CareEdge Global assigns 'CareEdge A/Stable' to SMFG India Credit Company Limited

Long-Term Foreign Currency Issuer Rating	CareEdge A/Stable

CareEdge Global has assigned Long-Term Foreign Currency Issuer Rating of **'CareEdge A/Stable'** to SMFG India Credit Company Ltd (SMICC), a wholly owned subsidiary of Sumitomo Mitsui Financial Group Inc. (SMFG), which is a leading bank and financial group based in Japan.

Rating Rationale

The rating is primarily driven by the strong credit profile of the parent, SMFG, and its 100% ownership in SMICC, which is expected to continue. SMFG has extended its brand identity to the company and has articulated a strong financial support to the company citing latter's criticality in the group's India focused strategy. SMICC and SMFG also exhibit strong operational and managerial linkages, such as sharing of best practices, alignment of policies and involvement of SMFG's expats in key decision making, as well as operations of SMICC.

SMFG's credit profile is primarily driven by its flagship banking entity, i.e. Sumitomo Mitsui Banking Corporation (SMBC), which accounts for more than 90% of group's net income and its asset base. SMBC is one of the global systemically important banks (G-SIBs), with diversified operations and an asset base across various products, currencies and geographies.

SMICC's rating is on level with that of SMFG basis the strength of articulation and commitment by the latter's management to extend financial support (equity as well as debt) to SMICC in a proactive manner to fund not only its strategic growth objectives, but also in a timely manner towards situation of any stress, should it arise.

SMICC is based in India, with its operations exclusively focused on the domestic market. However, our foreign currency issuer rating on SMICC is two notches higher than our view on Sovereign Rating of India (rated CareEdge BBB+/ Stable 'Unsolicited'). This is because the foreign-based parent, SMFG, has articulated to extend financial support to SMICC even in a potential scenario of sovereign stress (for India) by exploring mechanisms consistent with regulations to ensure full and timely servicing of its foreign currency debt obligations, as and when they are issued. SMFG has a track record in extending support to its various group entities irrespective of their country of domicile. This lends credibility to such articulation of support for SMICC. Further, any default by the India subsidiary could potentially be construed negatively by global financial markets where SMFG has a presence, given the inherent need to maintain trust in the financial services business.

CareEdge Global also notes SMICC's increasing scale of operations, a well-diversified book across product categories and geographies, adequate capitalization supported by regular and timely infusions from the parent, diversified resource profile, experienced management, and adequate liquidity. These strengths are partly offset by modest asset quality being vulnerable to slippages given a higher proportion of unsecured book, a weak earnings profile, and low vintage in the housing loan segment.

Outlook

The stable outlook on SMICC reflects our view of the credit outlook of its parent, SMFG. A revision in outlook or a change in rating of SMICC would be closely linked to a similar change in the credit profile of its parent. CareEdge Global expects that the company will continue to remain a direct subsidiary of SMFG and will be supported through timely fund infusion for business growth and exigencies.

Rating Sensitivities

Upward factors

- Improvement in the credit profile of the parent company (SMFG)
- Improvement in SMICC's asset quality metrics on a sustained basis

Downward factors

- Deterioration in the credit profile of the parent or dilution of ownership below 51% or reduction in support to SMICC from the parent
- Any significant weakening of India's external profile leading to higher possibility of potential restrictions on capital convertibility
- Sustained reduction in profitability levels and/or asset quality such that it significantly limits the economic incentives to SMFG

Analytical Approach

The rating is based on the consolidated view of SMICC along with its wholly owned subsidiary, SMFG India Home Finance Company Limited (SMHFC). CareEdge Global has equated SMICC's rating with that of SMFG with application of its criteria for 'Group Rating Methodology'. Under the criteria, CareEdge Global believes that SMICC is 'highly strategic' within the group for executing the group's strategy of growth and expansion in target markets. Thus, there is a high likelihood of full and timely support from SMFG to SMICC.

Key Rating Drivers

Supporting Factors

Strong credit profile of the parent SMFG and…

SMFG is amongst the largest global banking groups and is based out of Japan. It has an asset base of over US$ 2.1 trillion across 38+ countries. SMFG's credit profile is primarily driven by SMBC, which benefits from its large asset base of US$1.8 trillion diversified globally, healthy capitalization, and deposits accounting for around three-fourth of the resources with rest from multiple channels. These factors are partly offset by the high equity holdings in the balance sheet, coupled with sizeable exposure towards commercial real estate assets in the US thereby exposing SMBC to risk, related to volatility in equity markets and stress in underlying securities.

…its articulation & track record of extending high levels of support

SMICC is directly and wholly owned by SMFG, which is expected to continue. The company also shares the same brand identity and logo as SMFG and is known as a local arm of the group. Thus, there would be a high moral obligation on the part of SMFG to extend financial support in a timely manner to safeguard reputational risk that can have far-reaching impact on the group's global operations and the credit profiles of overseas entities. SMFG has articulated its intention to extend financial support to SMICC even in a potential scenario of sovereign stress (for India), by exploring mechanisms consistent with regulations to ensure full and timely servicing of its foreign currency debt obligations, as and when they are issued.

SMFG has a demonstrated track record of supporting its subsidiaries globally, including during regulatory shifts or economic crisis, regardless of legal obligation or shareholding. Notable examples include VPBank SMBC Finance Company Limited (FE Credit), SMBC Aviation Capital Limited, and SMBC Consumer Finance Co. Ltd. This consistent approach, coupled with multiple mechanisms for financial support, reinforces the strong parental commitment towards SMICC's financial stability and growth.

SMFG has so far invested US$2.7 billion in the acquisition of SMICC and US$510 million in equity infusion, which reflects its strong intent and business case for further financial support. There are numerous expats from SMFG in SMICC who are involved in key decision-making, business & financial policy related matters, as well as in formulation of strategy and roadmap. This also establishes a high level of operational and managerial support and integration between the parent and subsidiary. Furthermore, all non-independent directors (i.e. three out of eight) on the board represents SMFG. The chairman of SMICC's board is also the chairman of both SMFG and SMBC India division which oversees the group's business interests beyond SMICC.

SMICC is part of SMFG's India strategy

During FY20, SMFG launched its APAC-focused multi-franchise strategy, which emphasizes a focus on growing economies such as India, Vietnam, Indonesia, and Philippines. This is reflected in the group acquiring stake in various banks/ financial institutions such as SMICC (India; 100%), Vietnam Prosperity Joint Stock Commercial Bank (VP Bank; 15% stake) & FE Credit (49% stake) in Vietnam, Rizal Commercial Banking Corporation (Philippines; 15%), and PT Bank BTPN Tbk (Indonesia; 91%) over the past five years.

Amongst these four countries, India has been identified as a key geography and thus carved out of APAC and established as a separate independent division. The India division oversees SMICC, SMBC India bank and other financial interests of the group including India-oriented plans. CareEdge Global understands that SMFG's investment in SMICC is strategic and long-term in nature. The group is tapping into Indian retail lending market through SMICC, with SMBC India banking division more entrenched into wholesale lending. The group also has ambitions to foray into retail banking by acquiring a sizeable stake in Yes Bank Ltd (6th largest private sector bank in India) which is subject to regulatory approval and therefore, offer a full bouquet of financial services. The group's India exposure has increased significantly over the past five years, standing at US$22 billion as of March 31, 2025.

Improving scale of operations post-acquisition by SMFG

SMICC has demonstrated a significant improvement in operational scale and diversification since SMFG's acquisition. Disbursements have shifted from a declining trend (CAGR of -3% during FY19-22) to robust growth (CAGR of 70% post-acquisition during FY22-25), while AUM growth accelerated from 5% to 23%, respectively, during the corresponding periods. This growth has been supported by digital lending (unsecured) and the growth of SMHFC's book (secured).

SMICC's extensive growth in terms of footprint across India—with over 1,000 branches covering more than 670 towns and 70,000 villages—has enabled it to reach over 3 million customers and scale from ~US$ 3 billion to ~US$ 7 billion in AUM over the past four years.

Adequate capitalisation ensuring headroom for growth

SMICC's capitalisation levels have remained stable at an average 19% for the past 3 years. It has increased to 22.4% as of FY25 due to US$ 510mn of capital infusion from SMFG during the fiscal year. Despite a high share of unsecured assets, the capital buffers are sufficient to absorb portfolio risks and support further growth. According to management guidance, capitalisation levels are expected to remain above 15% on a steady state basis.

Leverage peaked in FY24 as disbursement growth was primarily debt funded. However, these metrics remained rangebound owing to the substantial equity infusion by SMFG in FY25.

Additionally, SMFG extended a perpetual debt instrument (PDI) of approximately US$75 million in FY24, qualifying as Tier I capital, to strengthen its capital base during the stress scenario in the country. This hybrid capital support mechanism further adds on to SMICC's capacity to withstand financial stress.

Diversified resource profile

SMICC maintains a well-diversified resource base, enhancing its financial flexibility and reduces concentration risk. As of March 2025, the funding mix comprises approximately 50% from term loans, 21% from NCDs, and 14% from ECBs, on a consolidated basis. The company actively manages its resource profile through internal policies that cap individual instrument exposure and foreign currency borrowings, ensuring prudent diversification.

SMICC benefits from access to a wide range of borrowing avenues, including bank lines with an available balance of ~Rs 3,750 crore out of total sanctioned limits (TL/WCDL/CC/OD lines) of ~Rs 9,400 crore on consolidated basis. Of the outstanding term loans/ WCDL of ~Rs 27,000 crore, ~Rs 7,000 crore is from foreign lenders, a reflection of SMICC's strong credit standing backed by SMFG's global reputation. SMBC has infused funds through structured debt instruments such as ECBs and perpetual debentures, further reinforcing the funding base. Additionally, internal exposure limits on lenders reduce counterparty concentration risk.

Offsetting Factors

Weak profitability metrics

SMICC has witnessed a moderation in profitability in FY25, primarily due to increased operating expenses aligned with business transformation and scale-up efforts. Furthermore, the company follows a write-off policy, under which a majority of delinquent loans are written off after 120 days, contributing to persistently high credit costs.

The company has invested in technology and resources, resulting in its cost-to-income ratio rising above 60% in FY25 compared to 36% in FY21. This resulted in weak profit margins. PAT margin declined from 13.3% in FY23 to 3.9% in FY25, and return ratios weakened, with ROE and ROA dropping to 3.3% and 0.7% respectively, in FY25. The ability to extract the benefits of investment in technology and resources would need to reflect in SMICC's growth in revenue base without a commensurate increase in costs. The same will be monitored.

Modest Asset Quality metrics

SMICC's asset quality is modest. The decline in GNPAs from 3.9% in FY23 to 2.4% in FY25, is primarily attributable to AUM growth of over 50% during the period. Similarly, the NNPA ratio has improved, though the absolute NNPA amount has remained largely unchanged, indicating continuous underlying stress.

The 'GNPA + write-offs' metric rose to 8.3% in FY25 (from 8.0% in FY24), highlighting continued weakness in asset quality, particularly in the unsecured segment. Slippages, too, remain elevated at 9.2% in FY25, reflecting stress that aligns with prevailing credit weakening in the unsecured lending space. SMICC has undertaken write-offs in recent years – Rs 2,980 crore in FY22 and Rs 2,584 crore in FY25—which have improved NNPA (1.3% in FY25). Notwithstanding this, the company's policy to write-off stressed assets after 120 days also keeps the credit cost elevated.

Liquidity

SMICC's liquidity is assessed as adequate with total liquidity (including investments) at ~Rs 6,000 crore as of March 31, 2025, on a standalone basis. The company also has access to a US$200 million ECB line from SMBC. Furthermore, the parent is highly likely to support SMICC for meeting its liquidity requirement due to company's strategic importance within the group portfolio. ALM is well managed, as the loan book's average behavioral tenor of 30-36 months aligns well with the average tenor of resources, supporting ALM.

About the company

SMICC is registered with the RBI as a non-deposit accepting NBFC (NBFC-NDSI) and has been in operations since 2006. In November 2021, SMFG acquired 74.9% stake in SMICC from Fullerton Financial Holdings (FFH). SMFG acquired the remaining 25.1% from FFH in March 2024.

SMICC offers a range of secured and unsecured products across rural and urban markets with presence in 24 states and UTs through 1,008 branches. Its services include a secured lending portfolio consisting of LAP to retail customers and small-and-medium-sized enterprises (SMEs), as well as commercial vehicle (CV) loans. The unsecured portfolio majorly comprises personal loans to salaried and self-employed individuals in urban areas, group loans in rural areas and digital loans. The share of secured book in the overall portfolio of ~Rs 57,000 crore was ~48% as of March 31, 2025. Its wholly owned subsidiary SMHFC is registered as a housing finance company with the NHB and primarily caters to lending in the affordable housing segment in urban and rural settings.

About the group

SMFG is a Japan based global financial group having numerous operating segments under its umbrella, ranging from banking, leasing, consumer finance to securities and asset management. The entities for SMFG that are strategically and operationally important include SMBC, SMBC Consumer Finance Co. Ltd., Sumitomo Mitsui Finance and Leasing Company Limited, SMBC Aviation Capital Limited, Sumitomo Mitsui DS Asset Management Company Limited, Sumitomo Mitsui Card Company Limited, SMBC Nikko Securities Inc., SMICC, etc.

SMBC contributes more than 90% of the group's net income and is one of Japan's three megabanks. It has also been categorised as one of the G-SIBs, as it is among the top 15 banks globally.

Environmental, Social and Governance (ESG) considerations

SMICC demonstrates a strong commitment to environmental sustainability through its initiatives aimed at reducing greenhouse gas (GHG) emissions and promoting organic farming practices. It has implemented a comprehensive GHG inventory across more than 800 branches and secured a sustainability-linked loan from Deutsche Bank. Restoration of mangrove forests further exemplifies its efforts to conserve natural capital and support biodiversity.

The company's social initiatives are targeted towards rural development, gender equity, and public health. Programs like PASHU VIKAS, which reached 150,000 cattle and 29,000 households, and SAKHI, which enhanced financial literacy for 84,000 rural women, demonstrate a deep commitment to community upliftment. Healthcare interventions addressing malnutrition, anaemia, and eye care have impacted over 550,000 lives. Additionally, the organization promotes inclusive growth through group loans, empowering nearly one million rural women to establish small businesses. The company fosters a progressive people agenda focused on diversity, learning, and employee wellbeing. Women comprise 27% of the workforce with structured efforts to improve representation. Over 1.4 million learning hours were delivered through digital and blended formats. SMICC promotes a culture of inclusion, recognition, and continuous feedback through various programmes.

On the governance front, SMICC has a robust governance through a well-defined committee structure, ensuring accountability and strategic oversight. Currently, five out of the eight directors on the board are independent. Key committees such as Risk Oversight, Audit, Nomination and Remuneration, and Wilful Defaulter Review, are chaired by board members and independent directors. Each committee plays a critical role in managing risk, ensuring compliance, and aligning operations with ethical and sustainable business practices. These governance practices ensure transparency, accountability, and long-term value creation for stakeholders.

Solicitation Status

These ratings are solicited. The management has provided information and meetings to the CareEdge Global analytical team for the rating.

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Solicited)	CareEdge A/Stable	August 06, 2025

Criteria Applied

CareEdge Global's Rating Methodology for Financial Institutions
CareEdge Global's Group Rating Methodology

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