

March 04, 2022^{Revised}

Sundaram Home Finance Limited: Ratings assigned/reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Cash Credit	110.00	110.00	[ICRA]AA+ (Stable); reaffirmed
Long-term Term Loan	536.66	411.67	[ICRA]AA+ (Stable); reaffirmed
Long-term Unallocated	62.50	187.49	[ICRA]AA+ (Stable); reaffirmed
Non-convertible Debentures	1,645.60	1,645.60	[ICRA]AA+ (Stable); reaffirmed
	80.00	0.00	[ICRA]AA+ (Stable); reaffirmed and withdrawn
Non-convertible Debentures	-	500.00	[ICRA]AA+ (Stable); assigned
Subordinated Debt	135.00	135.00	[ICRA]AA+ (Stable); reaffirmed
Fixed Deposits	-	-	MAAA (Stable); reaffirmed
Commercial Paper	1,500.00	1,500.00	[ICRA]A1+; reaffirmed
Total	4,069.76	4,489.76	

*Instrument details are provided in Annexure-1

Rationale

The ratings consider Sundaram Home Finance Limited's (SHFL) position as a 100% subsidiary of Sundaram Finance Limited (SFL; rated [ICRA]AAA (Stable)/MAAA (Stable)/[ICRA]A1+) and factor in the support from the Sundaram Finance Group (the Group). The ratings also consider SHFL's established franchise in South India, by leveraging the Sundaram Finance brand, and its comfortable capital structure characterised by a managed gearing¹ of 5.1x (provisional) as of December 2021.

These credit strengths are, however, partly offset by the relatively subdued asset quality and moderate earnings profile. SHFL's asset quality witnessed pressure in 9M FY2022 on account of the disruptions faced by its borrowers during the second wave of the Covid-19 pandemic. Its overall 90+ days past due (dpd) increased to 4.3% in December 2021 from 3.4% as of March 2021, while the standard restructured book stood at 5.0% as of December 2021. The 90+dpd, however, moderated from the peak of 6.6% in June 2021 when overdues shot up on account the second wave of the pandemic. The collection efficiency² improved to ~108% in Q3 FY2022 (similar to the Q4 FY2021 level) from ~80% in May 2021 (~93% in April 2021). The overall expected credit loss (ECL) provisions (3.3% of the loan book as of December 2021) and the expected recoveries from the repossessed assets, including properties for which a repossession order has been received (22% of the 90+dpd as of December 2021), provide some comfort.

The ratings also take into consideration the moderation in SHFL's earnings profile in 9M FY2022 as the credit costs increased due to the aforesaid pressure on the asset quality. The net profitability {profit after tax (PAT)/average managed assets (AMA)} declined to 1.5% (provisional) in 9M FY2022 (1.8% in FY2021) as the credit costs had increased to 1.0% (provisional) in 9M FY2022 from 0.5% in FY2021. The ability to contain the credit costs would be key to improve the profitability on a sustained

¹ Including assigned book

² Collections including arrears but excluding prepayments/current demand for the month

basis going forward. The ratings are also constrained by the regionally concentrated operations with Tamil Nadu accounting for 45% of the overall book as of December 2021.

ICRA has reaffirmed and withdrawn the rating on the Rs. 80-crore non-convertible debentures (NCDs) as the same have been fully redeemed and no amount is outstanding against the rated instrument. The rating was withdrawn as per ICRA's policy on the withdrawal and suspension of credit ratings.

Key rating drivers and their description

Credit strengths

Support from Sundaram Finance Group – SHFL is a wholly-owned subsidiary of SFL and has an established track record in the housing finance segment for over 15 years. It enjoys operational support from the Sundaram Finance Group with access to the Group's loan sourcing infrastructure, customer base, risk management and information technology (IT) system/management information system (MIS). ICRA expects timely financial and management support from SFL, as and when required, and expects the 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 26.6% (provisional) as of December 31, 2021 (24.9% as of March 31, 2021). The managed gearing declined to 5.1x as of December 2021 vis-à-vis 5.3x in March 2021, as the portfolio grew by a modest 2.9% on a sequential basis. ICRA expects the capital structure to remain comfortable in the near term considering the moderate growth expectations.

Credit challenges

Subdued asset quality indicators – The 90+dpd³ decreased and stood at 4.3% as of December 2021 from 6.6% as of June 2021 though it has not yet moderated to the level seen as of March 2021 (3.4%). The 90+dpd in the housing and non-housing (~30% of the overall portfolio) segments stood at 3.2% and 6.8%, respectively, as of December 2021. The gross stage 3 (on EAD⁴ basis) decreased and stood at 5.1% in December 2021 (4.7% in December 2020) compared to 7.6% in June 2021 (4.5% in March 2021), supported by the improvement in collections and the restructuring of some of the overdue exposures post the second wave of the pandemic. SHFL's standard restructured book stood at 5.0% of the loan book as of December 2021, with most of the accounts being restructured in Q2 FY2022. Further, ~22% of the 90+dpd was in the form of repossessed assets (including accounts for which repossession order was received) as of December 2021.

ICRA notes that the 90+dpd is higher than the stipulated negative rating trigger as of December 2021. However, the overall provisions carried (3.3% of the loan portfolio as of December 2021) and the expected recoveries from the repossessed book provide some comfort from an asset quality perspective. ICRA expects the asset quality metrics to improve going forward and remain below the stipulated negative triggers.

Net profitability impacted by increase in credit costs – SHFL's net interest margins improved to 3.8% (provisional) in 9M FY2022 from 3.4% in FY2021, supported by the reduction in the average cost of funds notwithstanding the decline in the yields. However, the credit costs stood higher at 1.0% (provisional) in 9M FY2022 (0.5% in FY2021) due to the impact of the second wave, which affected the borrower's cashflows as well as the company's ability to make collections. The net profitability declined to 1.5% (provisional) in 9M FY2022 from 1.8% in FY2021, largely due to the increase in the credit costs. The net profitability is expected to remain moderate in the near term vis-à-vis the pre-Covid level due to the continued impact of

³ Gross non-performing advances (NPAs) as on December 31, 2021 stood at 5.5%, adhering to the Reserve Bank of India's (RBI) circular dated November 12, 2021

⁴ Exposure at default (including the interest portion of unpaid EMI)

provisions and credit costs. Going forward, the ability to contain the credit costs and achieve good business yields in view of the competitive pressures in the housing segment would be key to improve the profitability on a sustained basis.

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 105 branches. The five southern states accounted for 94% of the total portfolio as of December 2021. Tamil Nadu accounted for 45% of the overall loan book, followed by Andhra Pradesh & Telangana (22%), Karnataka (14%) and Kerala (13%), indicating considerable concentration in Tamil Nadu. SHFL’s portfolio is likely to remain concentrated in South India over the medium term.

Liquidity position: Adequate

SHFL had unencumbered cash and liquid investments of ~Rs. 624 crore and undrawn credit lines of ~Rs. 1,130 crore as of January 31, 2022, against debt and other obligations of ~Rs. 688 crore during February-March 2022. ICRA notes that the collection efficiency (collections including arrears/demand for the month) had improved to ~108% in Q3 FY2022 compared to Q1 FY2022, which was impacted by the second wave.

The asset-liability maturity (ALM) statement as of December 2021 was characterised by a negative cumulative mismatch of 2% of the total assets in the less-than-one-year bucket. However, this is largely mitigated, given the company’s access to diverse funding sources as a part of the SFL Group. SHFL has a diverse funding profile with NCDs & sub-debt comprising 34% of the total borrowings followed by deposits (25%), National Housing Bank (NHB) refinance (21%), loans from banks (14%) and commercial paper (CP; the balance).

Rating sensitivities

Positive factors – ICRA could upgrade the rating or revise the outlook to Positive if SHFL is able to significantly reduce its asset-liability mismatches, scale up its operations while keeping the leverage under control, and bring down the 90+dpd to less than 1% on a sustained basis.

Negative factors – Pressure on the ratings could arise in case of a weakening in SFL’s credit risk profile or lower-than-expected support from the Group. Deterioration in the asset quality with the 90+dpd exceeding 4% on a sustained basis or a sustained weakening of the ALM profile would also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA’s Credit Rating Methodology for Non-Banking Finance Companies Policy on Withdrawal of Credit Ratings Impact of Parent or Group Support on an Issuer’s Rating
Parent/Group Support	Sundaram Finance Limited (Parent)
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

Incorporated in 1999, Sundaram Home Finance Limited (SHFL) is a medium-sized housing finance company. It primarily provides housing loans and loan against property. SHFL is a wholly-owned subsidiary of Sundaram Finance Limited (SFL). As an operational strategy, SHFL is focussed largely on the five southern states where SFL has a strong retail customer base. As on June 30, 2021, SHFL had 107 branch offices.

SHFL reported a net profit of Rs. 191 crore in FY2021 on a managed asset base of Rs. 9,915 crore against a net profit of Rs. 158 crore on a managed asset base of Rs. 10,186 crore in FY2020. It reported a net profit of Rs. 114.6 crore (provisional) in 9M FY2022 on a managed asset base of Rs. 9,868.6 crore.

Key financial indicators (IndAS)

Standalone	FY2020	FY2021	9M FY2022*
Total Income (Rs. crore)	1,079	1,039	713
Profit after Tax (Rs. crore)	158 [#]	191	115
Net Worth (Rs. crore)	1,421	1,559	1,618
Total Managed Portfolio (Rs. crore)	9,548	9,041	9,152
Total Managed Assets (Rs. crore)	10,186	9,915	9,869
Return on Managed Assets %	1.6% [#]	1.8%	1.5%
Return on Net Worth %	11.8% [#]	12.9%	9.6%
Gearing (reported; times)	6.1	5.3	5.0
Gearing (managed; times)	6.1	5.3	5.1
Gross Stage 3 %	4.8%	4.5%	5.1%
Net Stage 3 %	1.6%	1.1%	3.1%
CRAR%	23.0%	24.9%	26.6%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; * Provisional numbers*

Excluding the exceptional gain due to reversal of Deferred Tax Liability on special reserve in FY2020; Gross NPA stood at 3.4% as of March 2021 and 4.3% as of December 2021

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sl. No.	Instrument	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years										
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating	Date & Rating in FY2022		Date & Rating in FY2021				Date & Rating in FY2020			
						Mar-04-2022	Sep-16-2021	Feb-09-2021	Oct-06-2020	Feb-07-2020	Nov-01-2019	July-09-2019	Sep-28-2018	Aug-13-2018	Jul-06-2018
1	NCD	Long term	1,645.60	1,645.60	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
2	NCD	Long term	80.00	-	[ICRA]AA+ (Stable); withdrawn	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
3	NCD	Long term	500.00	-	[ICRA]AA+ (Stable)	-	-	-	-	-	-	-	-	-	
4	Subordinated debt	Long term	135.00	135.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
5	Fixed deposits	Medium term	-	-	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable); upgraded from MAA+(Positive)	MAA+ (Positive)	
6	Long-term cash credit	Long term	110.00	110.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
7	Long-term term loans	Long term	411.67	411.67	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
8	Long-term unallocated	Long term	187.49	187.49	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	-	-	
9	Commercial paper	Short term	1,500.00	1,500.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible Debenture	Simple
Long Term – Cash Credit	Simple
Long Term – Term Loan	Simple
Long Term – Unallocated	Not Applicable
Subordinated Debt	Moderately Complex
Fixed Deposits	Very Simple
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN/Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE667F07GY1	NCD	Nov-15-2018	NA	Dec-27-2021	50.00	[ICRA]AA+ (Stable); reaffirmed and withdrawn
INE667F07HA9	NCD	Dec-20-2018	NA	Mar-07-2022	75.00	[ICRA]AA+ (Stable)
INE667F07HD3	NCD	Jan-21-2019	9.10%	Jan-21-2022	30.00	[ICRA]AA+ (Stable); reaffirmed and withdrawn
INE667F07HH4	NCD	Apr-11-2019	8.40%	Apr-11-2022	70.00	[ICRA]AA+ (Stable)
INE667F07HK8	NCD	Jun-18-2019	8.60%	Jun-17-2022	25.00	[ICRA]AA+ (Stable)
INE667F07HM4	NCD	Sep-13-2019	8.15%	Sep-13-2022	35.00	[ICRA]AA+ (Stable)
INE667F07HO0	NCD	Dec-05-2019	8.10%	Dec-05-2022	200.00	[ICRA]AA+ (Stable)
INE667F07HP7	NCD	Dec-20-2019	8.15%	Mar-20-2023	42.00	[ICRA]AA+ (Stable)
INE667F07HQ5	NCD	Feb-03-2020	7.75%	Feb-03-2022	100.00	[ICRA]AA+ (Stable)
INE667F07HX1	NCD	Oct-13-2020	5.90%	Oct-13-2022	150.00	[ICRA]AA+ (Stable)
INE667F07HZ6	NCD	Oct-16-2020	6.20%	Oct-16-2023	150.00	[ICRA]AA+ (Stable)
INE667F07HY9	NCD	Oct-16-2020	6.20%	Nov-16-2023	150.00	[ICRA]AA+ (Stable)
INE667F07IB5	NCD	Aug-06-2021	3M T-bill + 160 bps	Aug-06-2024	145.00	[ICRA]AA+ (Stable)
INE667F07IC3	NCD	Sep-29-2021	3M T-bill + 150 bps	Sep-27-2024	225.00	[ICRA]AA+ (Stable)
Unallocated	NCD	-	-	-	778.60	[ICRA]AA+ (Stable)
INE667F08087	Sub-debt	Jun-28-2012	10.50%	Jun-28-2022	25.00	[ICRA]AA+ (Stable)
INE667F08111	Sub-debt	Feb-28-2013	9.90%	Feb-28-2023	40.00	[ICRA]AA+ (Stable)
INE667F08129	Sub-debt	Dec-16-2014	9.45%	Dec-16-2024	20.00	[ICRA]AA+ (Stable)
INE667F08137	Sub-debt	Feb-24-2015	9.25%	Feb-24-2025	45.00	[ICRA]AA+ (Stable)
Unallocated	Sub-debt	-	-	-	5.00	[ICRA]AA+ (Stable)
INE667F14FP7	Commercial Paper	Sep-09-2021	4.20%	Apr-28-2022	100.00	[ICRA]A1+
INE667F14FQ5	Commercial Paper	Oct-18-21	3.90%	Mar-10-2022	100.00	[ICRA]A1+
INE667F14FR3	Commercial Paper	Nov-22-21	4.84%	Aug-29-2022	100.00	[ICRA]A1+
INE667F14FR3	Commercial Paper	Nov-22-21	4.84%	Aug-29-2022	50.00	[ICRA]A1+
INE667F14FS1	Commercial Paper	Dec-02-21	4.41%	May-6-2022	200.00	[ICRA]A1+
INE667F14FT9	Commercial Paper	Jan-05-22	4.27%	Apr-29-2022	200.00	[ICRA]A1+
INE667F14FU7	Commercial Paper	Jan-19-22	3.68%	Mar-24-2022	70.00	[ICRA]A1+
INE667F14FU7	Commercial Paper	Jan-19-22	3.68%	Mar-24-2022	80.00	[ICRA]A1+
INE667F14FV5	Commercial Paper	Feb-04-22	4.89%	Jul-29-2022	100.00	[ICRA]A1+
INE667F14FV5	Commercial Paper	Feb-04-22	4.89%	Jul-29-2022	50.00	[ICRA]A1+
Yet to be placed	Commercial Paper	-	-	7-365 days	450.00	[ICRA]A1+
NA	Fixed Deposits	-	-	-	-	MAAA (Stable)
NA	Cash Credit	-	-	-	110.00	[ICRA]AA+ (Stable)
NA	Term Loan 1	Sep-19	-	Sep-22	125.00	[ICRA]AA+ (Stable)
NA	Term Loan 2	Dec-19	-	Nov-22	20.00	[ICRA]AA+ (Stable)
NA	Term Loan 3	Dec-20	-	Dec-23	166.67	[ICRA]AA+ (Stable)
NA	Term Loan 4	Oct-19	-	Sep-22	100.00	[ICRA]AA+ (Stable)
Unallocated	Term Loan	-	-	-	187.49	[ICRA]AA+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not applicable

Corrigendum

The rating rationale document dated March 04,2022 has been corrected with the revision as detailed below:

The name of the parent company and the rating methodology link for 'Impact of Parent or Group Support on an Issuer's Rating' has been updated in the analytical approach table in Page no.3

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