

## Sundaram BNP Paribas Home Finance Limited

May 9, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Short-term Bank Facilities	10.00	<b>CARE A1+ [A One Plus]</b>	Reaffirmed
Long-term Bank Facilities	108.33	<b>CARE AA+; Stable [Double A Plus; Outlook: Stable]</b>	Reaffirmed
<b>Total Facilities</b>	<b>118.33 (Rupees One hundred Eighteen crore and Thirty Three lakh only)</b>		
Non-Convertible Debentures (Series VIII)	111.00	<b>CARE AA+; Stable [Double A Plus; Outlook: Stable]</b>	Reaffirmed
Non-Convertible Debentures (Series IX)	315.80	<b>CARE AA+; Stable [Double A Plus; Outlook: Stable]</b>	Reaffirmed
Non-Convertible Debentures (Series X)	413.20	<b>CARE AA+; Stable [Double A Plus; Outlook: Stable]</b>	Reaffirmed
Non-Convertible Debentures (Series XI)	456.50	<b>CARE AA+; Stable [Double A Plus; Outlook: Stable]</b>	Reaffirmed
Non-Convertible Debentures (Series XII)	100.00	<b>CARE AA+; Stable [Double A Plus; Outlook: Stable]</b>	Reaffirmed
Subordinated Debt	250.00	<b>CARE AA; Stable [Double A; Outlook: Stable]</b>	Reaffirmed
<b>Total Instruments</b>	<b>1646.50 (Rupees One thousand Six hundred Forty Six crore and Fifty lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and various debt instruments of Sundaram BNP Paribas Home Finance Limited (SHFL) continue to factor in the strong parentage of Sundaram Finance Limited and BNP Paribas Personal Finance [100% subsidiary of BNP Paribas (SA) France], strong brand image and established track record in the housing finance segment in South India, comfortable capital adequacy, steady profitability indicators and diversified resource profile.

The ratings, however, take note of the moderation in asset quality seen in the last two financial years ended March 31, 2016 and modest credit growth of SHFL during FY16 (refers to the period April 1 to March 31) and 9MFY17 (refers to the period April 1 to December 31).

The ratings remain constrained by the company's relatively moderate size and geographical concentration of its portfolio within South India.

Going forward, the ability of SHFL to improve the asset quality parameters, contain delinquencies, expand operations while protecting its spreads and manage its liquidity profile effectively will be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Strong parentage**

The ratings factor in the strong parentage, the company being held jointly by Sundaram Finance Limited (SFL) and BNP Paribas (SA) France. Both the parent companies have nominated their directors on the board of SHFL. SHFL has always been supported by its parent companies in terms of capital requirements. SHFL also benefits from access to the group's established branch infrastructure and credit tested clientele.

##### **Portfolio remained stable during FY16 with a focus on asset quality**

SHFL's revenue remained stable in FY16 with the portfolio outstanding growing by 3% during the year. The share of non-housing loans in its loan portfolio remained at 31% as on March 31, 2016.

With reduction in the cost of borrowings, NIM slightly improved to 3.31% (PY: 3.23%) during FY16, while ROTA remained at 2.01% (PY: 2.00%). PAT grew by 4% to Rs.153 crore (PY: Rs.146 crore) on account of change in the provisioning policy of the company. During 9MFY17, the company reported a PAT of Rs.121 crore on a total income of Rs.689 crore.

##### **Comfortable capital adequacy levels**

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

SHFL has been able to maintain its capital adequacy at comfortable levels. SHFL reported total CAR of 23.94% as on March 2016 (PY: 20.41%) against the regulatory requirement of 12%. The Tier-I CAR constituted 19.34% (PY: 15.46%) while Tier-II CRAR stood at 4.60% (PY: 4.95%) as on March 31, 2016, indicating significant cushion available to raise Tier-II funds in case of requirement.

#### **Diversified resource profile**

The resource profile of the company is diversified with Debentures and NHB Refinance being major source constituting 33% and 29% of the total borrowings respectively as on March 31, 2016, while bank loans, deposits and commercial paper contributed to about 14%, 16% and 8% respectively. The overall gearing has improved from 8.27 times as on March 31, 2015 to 7.18 times as on March 31, 2016.

#### **Key Rating Weaknesses**

##### **Moderation in asset quality and increase in delinquencies during FY16**

The asset quality of SHFL has seen moderation in the last 2 financial years. Gross NPA ratio stood at 2.82% as on March 31, 2016. This was majorly due to slippages seen in certain loans majorly in the non-housing portfolio. Net NPA ratio stood at 0.98% as on March 31, 2016 [PY: 0.75%]. Net NPA to Networth stood at 7.75% as on March 31, 2016 [PY: 6.64%]. While the asset quality has seen slight moderation in FY16, delinquencies have shown an increase with 61-90 dpd at 5.50% as on March 31, 2016.

There have been delays in the recovery process by way of SARFAESI act. As the loans in both housing and non-housing segments are backed by adequate collateral, ultimate credit losses are negligible.

Asset quality has seen moderation in 9MFY17 where the company reported GNPA of 4.09% and NNPA of 2.41% as on December 31, 2016.

##### **Moderate size and regional concentration**

SHFL continues to be a moderately sized HFC in comparison to its peers, despite a considerable increase in its loan portfolio, over the years. Almost entire loan portfolio of the company is concentrated in the four states (Tamil Nadu, Andhra Pradesh (AP), Kerala and Karnataka) of South India. The company's highest exposure is in the State of Tamil Nadu which constituted 53% of the total loan portfolio outstanding as on March 31, 2016.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Ratios-Financial Sector](#)

[Rating Methodology – Housing Finance Companies](#)

#### **About the Company**

Based in Chennai, SHFL is focused on providing both housing as well as non-housing loans in the southern states of Tamil Nadu, Andhra Pradesh, Kerala and Karnataka. Apart from these, SHFL also caters to few cities in 'Rest of India' in the states of Madhya Pradesh, Maharashtra, Orissa, Rajasthan and West Bengal. As on March 31, 2016, SHFL had a network of 108 branches spread across these states. Sundaram Finance Limited (SFL) holds 50.1% stake in SHFL, whereas the remaining 49.9% is held by BNP Paribas Personal Finance (wholly-owned subsidiary of BNP Paribas (SA), France).

During FY16, SHFL reported PAT of Rs.153 crore on total income of Rs.927 crore. As on March 31, 2016, total CAR stood at 23.94% with Gross NPA ratio of 2.82% and Net NPA ratio of 0.98%. During 9MFY17, the company reported a PAT of Rs.121 crore on a total income of Rs.689 crore.

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

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT	-	-	-	108.33	CARE AA+; Stable
Fund-based - ST-Bank Overdraft	-	-	-	10.00	CARE A1+
Debentures-Non Convertible Debentures (Series VIII)	Jan 02, 2013	9.30%-9.70%	May 8, 2018	315.80	CARE AA+; Stable
Debentures-Non Convertible Debentures (Series IX)	May 08, 2013	9.03%-10.95%	Aug 8, 2018	111.00	CARE AA+; Stable
Debentures-Non Convertible Debentures (Series X)	Oct 07, 2013	9.65%-10.30%	Feb 27, 2019	413.20	CARE AA+; Stable
Debentures-Non Convertible Debentures (Series XI)	Jul 18, 2014	9.04%-9.70%	Oct 17, 2019	456.50	CARE AA+; Stable
Debentures-Non Convertible Debentures (Series XII)	Mar 2, 2016	8.97%	Mar 1, 2019	100.00	CARE AA+; Stable
Debt-Subordinate Debt	Mar 3, 2010	9.90%-10.50%	Feb 28, 2023	100.00	CARE AA; Stable

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (17-Jul-14)
2.	Debt-Subordinate Debt	LT	100.00	CARE AA; Stable	-	1)CARE AA (07-Jul-16)	1)CARE AA (13-Jul-15)	1)CARE AA (17-Jul-14)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (17-Jul-14)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (13-Jul-15)	1)CARE AA+ (17-Jul-14)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (13-Jul-15)	1)CARE AA+ (17-Jul-14)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (17-Jul-14)
7.	Debt-Subordinate Debt	LT	100.00	CARE AA; Stable	-	1)CARE AA (07-Jul-16)	1)CARE AA (13-Jul-15)	1)CARE AA (17-Jul-14)
8.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (13-Jul-15)	1)CARE AA+ (17-Jul-14)
9.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (07-Jul-16)	1)CARE AA+ (13-Jul-15)	1)CARE AA+ (17-Jul-14)
10.	Debt-Subordinate Debt	LT	50.00	CARE AA; Stable	-	1)CARE AA (07-Jul-16)	1)CARE AA (13-Jul-15)	1)CARE AA (17-Jul-14)
11.	Debentures-Non Convertible Debentures	LT	111.00	CARE AA+; Stable	-	1)CARE AA+ (07-Jul-16)	1)CARE AA+ (13-Jul-15)	1)CARE AA+ (17-Jul-14)
12.	Fund-based - LT-Term Loan	LT	33.33	CARE AA+; Stable	-	1)CARE AA+ (07-Jul-16)	1)CARE AA+ (13-Jul-15)	1)CARE AA+ (17-Jul-14) 2)CARE AA+ (13-May-14)
13.	Debentures-Non Convertible Debentures	LT	315.80	CARE AA+; Stable	-	1)CARE AA+ (07-Jul-16)	1)CARE AA+ (13-Jul-15)	1)CARE AA+ (17-Jul-14)
14.	Fund-based - LT-Cash Credit	LT	75.00	CARE AA+; Stable	-	1)CARE AA+ (07-Jul-16)	1)CARE AA+ (13-Jul-15)	1)CARE AA+ (17-Jul-14) 2)CARE AA+ (13-May-14)
15.	Debentures-Non Convertible Debentures	LT	413.20	CARE AA+; Stable	-	1)CARE AA+ (07-Jul-16)	1)CARE AA+ (13-Jul-15)	1)CARE AA+ (17-Jul-14) 2)CARE AA+ (08-Apr-14)
16.	Debentures-Non Convertible Debentures	LT	456.50	CARE AA+; Stable	-	1)CARE AA+ (07-Jul-16)	1)CARE AA+ (13-Jul-15)	1)CARE AA+ (17-Jul-14) 2)CARE AA+ (08-Apr-14)
17.	Fund-based - ST-Bank	ST	10.00	CARE	-	1)CARE A1+	1)CARE A1+	-

	Overdraft			A1+		(07-Jul-16)	(13-Jul-15)	
18.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+; Stable	-	1)CARE AA+ (07-Jul-16)	1)CARE AA+ (01-Mar-16)	-

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