May 09, 2022

Standard Chartered Capital Limited (erstwhile Standard Chartered Investments and Loans (India) Ltd): Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	500	500	[ICRA]AAA (Stable); reaffirmed
Commercial Paper	2,750	3,500	[ICRA]A1+; assigned and reaffirmed
Total	**3,250**	**4,000**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor in Standard Chartered Capital Limited's (SCCL) position as a wholly-owned subsidiary of Standard Chartered Bank (UK) (SCB UK; rated A1 (Stable)/P1 by Moody's Investors Service) and the expectation that the parent will extend support to SCCL as and when required. ICRA also takes comfort from SCCL's adequate capitalisation with a gearing of 3.2x and a net worth of Rs. 1,033 crore as on December 31, 2021, along with the robust risk management system that draws from the SCB Group's global policies.

ICRA notes that SCCL's dependence on short-term sources of funding is high (partly in line with the short-term nature of advances mainly private banking and retail Loan against Securities (LAS)), though it is reducing, with improved diversification of funds via non-convertible debenture (NCDs), bank lines and inter-corporate deposits (ICDs). The share of bank lines and NCDs increased to 38% as on December 31, 2021 from 36% as on March 31, 2021 and 13% as on March 31, 2019. Apart from sourcing funds from other banks and financial institutions, SCCL has a credit line arrangement with Standard Chartered Bank, India, to be used in case of exigencies which supports its overall liquidity profile. ICRA has also taken note of the relatively high concentration of risk in SCCL's portfolio, which exposes it to asset quality related shocks. In this regard, SCCL's track record of comfortable asset quality metrics over several years with gross and net stage 3% of 0.4% and 0.2%, respectively, as on December 31, 2021 provides comfort. At the same time, ICRA notes that the granularity of the company's portfolio is improving with further focus on the retail book (retail share increased to 19% as on December 31, 2021 from 12% as on March 31, 2021 and 3% as on March 31, 2019).

The ratings also factor in SCCL's adequate profitability, supported by the relatively low operating expenses (which are expected to increase in the near term with increased share of private banking and retail loans and subsequently incremental investment in technology platforms, infrastructure and employee acquisition) and low credit costs, driven by the comfortable asset quality indicators. Overall, a significant change in SCB UK's credit profile or a reduction in the parent's support to SCCL could warrant a rating change for the company. Also, the company's ability to grow the scale of operations while maintaining the asset quality would be a monitorable.

Key rating drivers and their description

Credit strengths

Strong parentage with operational and management support – The company benefits from being a part of the Standard Chartered Group with strong linkages with the parent on the operational and management front. Moreover, SCCL's risk management systems are in line with the Group's global policies. Further, considering the shared brand name and linkage with the SCCL Group, ICRA expects support from the parent to be forthcoming, as and when required.

Adequate capitalisation levels – SCCL's capitalisation profile is adequate for its current scale of operations, with a net worth of Rs. 1,033 crore and a gearing of 3.2x as of December 31, 2021 (Rs. 975 crore and 2.2x, respectively, as of March 31, 2021). The gearing is expected to increase gradually with the expansion of the loan portfolio but is expected to remain below 5x over the medium term. ICRA also notes that SCCL is planning a capital infusion from the Group in FY2023, which will help it maintain prudent capitalisation while growing as per its business plans. Given the importance of SCCL to the SCB Group, ICRA expects the company to receive timely capital from the Group and any change in the likely support from the Group would be a key rating sensitivity.

Adequate profitability indicators – ICRA expects SCCL's profitability to remain adequate, in line with past trends. While the lending spreads have remained rangebound, the net interest margins (NIMs), however, declined in 9M FY2022 due to higher gearing and diversification in funding profile. This, coupled with stable operating expenses in relation to average assets and low credit costs in 9M FY2022, led to a return on assets (RoA) and a return on equity (RoE) of 2.0% and 7.7%, respectively, in 9M FY2022 compared to 2.2% and 6.8%, respectively, in FY2021. Going forward, notwithstanding the competitive intensity in these lines of business, especially in the loan against shares (LAS) segment, the overall lending spreads are expected to remain stable as SCCL can pass on the increase in the same to its clients through regular interest rate resets for a significant portion of the book. At the same time, the NIMs could moderate further with the increase in the leverage and further diversification in funding mix. Also, the operating expenses could go up with the higher share of the retail portfolio and consequently, incremental investments in technology, infrastructure, and employee acquisition. Consequently, the return indicators could moderate marginally, provided the credit costs remain under control.

Credit challenges

High, albeit reducing, reliance on short-term funding – In the past, SCCL has been highly dependent on short-term borrowings to meet its funding requirement of its loan book (comprising mainly of short tenured LAS), which exposes it to the market risks associated with such instruments. The risk is mitigated to some extent due to callable nature of such loans. This is SCCL has, however, diversified its borrowing profile to include borrowings in the form of long-term NCDs as well as long-term bank borrowings over the past few years. Subsequently, the share of commercial paper in the borrowing base reduced significantly to 61% as on December 31, 2021 from 87% as of March 31, 2019 and 63% as of March 31, 2021. The share of bank borrowings stood at 27%, NCDs at 10% and ICDs at 2% as on December 31, 2021. The company's efforts towards diversification, the availability of sizeable cash and liquid securities and the sanctioned and unutilised bank lines from SCB India support its overall liquidity profile.

Some diversification into longer-tenured borrowings may be expected due to the higher incremental growth in the loan book, which is likely to come from longer-tenure assets {mainly loan against property (LAP)}, and the expected increase in interest rates. However, with the relatively short-term private banking book and retail book (mainly comprising LAS) expected to continue accounting for a higher share, commercial paper borrowings will still account for a major share of the borrowing mix, though the same will decline to some extent in the near term. Additional Group support is likely to be available to SCCL if required.

Limited granularity in the loan book – SCCL's total loan book increased to Rs. 4,097 crore as on December 31, 2021 from Rs. 3,059 crore as on March 31, 2021. In terms of products, SCCL provides promoter financing, lease rental discounting, LAS, LAP and other secured corporate loans. As on December 31, 2021, wholesale loans (Rs. 2,040 crore) constituted 50% of the total loan book with the balance comprising retail loans such as LAS and LAP.

Traditionally, the loans have been wholesale in nature and hence the credit concentration has been relatively high, making the portfolio vulnerable to asset quality shocks. The top 20 exposures constituted 54% of the loan book and 212% of the net worth as on December 31, 2021, declining from 77% and 206%, respectively, as on December 31, 2020 with the increasing share of the retail book. In this regard, SCCL's track record of comfortable asset quality metrics over several years with gross and net stage 3% of 0.4% and 0.2%, respectively, as on December 31, 2021 provides comfort. ICRA also notes that the loan book remains diversified with respect to sectoral exposures and the granularity is expected to increase further with the increase in the retail book. The growth in the retail book is expected to be driven by both LAS and LAP.

Liquidity position: Adequate

SCCL's asset-liability maturity (ALM) profile is adequate with cumulative positive gaps in all maturity buckets as per the ALM profile as on December 31, 2021. As on December 31, 2021, the company had cash and equivalents of about Rs. 216 crore and unutilised bank lines of about Rs. 620 crore, including the Rs. 600-crore committed line from SCB India. The expected outflows, including committed loan disbursements, for the next one year stood at Rs. 2,959 crore as on December 31, 2021 against expected inflows of Rs. 3,305 crore. Also, as a part of liquidity management, there is an internal limit of Rs. 300 crore for monthly CP issuances.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The ratings could be downgraded or put on a Negative outlook if there is a significant deterioration in the credit profile of the parent or a reduction in the support from the parent entity. Also, any significant deterioration in the company's asset quality and profitability metrics would remain a key monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Company: Standard Chartered Bank, UK The ratings are underpinned by SCCL's parentage in the form of SCB and the expectation of timely support from the parent, if required
Consolidation/Standalone	Standalone

About the company

SCCL was incorporated in October 2003 by SCB, UK, as its wholly-owned subsidiary. SCCL was registered with the Reserve Bank of India as a non-banking financial company not accepting public deposits in February 2004. The Standard Chartered Group has management control over SCCL. SCCL's board of directors comprises, among others, personnel from the Group's senior management.

SCCL's portfolio stood at Rs. 4,097 crore as on December 31, 2021. It reported a profit after tax of Rs. 58 crore on a total asset base of Rs. 4,390 crore in 9M FY2022 against a profit after tax of Rs. 64 crore on a total asset base of Rs. 3,309 crore in FY2021. The share of Corporate and Institutions (C&I), Corporate Borrowers (CB), Private Banking (PB) and Retail Segment stood at 27%, 23%, 32% and 19%, respectively, in the portfolio as on December 31, 2021.

Key financial indicators (audited)

SCCL	FY2019	FY2020	FY2021	9M FY2022
	Audited	Audited	Audited	Provisional
Total income (Rs. crore)	153	270	255	221
Profit after tax (Rs. crore)	44	78	64	58
Net worth (Rs. crore)	834	911	975	1,033
Loan book (Rs. crore)	1,982	2,200	3,059	4,097
Total assets (Rs. crore)	2,382	2,528	3,309	4,390
Return on assets (%)	2.3%	3.2%	2.2%	2.0%
Return on net worth (%)	5.3%	8.9%	6.8%	7.7%
Gross gearing (times)	1.8	1.7	2.2	3.2
Gross NPA (%)	1.3%	0.0%	0.5%	0.4%
Net NPA (%)	0.3%	0.0%	0.2%	0.2%
Solvency (Net stage 3/Net worth)	1.2%	0.0%	0.7%	0.6%
CRAR (%)	41.9%	39.8%	31.27%	24.9%

Source: *ICRA Research, SCCL; All figures and ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Current Rating (FY2023) Date & Rating	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					May 09, 2022	Sep 6, 2021	Jun 2, 2021	Apr 20, 2020	Apr 30, 2019
1	Non-convertible debenture	LT	500	345	**[ICRA]AAA (Stable)**	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Commercial paper	ST	3,500	2,025	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

LT – Long term, ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debenture	Very Simple
Commercial Paper Programme	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: www.icra.in

Annexure-1: Instrument details as on March 31, 2022

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate/ Yield	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE403G07061	NCD	July 25, 2019	8.65%	July 25, 2022	150	[ICRA]AAA (Stable)
INE403G07079	NCD	May 29, 2020	7.65%	May 29, 2023	195	[ICRA]AAA (Stable)
Yet to be placed	NCD	NA	NA	NA	155	[ICRA]AAA (Stable)
INE403G14OB7	Commercial Paper	June 14, 2021	5.00%	June 3, 2022	60	[ICRA]A1+
INE403G14OC5	Commercial Paper	June 14, 2021	5.00%	June 9, 2022	100	[ICRA]A1+
INE403G14OE1	Commercial Paper	June 17, 2021	5.00%	June 17, 2022	65	[ICRA]A1+
INE403G14OJ0	Commercial Paper	August 6, 2021	4.75%	April 28, 2022	150	[ICRA]A1+
INE403G14OK8	Commercial Paper	August 10, 2021	4.75%	May 6, 2022	100	[ICRA]A1+
INE403G14OL6	Commercial Paper	August 10, 2021	4.75%	May 11, 2022	100	[ICRA]A1+
INE403G14ON2	Commercial Paper	August 18, 2021	4.75%	April 22, 2022	125	[ICRA]A1+
INE403G14OR3	Commercial Paper	October 20, 2021	4.60%	May 20, 2022	50	[ICRA]A1+
INE403G14OB7	Commercial Paper	October 20, 2021	4.60%	June 3, 2022	45	[ICRA]A1+
INE403G14OU7	Commercial Paper	November 25, 2021	5.20%	September 23, 2022	75	[ICRA]A1+
INE403G14OT9	Commercial Paper	November 25, 2021	4.80%	April 15, 2022	25	[ICRA]A1+
INE403G14OS1	Commercial Paper	November 25, 2021	4.80%	June 24, 2022	30	[ICRA]A1+
INE403G14OV5	Commercial Paper	December 6, 2021	5.20%	September 14, 2022	80	[ICRA]A1+
INE403G14OW3	Commercial Paper	December 13, 2021	5.20%	September 20, 2022	70	[ICRA]A1+
INE403G14OV5	Commercial Paper	December 13, 2021	5.20%	September 14, 2022	50	[ICRA]A1+
INE403G14OX1	Commercial Paper	December 16, 2021	5.00%	April 12, 2022	40	[ICRA]A1+
INE403G14OL6	Commercial Paper	December 16, 2021	5.00%	May 11, 2022	35	[ICRA]A1+
INE403G14OC5	Commercial Paper	December 21, 2021	5.00%	June 9, 2022	70	[ICRA]A1+
INE403G14OZ6	Commercial Paper	December 21, 2021	4.95%	April 8, 2022	40	[ICRA]A1+
INE403G14OR3	Commercial Paper	December 21, 2021	5.00%	May 20, 2022	50	[ICRA]A1+
INE403G14PB4	Commercial Paper	January 11, 2022	5.15%	July 15, 2022	100	[ICRA]A1+
INE403G14PC2	Commercial Paper	January 17, 2022	5.40%	January 17, 2023	120	[ICRA]A1+
INE403G14PD0	Commercial Paper	January 24, 2022	5.20%	August 12, 2022	30	[ICRA]A1+
INE403G14PD0	Commercial Paper	January 25, 2022	5.20%	August 12, 2022	100	[ICRA]A1+
INE403G14PE8	Commercial Paper	January 27, 2022	5.35%	December 20, 2022	70	[ICRA]A1+
INE403G14PF5	Commercial Paper	January 28, 2022	5.35%	December 16, 2022	100	[ICRA]A1+
INE403G14PG3	Commercial Paper	February 17, 2022	5.75%	February 8, 2023	40	[ICRA]A1+
INE403G14PG3	Commercial Paper	February 21, 2022	5.75%	February 8, 2023	105	[ICRA]A1+
INE403G14PH1	Commercial Paper	February 24, 2022	5.60%	January 24, 2023	50	[ICRA]A1+
INE403G14PH1	Commercial Paper	February 24, 2022	5.60%	January 24, 2023	50	[ICRA]A1+
INE403G14PI9	Commercial Paper	March 21, 2022	5.65%	March 21, 2023	50	[ICRA]A1+
INE403G14PI9	Commercial Paper	March 22, 2022	5.65%	March 21, 2023	70	[ICRA]A1+
INE403G14PJ7	Commercial Paper	March 28, 2022	5.55%	February 14, 2023	115	[ICRA]A1+
Yet to be placed	Commercial paper	NA	NA	7-365 days	1140	[ICRA]A1+

Source: *ICRA Research*

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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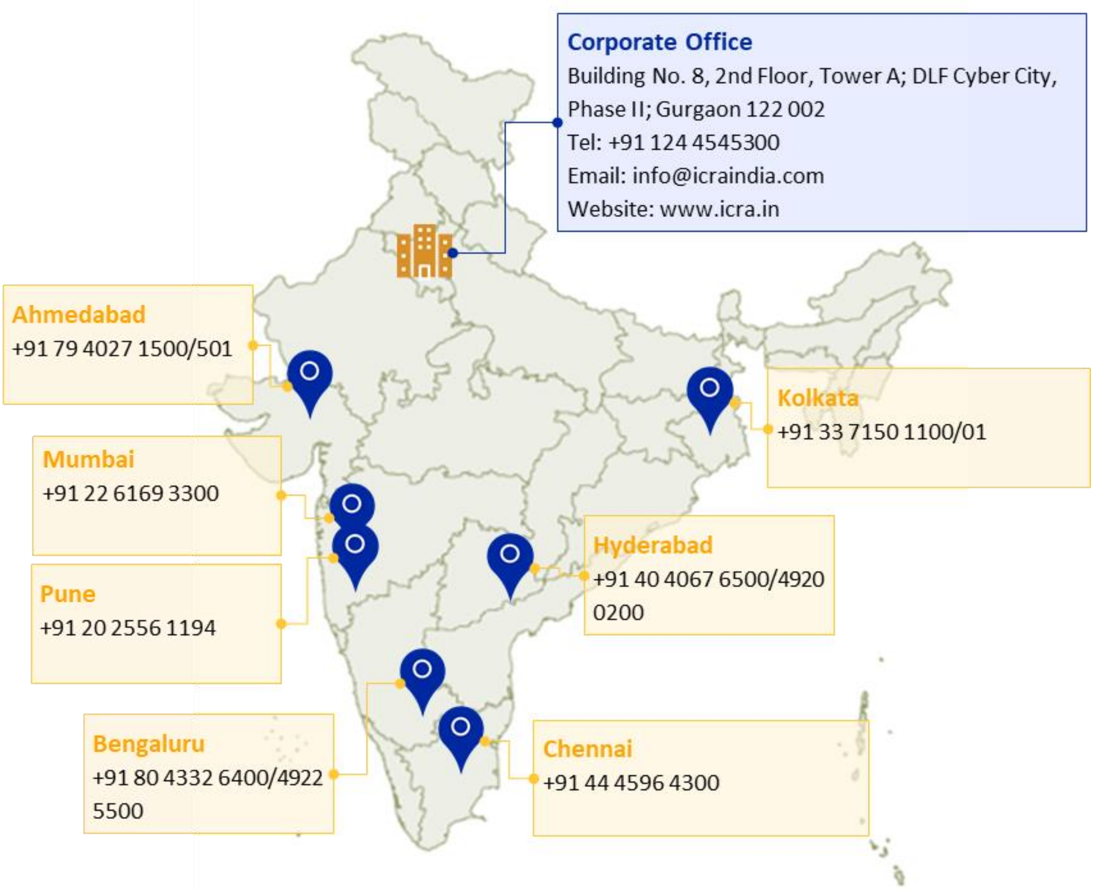

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