January 05, 2021

SBI Cards and Payment Services Limited: [ICRA]AAA (Stable) assigned; earlier ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	3,100	3,100	[ICRA]AAA(Stable); reaffirmed
Non-convertible Debentures	1,000	-	[ICRA]AAA(Stable); reaffirmed and withdrawn
Non-convertible Debentures	-	1,000	[ICRA]AAA(Stable); assigned
Subordinated Debt Programme	1,700	1,700	[ICRA]AAA(Stable); reaffirmed
Long-term Short-term Bank Lines/ Commercial Paper Programme^	19,000	19,000	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Total	**24,800**	**24,800**	

**Instrument details are provided in Annexure-1; ^ CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 19,000 crore; # Withdrawn as ISINs stand fully redeemed basis publicly available information*

Rationale

The ratings continue to factor in the strong parentage of SBI Cards and Payment Services Limited (SBICPSL) with the majority stake held by India's largest public-sector bank (PSB) i.e. State Bank of India (SBI; rated [ICRA]AAA(Stable)/[ICRA]A1+). As the credit card business is a key product offering for the bank's customers, SBICPSL is strategically important for SBI. This is also reflected in the bank's track record of providing branding and capital support to the company. ICRA believes that SBI will continue to hold a majority stake in SBICPSL and support from the parent will continue, going forward as well.

The ratings continue to factor in SBICPSL's strong liquidity position, track record of strong profitability with a seven-year average (FY2014 onwards) return on assets (RoA) and return on equity (RoE) of about 4.6% and 28%, respectively, and adequate capitalisation with a capital to risk weighted assets ratio (CRAR) of 25.3% and a gearing of 2.7 times as on September 30, 2020. Further, while the asset quality pressure and resultant credit cost increased significantly to over 9% of the average total assets in H1 FY2021 (compared to the seven-year average of about 4.5%), ICRA notes that SBICPSL enjoys adequate capital and profitability buffers to absorb the asset-side shock emanating from Covid-19-induced disruptions.

Given the Covid-19-induced disruptions and the resultant slowdown in the economy, SBICPSL's portfolio vulnerability has increased as reflected by the uptick in the percentage of gross non-performing loans to 7.5% in September 2020 (including the accounts which would have been declared non-performing if the standstill on account of the Supreme Court order was not applied) from the four-year average of 2.4%. Further, the company had restructured about 9% of the loan book (under the Reserve Bank of India's (RBI) resolution plan) by September 30, 2020. In this regard, while SBICPSL's track record of range-bound asset quality metrics over several years provides comfort, the evolving asset quality trajectory over the near term and the resultant impact on its profitability will remain a monitorable. While reaffirming the ratings, ICRA continues to take cognisance of SBICPSL's monoline nature of operations. The company's portfolio remains relatively risky as it is largely unsecured with less than 2% of the portfolio being secured in nature.

Key rating drivers and their description

Credit strengths

Strong parentage with majority stake held by India's largest PSB – SBICPSL is a subsidiary of India's largest and oldest bank i.e. SBI (SBI held a 69.45% stake in SBICPSL as on September 30, 2020), which is rated [ICRA]AAA(Stable)/[ICRA]A1+. The company hosts the credit card business of the parent. As the credit card business is a key product offering for the bank's customers, SBICPSL is strategically important for SBI. This is also reflected in the bank's track record of providing branding and capital support to the company. Also, ICRA notes that SBICPSL shares strong management integration with the parent, with senior employees from the bank being deputed to senior positions at SBICPSL. The association with SBI has helped the company grow its business volumes by leveraging the parent's brand name and vast customer base and branch network. Also, SBI continues to be the largest lender to SBICPSL with a track record of enhancements in the working capital lines, whenever required. This augurs well for the company's borrowing and liquidity profile.

Track record of strong profitability with adequate buffer to absorb asset-side shock emanating from Covid-19-induced disruptions – Driven by high lending spreads and sizeable interchange and fee-based income, SBICPSL has consistently reported strong profitability, as reflected by the seven-year average (FY2014 onwards) RoA and RoE of about 4.6% and 28%, respectively. As expected, the credit cost has, however, increased significantly to over 9% in H1 FY2021 (compared to the seven-year average of about 4.5%) amid the Covid-19-induced disruptions and the resulting impact on the asset quality. Nonetheless, ICRA notes that SBICPSL enjoys capital and profitability buffers to absorb the asset-side shock emanating from Covid-19-induced disruptions. The operating expenses (primarily acquisition and marketing costs) had also been witnessing an upward trend prior to the onset of the pandemic, reflecting high competition and the company's focus on gaining market share. However, the growing interchange/fee-based income is expected to continue to support the profitability, thereby keeping it range-bound at a strong level over the medium to longer term, notwithstanding the expected moderation in FY2021.

Adequate capitalisation – The company remains adequately capitalised with a total equity of Rs. 5,877 crore and a gearing of 2.7 times as on September 30, 2020 and a CRAR of 25.3% against the regulatory requirement of 15%. In ICRA's opinion, a prudent capitalisation level is one of the key risk mitigants against the expected credit losses and a monitorable, given the monoline nature of operations with an unsecured portfolio. In this regard, SBICPSL is expected to maintain a prudent capitalisation level and ICRA believes that capital and liquidity support from SBI will be forthcoming, if required.

Credit challenges

Asset quality pressure emanating from Covid-19 induced disruptions – Given the Covid-19 induced disruptions and the resultant slowdown in the economy, SBICPSL's portfolio vulnerability has increased as reflected by the uptick in the percentage of gross non-performing loans to 7.5% in September 2020 (including the accounts which would have been declared non-performing if the standstill on account of the Supreme Court's order was not applied) from the four-year average of 2.4%. Further, the company had restructured about 9% of the loan book (under the RBI's resolution plan) by September 30, 2020, whereby the outstanding balances were converted to term loans with a tenor up to 2 years. In this regard, while SBICPSL's track record of range-bound asset quality metrics over several years provides comfort, the evolving asset quality trajectory over the near term and the resultant impact on its profitability will remain a monitorable. ICRA notes that the company had last faced major asset quality challenges during CY2008-CY2009, before it revamped its business model and credit underwriting standards/processes. Further, SBICPSL's management had taken measures like revising the screening policy to exclude higher delinquency segments, proactive blocking, reduction in credit lines, focussed collection activities, etc, during the past few years. This resulted in the stabilisation of delinquencies in CY2019, following the modest uptick in delinquencies in CY2018 due to the incremental portfolio originated in CY2017.

Monoline nature of operations with presence in relatively risky target segment – Due to the nature of its business, SBICPSL's product diversification remains low with concentration only in the credit cards business. Also, the company's portfolio remains relatively risky as it is largely unsecured with only 1.3% of the portfolio being secured in nature as on March 31, 2020.

Liquidity position: Strong

Given the relatively shorter tenure of the assets, SBICPSL's asset-liability maturity (ALM) profile, in the normal course of business, is characterised by positive cumulative mismatches in the near-and-medium-term buckets. Further, the company typically maintains sizeable liquidity backup in the form of sanctioned and unutilised bank lines (its CP borrowings are also carved out of bank lines). Moreover, while the extension of a moratorium to its customers has resulted in a modest decline in collections in H1 FY2021, ICRA notes that SBICPSL has sufficient unutilised bank lines (about Rs. 7,862 crore as on September 30, 2020) to take care of its near-term debt servicing requirements and key operating expenses.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Pressure on the ratings could emerge on a significant decline in SBI's shareholding, leading to a lower likelihood of support from the parent and/or reduced operational linkages, besides a change in the credit profile of SBI.

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: State Bank of India (SBI) ICRA expects SBI to be willing to extend financial support to SBICPSL, if needed, given the importance that the credit card business holds for SBI. SBI and SBICPSL also share a common name, which, in ICRA's opinion, would persuade SBI to provide financial support to SBICPSL to protect its reputation from the consequences of a Group entity's distress
Consolidation/Standalone	Standalone

About the company

SBI Cards and Payment Services Limited (SBICPSL), incorporated in 1998 and a 69.45%-subsidiary of SBI, is a non-deposit taking systemically important non-banking financial company registered with the Reserve Bank of India. It is the second largest credit card provider in the country, with a card base of about 11 million as of September 30, 2020. Apart from the corporate office in Gurgaon and the registered office in New Delhi, SBICPSL has 22 branches with 140+ sourcing locations, 38,000+ sales agents, 4 call centres and over 6,000 collection agents across 140+ cities in India.

While SBICPSL was incorporated in 1998 as a joint venture between SBI and GE Capital Corporation, GE Capital Mauritius Overseas Investment sold its 40% stake in the company to SBI (14%) and CA Rover Holdings (26%) on December 15, 2017. Subsequently, SBICPSL got listed on stock exchanges in Q4 FY2020, whereby SBI's shareholding declined to 69.51% as on March 31, 2020 from 74% as on March 31, 2019.

SBICPSL reported a profit after tax (PAT) of Rs. 1,245 crore on an asset base of Rs. 26,632 crore in FY2020 vis-à-vis PAT of Rs. 865 crore on an asset base of Rs. 20,764 crore in FY2019. Subsequently, the company achieved a PAT of Rs. 599 crore in H1 FY2021 on an asset base of Rs. 26,365 crore. As on September 30, 2020, its reported a capital adequacy ratio was 25.3% (22.4% as on March 31, 2020) with a total equity of Rs. 5,877 crore (Rs. 5,341 crore as on March 31, 2020).

Key financial indicators

	FY2018	FY2019	FY2020	H1 FY2021
PAT	604	865	1,245	599
Total equity	2,357	3,588	5,341	5,877
Receivables	14,570	18,526	24,141	23,978
Total assets	16,107	20,764	26,632	26,365
Return on average assets (%)^	4.6%	4.8%	5.5%	4.9%
Return on average net worth (%)^	31%	28%	27%	21%
Debt/ Equity (times)	4.7	3.7	3.2	2.7
CRAR (%)	18.6%	20.1%	22.4%	25.3%
Gross stage 3 (%)	2.8%	2.4%	2.0%	4.3% (7.5%#)
Net stage 3 (%)	0.9%	0.8%	0.7%	1.5% (2.7%#)
Net stage 3/Net worth (%)	5.7%	4.2%	3.0%	6.0% (10.4%#)

Source: SBICPSL's financial results, ICRA research; ^ Unadjusted – on reported basis; # Including those accounts which would have been classified as non-performing if the standstill on account of the Supreme Court's order was not applied (these were not NPA as on August 31, 2020); Note: Amounts in Rs. crore; All figures and ratios are as per ICRA's calculations/adjustments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument		Current Rating (FY2021)					Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding	Rating		FY2020		FY2019		FY2018
					Jan 05, 2021	Jul 16, 2020	Feb 18, 2020	Oct 01, 2019	Sep 21, 2018	Apr 18, 2018	Apr 06, 2017
1	NCD	LT	3,100	3,095*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	NCD	LT	1,000	-	[ICRA]AAA (Stable)	-	-	-	-	-	-
3	NCD	LT	1,000	-	Rating Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Sub-debt	LT	1,700	1,250*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	LT/ST Bank Lines	LT/ ST	19,000^^	~8,900*	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
6	CP^^	ST	19,000^^	~2,350*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

**As of September 30, 2020; Note: LT – Long term, ST – Short term; ^^ CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 19,000 crore*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE018E08219	NCD	17-Aug-20	5.75%	17-Nov-23	500	[ICRA]AAA(Stable)
INE018E08227	NCD	22-Dec-20	6.00%	22-Dec-25	450	[ICRA]AAA(Stable)
INE018E08102	NCD	18-Jan-18	8.10%	10-May-21	110	[ICRA]AAA(Stable)
INE018E08136	NCD	18-Dec-18	9.15%	17-Jun-22	450	[ICRA]AAA(Stable)
INE018E08151	NCD	13-May-19	8.55%	12-Aug-22	175	[ICRA]AAA(Stable)
INE018E08177	NCD	14-Nov-19	7.60%	14-Feb-23	410	[ICRA]AAA(Stable)
INE018E08185	NCD	16-Dec-19	7.50%	9-Mar-23	300	[ICRA]AAA(Stable)
INE018E08193	NCD	26-Feb-20	7.40%	25-Feb-25	300	[ICRA]AAA(Stable)
INE018E08201	NCD	29-Jun-20	6.85%	29-Jun-23	400	[ICRA]AAA(Stable)
Yet to be placed	NCD	-	-	-	1,005	[ICRA]AAA(Stable)
Yet to be placed	Subordinated debt	-	-	-	450	[ICRA]AAA(Stable)
INE018E08052	Subordinated debt	26-Nov-14	9.00%	26-Nov-21	100	[ICRA]AAA(Stable)
INE018E08060	Subordinated debt	25-Feb-16	9.65%	25-Apr-22	100	[ICRA]AAA(Stable)
INE018E08078	Subordinated debt	17-Oct-16	8.10%	17-Oct-23	200	[ICRA]AAA(Stable)
INE018E08086	Subordinated debt	17-Jul-17	8.30%	17-May-23	500	[ICRA]AAA(Stable)
INE018E08144	Subordinated debt	29-Jan-19	9.55%	29-Jan-29	250	[ICRA]AAA(Stable)
INE018E08169	Subordinated debt	12-Jun-19	8.99%	12-Jun-29	100	[ICRA]AAA(Stable)
NA	Commercial paper*	NA	NA	7-365 days	19,000	[ICRA]A1+
NA	Bank lines*	NA	NA	NA	19,000	[ICRA]AAA(Stable) /[ICRA]A1+
INE018E08094	NCD	9-Aug-17	7.55%	7-Aug-20	500	[ICRA]AAA(Stable) Withdrawn
INE018E08128	NCD	17-Oct-18	9.50%	16-Oct-20	500	[ICRA]AAA(Stable) Withdrawn

*Source: SBICPSL; * CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 19,000 crore*

Annexure-2: List of entities considered for consolidation: 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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