

Rating Rationale

January 03, 2023 | Mumbai

Sundaram Home Finance Limited

Long-term rating upgraded to 'CRISIL AAA/Stable'; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.850 Crore
Long Term Rating	CRISIL AAA/Stable (Upgraded from 'CRISIL AA+/Stable')

Fixed Deposits	CRISIL AAA/Stable (Upgraded from 'CRISIL AA+/Stable')
Rs.1500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)
Non Convertible Debentures Aggregating Rs.1375 Crore	CRISIL AAA/Stable (Upgraded from 'CRISIL AA+/Stable')
Rs.125 crore Non-convertible debentures	CRISIL AAA/Stable (Upgraded from 'CRISIL AA+/Stable'; Rating Withdrawn)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its long-term rating on debt instruments and bank facilities of Sundaram Home Finance Limited (Sundaram Home) to '**CRISIL AAA/Stable**' from 'CRISIL AA+/Stable'. The rating on the commercial paper programme has been reaffirmed at 'CRISIL A1+'.

CRISIL Ratings has **withdrawn** its rating on Rs 125 crore non-convertible debentures (NCDs) (See annexure 'Details of rating withdrawn' for details) in line with its withdrawal policy. CRISIL Ratings has received an independent confirmation that these instruments are fully redeemed.

The rating action reflects a stronger articulation of support from the parent, Sundaram Finance Ltd (Sundaram Finance; rated 'CRISIL AAA/Stable/CRISIL A1+') and improvement in business performance of Sundaram Home.

Sundaram Home's assets under management (AUM) rose to Rs 10,133 crore as on September 30, 2022, from Rs 9,495 crore as on March 31, 2022 (Rs 9,173 crore as on March 31, 2021). Gross stage 3 assets (GS3) have also improved to 2.8% as on September 30, 2022, from 3.0% and 4.5%, respectively, as on March 31, 2022, and March 31, 2021, respectively. The company reported a profit of Rs 98 crore in the half-year ended September 30, 2022, with a return on assets (RoA) of around 1.9% (Rs 168 crore and 1.6%, respectively, for fiscal 2022).

Sundaram Finance is expected to strongly support Sundaram Home both on an ongoing basis, and in case of distress, given the majority ownership, shared brand name and importance of the mortgage finance business to Sundaram Finance.

Sundaram Finance has also indicated its intent to maintain a controlling stake in Sundaram Home and provide assistance, if required, so as to ensure that Sundaram Home has adequate liquidity to meet its financial obligations.

The ratings continue to reflect the stable resource profile and adequate capitalisation of Sundaram Home. These strengths are partially offset by the modest market position and average, albeit, improving asset quality.

Analytical Approach

To arrive at the ratings, CRISIL Ratings has assessed the standalone credit risk profile of Sundaram Home and has factored in strong managerial and financial support from the parent, Sundaram Finance. CRISIL Ratings believes Sundaram Home, will, in case of exigencies, receive support from its parent for timely repayment of debt, considering the strategic importance of the entity and high moral obligation on the parent, given the 100% shareholding and shared brand name.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong support from the parent, Sundaram Finance**

Sundaram Home is expected to receive strong operational and managerial support from Sundaram Finance. The entity remains strategically important, given the majority ownership held by Sundaram Finance, the shared brand name and importance of the mortgage finance business to the parent. Sundaram Finance has also indicated its intent to maintain a controlling stake in Sundaram Home and provide assistance, if required, so as to ensure that Sundaram Home has adequate liquidity to meet its financial obligations.

Sundaram Home uses the services of Sundaram Direct, a division of Sundaram Finance, to source a part of its business volume. It also has access to the retail customer base and branch network of the parent, and benefits from the parent's brand equity and customer loyalty. Sundaram Finance is also expected to extend funding support for the growth requirements of Sundaram Home and/or in case of any distress situation. Healthy growth in the domestic housing sector will continue to enhance the strategic importance of Sundaram Home to Sundaram Finance.

CRISIL Ratings believes that Sundaram Finance will continue to have shared brand name, majority ownership in, and management control of, Sundaram Home over the medium term.

- **Stable and well-diversified resource profile**

Sundaram Home has a stable and well-diversified resource profile, comprising bank funding (18%), refinance from the National Housing Bank (24%), NCDs and bonds (31%), fixed deposits (22%) and commercial paper (5%) as on September 30, 2022. The company has successfully tapped the debt capital market by raising medium and long-term debt from several investors at competitive rates. Incrementally, Sundaram Home raised Rs 2,518.5 crore in the first half of fiscal 2023. Cost of borrowings stood at 6.7% during the first half of fiscal 2023 (5.6% during fiscal 2022).

- **Adequate capitalisation**

Tier I and total capital adequacy ratios were comfortable at 23.5% and 24.4%, respectively, as on September 30, 2022 (24.7% and 25.7%, respectively, as on March 31, 2022). Gearing at 5.2 times as on March 31, 2022 (5.4 times as of September 30, 2022), was in line with industry standards. Networth coverage for net stage 3 was comfortable at 11.3 times as on March 31, 2022. Networth for the company stood at Rs 1,686 crore as on September 30, 2022, vis-à-vis Rs 1,655 crore as on March 31, 2022.

Weaknesses:

- **Modest market position**

Sundaram Home remains a modest player in the housing finance segment, with operations largely restricted to South India and an AUM of Rs 10,133 crore as on September 30, 2022 (Rs 9,495 crore as on March 31, 2022). Housing loans formed 70% of the total loan book and the non-housing portfolio (mainly loans-against-property or LAP) accounted for the remaining 30%. Within the housing segment, 60% of the loans are extended to salaried class individuals and the remaining 40% to the self-employed. Housing loans should remain the key focus segment of Sundaram Home over the near to medium term. Overall loan disbursements grew by nearly 84% to Rs 2,311 crore in fiscal 2022, from Rs 1,254

crore in the previous fiscal. While growth should sustain over the medium term, the market position may remain relatively modest in the context of the overall housing finance industry.

Average, albeit improving asset quality

Asset quality is average with GS3 at 3% of total loans as on March 31, 2022 (2.8% as on September 30, 2022, largely due to stress in the LAP segment). However, the same is seen improving on a quarter-on-quarter basis. The LAP portfolio, which stood at Rs 3,067 crore as on September 30, 2022, did witness asset quality issues (gross NPAs of 4.5% as on September 30, 2022) over the past few years. However, size of this asset class was stable (around 30% of total loan book) over the last few years. Moreover, net Stage 3 assets were comfortable at 1.6% as on September 30, 2022 (1.6% as on March 31, 2022). Centralised loan appraisals and strengthening of recovery verticals have helped improve credit practices and asset quality of contracts that originated over the last couple of years.

Liquidity: Strong

As on September 30, 2022, the asset liability management profile had positive cumulative gaps in upto 1 month bucket. Cash and cash equivalents of Rs 215 crore as on December 31, 2022, together with undrawn limits of Rs 355 crore was sufficient to cover the upcoming repayments till February 2023. Liquidity is further cushioned by regular collections and support from Sundaram Finance.

Outlook: Stable

The ratings on Sundaram Home are closely linked to the ratings assigned by CRISIL Ratings to the parent, Sundaram Finance. Sundaram Home will continue to derive strong management and operational support from its parent and maintain adequate capitalisation and a stable resource profile over the medium term.

Rating Sensitivity factors

Downward factors:

- Downward change in credit risk profile of Sundaram Finance by 1 notch leading to a similar rating change on Sundaram Home
- Diminution in expected support from Sundaram Finance, caused by a significant decline in ownership or strategic importance of Sundaram Home
- Significant increase in steady-state gearing over an extended period

About the Company

Sundaram Home was founded as Sundaram Home Finance Ltd in July 1999 by Sundaram Finance, with equity participation from International Finance Corporation (IFC), Washington, and the Netherlands Development Finance Company (FMO). In fiscal 2007, Sundaram Finance acquired the equity stakes of IFC and FMO. In October 2007, Sundaram Finance sold 49.9% of its stake in Sundaram Home to BNP Paribas Personal Finance, a wholly owned subsidiary of BNP Paribas. With a 50.1% stake, Sundaram Finance was the majority shareholder and the balance 49.9% were held by BNP Paribas Personal Finance. However, in September 2019, Sundaram Finance acquired the 49.9% stake in Sundaram Home, from BNP Paribas Personal Finance and Sundaram Home became a wholly owned subsidiary of Sundaram Finance.

For the fiscal ended March 31, 2022, Sundaram Home reported a profit after tax (PAT) of Rs 168 crore on total income of Rs 957 crore, against Rs 192 crore and Rs 1,039 crore, respectively, for the earlier fiscal. PAT as on September 30, 2022, was 98 crore on total income of Rs 528 crore, as compared to Rs 80 crore and Rs 477 crore as on September 30, 2021, respectively.

Key Financial Indicators

For the half year ended September 30,	Unit	2022 Ind AS	2021 Ind AS
Total assets	Rs crore	10781	9693
Total income	Rs crore	528	477
Profit after tax	Rs crore	98	80
Gross stage 3	%	2.8	4.9
Return on average assets	%	1.9	1.6

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating outstanding with outlook
NA	Term Loan 1	NA	NA	25-Sep-25	160	NA	CRISIL AAA/Stable
NA	Term Loan 2	NA	NA	29-Aug-23	175	NA	CRISIL AAA/Stable
NA	Term Loan 3	NA	NA	26-Mar-24	208.33	NA	CRISIL AAA/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	306.67	NA	CRISIL AAA/Stable
INE667F07HR3	Non-convertible debenture	13-Feb-20	7.75%	13-Feb-23	100	Simple	CRISIL AAA/Stable
INE667F07HS1	Non-convertible debenture	11-May-20	7.75%	11-May-23	100	Simple	CRISIL AAA/Stable
INE667F07HU7	Non-convertible debenture	06-Aug-20	6.20%	04-Aug-23	75	Simple	CRISIL AAA/Stable
NA	Non-convertible debenture*	NA	NA	NA	600	Simple	CRISIL AAA/Stable
INE667F08194	Non-convertible debenture	07-Sep-18	8.93	07-Sep-33	500	Simple	CRISIL AAA/Stable
NA	Commercial paper	NA	NA	7-365 Days	1500	Simple	CRISIL A1+
NA	Fixed deposits programme	NA	NA	NA	NA	Simple	CRISIL AAA/Stable

*Yet to be issued

Annexure - Details of Rating Withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level
INE667F07HT9	Non-convertible debenture	22-Jul-20	5.99%	24-Jun-22	100	Simple
INE667F07HW3	Non-convertible debenture	22-Sep-20	5.86%	22-Sep-22	25	Simple

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	850.0	CRISIL AAA/Stable		--	27-06-22	CRISIL AA+/Stable	18-06-21	CRISIL AA+/Stable	24-12-20	CRISIL AA+/Stable	CRISIL AA+/Stable
			--		--	03-01-22	CRISIL AA+/Stable		--	26-03-20	CRISIL AA+/Stable	CRISIL AA+/Stable
Commercial Paper	ST	1500.0	CRISIL A1+		--	27-06-22	CRISIL A1+	18-06-21	CRISIL A1+	24-12-20	CRISIL A1+	CRISIL A1+
			--		--	03-01-22	CRISIL A1+		--	26-03-20	CRISIL A1+	--
Fixed Deposits	LT	0.0	CRISIL AAA/Stable		--	27-06-22	CRISIL AA+/Stable	18-06-21	F AAA/Stable	24-12-20	F AAA/Stable	F AAA/Stable
			--		--	03-01-22	F AAA/Stable		--	26-03-20	F AAA/Stable	--
Non Convertible Debentures	LT	1375.0	CRISIL AAA/Stable		--	27-06-22	CRISIL AA+/Stable	18-06-21	CRISIL AA+/Stable	24-12-20	CRISIL AA+/Stable	CRISIL AA+/Stable
			--		--	03-01-22	CRISIL AA+/Stable		--	26-03-20	CRISIL AA+/Stable	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	306.67	Not Applicable	CRISIL AAA/Stable
Term Loan	383.33	HDFC Bank Limited	CRISIL AAA/Stable
Term Loan	160	The Federal Bank Limited	CRISIL AAA/Stable

This Annexure has been updated on 03-Jan-23 in line with the lender-wise facility details as on 31-Aug-21 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies
CRISILs criteria for rating fixed deposit programmes
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912	Krishnan Sitaraman Senior Director and Deputy Chief Ratings Officer CRISIL Ratings Limited	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports:

B: +91 22 3342 3000
AVEEK.DATTA@crsil.com

Prakruti Jani
Media Relations
CRISIL Limited
M: +91 98678 68976
B: +91 22 3342 3000
PRAKRUTI.JANI@crsil.com

Rutuja Gaikwad
Media Relations
CRISIL Limited
B: +91 22 3342 3000
Rutuja.Gaikwad@ext-crsil.com

D: +91 22 3342 8070
krishnan.sitaraman@crsil.com

Subhasri Narayanan
Director
CRISIL Ratings Limited
D: +91 22 3342 3403
subhasri.narayanan@crsil.com

Prachi Parikh
Senior Rating Analyst
CRISIL Ratings Limited
B: +91 22 3342 3000
Prachi.Parikh@crsil.com

CRISILratingdesk@crsil.com

For Analytical queries:
ratingsinvestordesk@crsil.com

Note for Media:
This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites and portals.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We may use your contact information, such as your name, address and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report' includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client

relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Ratings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL Ratings assumes no obligation to update its opinions following publication in any form or format although CRISIL Ratings may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains.

Neither CRISIL Ratings nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively, 'CRISIL Ratings Parties') guarantee the accuracy, completeness or adequacy of the report, and no CRISIL Ratings Party shall have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. EACH CRISIL RATINGS PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Ratings Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. Public ratings and analysis by CRISIL Ratings, as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any), are made available on its website, www.crisilratings.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee - more details about ratings by CRISIL Ratings are available here: www.crisilratings.com.

CRISIL Ratings and its affiliates do not act as a fiduciary. While CRISIL Ratings has obtained information from sources it believes to be reliable, CRISIL Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/or relies on in its reports. CRISIL Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL Ratings has in place a ratings code of conduct and policies for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>.

Rating criteria by CRISIL Ratings are generally available without charge to the public on the CRISIL Ratings public website, www.crisilratings.com. For latest rating information on any instrument of any company rated by CRISIL Ratings, you may contact the CRISIL Ratings desk at crisilratingdesk@crisil.com, or at (0091) 1800 267 1301.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CRISIL Ratings.

CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: <https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html>