withdrawn
Fixed Deposits	-	-	MAAA (Stable); reaffirmed
Commercial Paper	1,500.00	1,500.00	[ICRA]A1+; reaffirmed
Total	5,250.00	4,156.60	

*Instrument details are provided in Annexure-1

Rationale

ICRA has withdrawn the [ICRA]AA+(Stable) rating on the Rs. 1,058.40-crore non-convertible debentures and Rs. 35.00-crore subordinated debt programme of Sundaram BNP Paribas Home Finance Limited (SBPHFL), as the instruments are fully redeemed and there is no amount outstanding against the rated instruments.

The ratings factor in the support from the Sundaram Finance Group, with SBPHFL being a 100% subsidiary of Sundaram Finance Limited (SFL; rated [ICRA]AAA(Stable)/MAAA(Stable)/[ICRA]A1+). SFL acquired BNP Paribas Personal Finance Limited's stake (BNPPPF;49.9%) for about Rs. 1,000 crore in September 2019. The ratings also consider SBPHFL's established franchise in South India, by leveraging the Sundaram Finance brand, and SBPHFL's comfortable capitalisation profile.

The ratings, however, take note of the company's moderate asset quality with a 90+dpd of 3.4% as of June 2019 (4.4% as of June 2018), decline in its profitability indicators (PAT/AMA)¹ to 1.6% in FY2019 (1.8% annualised in Q1 FY2020) from 1.7% in FY2018 and 1.9% in FY2017 (as per I-GAAP) and its limited earnings and geographical diversity.

Key rating drivers and their description

Credit strengths

Support from Sundaram Finance Group – SBPHFL is a wholly-owned subsidiary of SFL with effect from September 30, 2019 (SFL and BNPPPF held stakes of 50.1% and 49.9%, respectively, as of March 31, 2019). The company has an established track record in the housing finance segment for over 15 years. It enjoys operational support from the

¹ Profit after Tax/Average Managed Advances

Sundaram Finance Group with access to the Group's loan sourcing infrastructure, customer base, risk management and IT/MIS systems. ICRA expects timely financial and management support from SFL, as and when required, and expects the Sundaram Finance Group to hold a majority stake in the company going forward.

Comfortable capital structure on the back of moderate portfolio growth – The capitalisation profile is comfortable with a capital adequacy ratio of 23.6% (provisional, Tier-I at 21.4%) as of June 2019. The managed gearing remained in the range of 6.4-6.5x over the last two years due to moderate portfolio growth (10% on a YoY basis) and steady internal generation. ICRA does not envisage any significant external capital requirement for the company during FY2020-2022, as the internal generation would be commensurate to meet the envisaged portfolio growth of around 10-15%, while capping the gearing at about 6-7x.

Credit challenges

Moderate asset quality – SBPHFL's asset quality is characterised by a 90+ dpd of 3.0% in March 2019 vis-à-vis 3.3% in March 2018. The delinquencies remained high in the softer buckets (0+ and 30+ dpd of 9.3% and 8.3%, respectively, as of March 2019). The asset quality improved moderately in FY2019 because of limited slippages (fresh NPA generation declined to 0.9% in FY2019 from 1.2% in FY2018) and higher resolution of NPAs (NPAs resolved/opening NPAs of 25% in FY2019 compared to 15% in FY2018). The 90+ dpd stood at 3.4% in June 2019 (4.4% in June 2018). The 90+dpd in the non-housing segment (accounting for 31% of the overall portfolio), notwithstanding some improvement, remained high at 6.0% while it was 2.3% in the housing loan segment, as of June 2019. ICRA also notes that about 38% of the 90+dpd (about Rs. 261 crore) was repossessed by the company as of March 31, 2019. Going forward, the company's ability to achieve better resolutions across both the segments in a timely manner and contain incremental slippages would be crucial.

Decline in profitability indicators – The net interest margin (on a managed basis) contracted to 3.5% in FY2019 (3.5%, annualised, in Q1 FY2020) from 3.8% in FY2018 as the cost of funds increased. The credit costs also remained high at 0.5% in FY2019 and 0.7% in FY2018 vis-à-vis 0.2% in FY2016 and FY2017. While the operating costs remained rangebound at 1.0-1.1%, the net profitability (PAT/AMA) dipped to 1.6% in FY2019 from 1.7% in FY2018 (under Ind AS) compared to the prior three-year average of 1.9% (FY2015-17; under I-GAAP). ICRA notes that the company's net profitability stood at 1.8% (annualised) in Q1 FY2020 as the credit costs declined to 0.3% (annualised). Going forward, SBPHFL's ability to improve the margins and undertake effective recoveries would be critical to improve profitability. The recent reduction in the corporate tax rate is expected to positively impact the company's earnings profile.

Regional concentration risk; portfolio likely to remain concentrated in South India over the medium term – The company has a regional presence in South India with a network of 115 branches. The five southern states accounted for 94% of the total portfolio as of June 2019. Tamil Nadu accounted for 50% of the overall loan book, followed by Andhra Pradesh (19%), Kerala (13%) and Karnataka (12%), indicating considerable concentration in Tamil Nadu. Over the medium term, the company aims to focus on the southern states and increase penetration in its existing area of operations, particularly where SFL has an established presence.

Liquidity position: Adequate

SBPHFL's asset liability maturity (ALM²) profile, as of June 2019, is characterised by a negative cumulative mismatch of about 17% of the total assets in the less-than-one-year bucket. After factoring in the undrawn borrowing facilities, the mismatches stood at 7% (negative) in the one-year bucket and were almost nil in the 3-month and 6-month buckets. While housing finance companies have inherent mismatches, ICRA notes that the company's undrawn bank lines of about Rs. 825 crore as of June 2019, coupled with its ability to regularly access funds from diverse sources, would be adequate to meet business growth while maintaining adequate liquidity.

SBPHFL's funding profile is diverse with NHB refinance and debentures comprising 30% and 25% of the borrowings, respectively, as of June 2019, followed by banks (17%), fixed deposits (16%) and commercial paper (12%). The incremental cost of borrowing stood at 7.9% (monthly) in Q1 FY2020 (8.4% in FY2019 and 7.3% in FY2018).

Rating sensitivities

Positive triggers – ICRA could upgrade the rating if the company is able to significantly reduce its asset liability mismatches, scale up operations while keeping the leverage under control, and bring down the GNPA's to less than 1% on a sustained basis.

Negative triggers – Pressure on the ratings could arise in case of a weakening in the credit risk profile of SFL, lower-than-expected support from the Sundaram Finance Group or sustained weakening of the asset liability maturity profile from current levels or further deterioration in the asset quality with the GNPA's increasing beyond 4% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating methodology for housing finance companies Impact of Parent or Group Support on an Issuer's Credit Rating
Group Support	ICRA expects that SFL would continue to extend financial support to SBPHFL, given the high strategic importance held by SBPHFL for meeting the Group's diversification objectives. SBPHFL and SFL also share a common name, which, in ICRA's opinion, would persuade SFL to provide financial support to SBPHFL to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	NA

About the company

Incorporated in 1999, Sundaram BNP Paribas Home Finance Limited (SBPHFL) is a medium-sized housing finance company. It primarily provides housing loans and loan against property. SBPHFL is a wholly-owned subsidiary of Sundaram Finance Limited (SFL). As an operational strategy, SBPHFL is focussed largely on the five southern states where SFL has a strong retail customer base. As on June 30, 2019, SBPHFL had 115 branch offices.

² Excluding interest income, interest expense, sanctioned borrowings and committed advances

In FY2019, SBPHFL reported a net profit of Rs. 145 crore on a managed asset base of Rs. 9,460 crore compared with a net profit of Rs. 144 crore on a managed asset base of Rs. 8,728 crore in FY2018. In Q1 FY2020, SBPHFL reported a net profit of Rs. 43 crore (provisional) on a managed asset base of Rs. 9,503 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 large NBFCs in the country with assets under management (AUM) of Rs. 28,984 crore as of March 2019. Its primary focus is on the financing of commercial vehicles (CVs) and cars. SFL has invested in various entities to provide a gamut of financial services like housing finance (SBPHFL), insurance (Royal Sundaram) and mutual funds (Sundaram Asset Management Company Limited; SAMCL).

SFL reported a standalone net profit of Rs. 1,126 crore (including Rs. 522 crore towards an exceptional item on account of the sale of shares in Royal Sundaram) in FY2019 on a managed asset base of Rs. 31,768 crore compared with a net profit of Rs. 563 crore on a managed asset base of Rs. 27,211 crore in FY2018.

Key financial indicators

SBPHFL	FY2018	FY2019	Q1 FY2020*
Total Income (Rs. crore)	935	1,006	264
Profit after Tax (Rs. crore)	144	145	43
Net Worth (Rs. crore)	1,149	1,252	1,295
Total Managed Portfolio (Rs. crore)	8,358	9,064	9,225
Total Managed Assets (Rs. crore)	8,728	9,460	9,503
Return on Managed Assets %	1.7%	1.6%	1.8%
Return on Net Worth (times)	NA	12.1%	13.4%
Gearing (reported)	6.4	6.4	6.3
Gross NPA% ¹	3.2%	2.9%	3.4%
Net NPA% ¹	1.2%	0.9%	1.5%
CAR%	24.2%	23.5%	23.6%

*As per Ind AS; Source: SBPHFL; ¹ Corresponds to Gross stage 3 and net stage 3, respectively; * Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating	Earlier Rating	FY2019	FY2018	FY2017
					01-Nov-19	09-July-19	13-Aug-18	05-July-17	11-Nov-16
1	NCD	Long Term	1,771.60	1,771.60	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Subordinated debt	Long Term	135.00	135.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3	Fixed deposits	Medium Term	-	-	MAAA (Stable)	MAAA (Stable)	MAAA (Stable); upgraded from MAA+ (Positive)	MAA+ (Positive)	MAA+ (Positive)
4	Long-term cash credit	Long Term	200.00	200.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
5	Long-term term loans	Long Term	450.00	450.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
6	Long-term unallocated	Long Term	100.00	100.00	[ICRA]AA+ (Stable)	-	-	-	-
7	Commercial paper	Short Term	1,500.00	1,500.00	[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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed deposits	-	-	-	-	MAAA (Stable)
NA	Cash credit	-	-	-	200.00	[ICRA]AA+(Stable)
NA	Term loan 1	29-Nov-17	-	29-Nov-19	50.00	[ICRA]AA+(Stable)
NA	Term loan 2	12-Jun-17	-	01-Jun-20	100.00	[ICRA]AA+(Stable)
NA	Term loan 3	22-Dec-17	-	22-Jun-20	200.00	[ICRA]AA+(Stable)
NA	Term loan 4	27-Sep-18	-	27-Sep-21	100.00	[ICRA]AA+(Stable)
Unallocated	Term loan	-	-	-	100.00	[ICRA]AA+(Stable)
INE667F07FK2	NCD	13-Apr-15	8.95%	13-Apr-20	25.00	[ICRA]AA+(Stable)
INE667F07FS5	NCD	09-Oct-15	8.70%	09-Oct-20	20.00	[ICRA]AA+(Stable)
INE667F07GD5	NCD	12-Jul-16	8.75%	10-Jul-20	50.00	[ICRA]AA+(Stable)
INE667F07GI4	NCD	16-Sep-16	8.15%	03-Jul-20	11.00	[ICRA]AA+(Stable)
INE667F07GL8	NCD	28-Nov-16	7.60%	28-Nov-19	100.00	[ICRA]AA+(Stable)
INE667F07GM6	NCD	01-Dec-16	7.60%	29-Nov-19	100.00	[ICRA]AA+(Stable)
INE667F07GR5	NCD	12-Jun-17	7.70%	30-Jun-20	30.00	[ICRA]AA+(Stable)
INE667F07GU9	NCD	30-Aug-17	7.40%	28-Aug-20	35.00	[ICRA]AA+(Stable)
INE667F07GV7	NCD	04-Sep-17	7.40%	04-Sep-20	75.00	[ICRA]AA+(Stable)
INE667F07GW5	NCD	29-Nov-17	7.75%	27-Nov-20	100.00	[ICRA]AA+(Stable)
INE667F07GY1	NCD	15-Nov-18	N.A.	27-Dec-21	50.00	[ICRA]AA+(Stable)
INE667F07GZ8	NCD	07-Dec-18	N.A.	11-Dec-19	100.00	[ICRA]AA+(Stable)
INE667F07HA9	NCD	20-Dec-18	N.A.	07-Mar-22	75.00	[ICRA]AA+(Stable)
INE667F07HB7	NCD	24-Dec-18	9.11%	24-Dec-20	70.00	[ICRA]AA+(Stable)
INE667F07HD3	NCD	21-Jan-19	9.10%	21-Jan-22	30.00	[ICRA]AA+(Stable)
INE667F07HE1	NCD	22-Jan-19	N.A.	22-Apr-20	35.00	[ICRA]AA+(Stable)
INE667F07HF8	NCD	08-Feb-19	8.78%	07-May-21	25.00	[ICRA]AA+(Stable)
INE667F07HH4	NCD	11-Apr-19	8.40%	11-Apr-22	70.00	[ICRA]AA+(Stable)
INE667F07HI2	NCD	13-Jun-19	8.36%	30-Nov-20	75.00	[ICRA]AA+(Stable)
INE667F07HJ0	NCD	18-Jun-19	8.40%	18-Jun-21	70.00	[ICRA]AA+(Stable)
INE667F07HK8	NCD	18-Jun-19	8.60%	17-Jun-22	25.00	[ICRA]AA+(Stable)
INE667F07HL6	NCD	17-Jul-19	8.40%	16-Jul-21	100.00	[ICRA]AA+(Stable)
INE667F07HM4	NCD	13-Sep-19	8.15%	13-Sep-22	35.00	[ICRA]AA+(Stable)
Unallocated	NCD	-	-	-	465.60	[ICRA]AA+(Stable)
INE667F08087	Sub-debt	28-Jun-12	10.50%	28-Jun-22	25.00	[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)
Unallocated	Sub-debt	-	-	-	5.00	[ICRA]AA+(Stable)
NA	Commercial paper	-	-	7-365 days	1,500.00	[ICRA]A1+

Source: SBPHFL

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