May 21, 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	3,990	3,990	[ICRA]AAA(Stable); reaffirmed
Non-convertible Debentures	110	-	[ICRA]AAA(Stable); reaffirmed and withdrawn#
Non-convertible Debentures	-	3,000	[ICRA]AAA(Stable); assigned
Subordinated Debt	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**	**27,690**	

**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working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 19,000 crore; # Withdrawn as ISINs stand fully redeemed basis publicly available information*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 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, funding 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 also factor in SBICPSL's strong liquidity position, track record of strong profitability with a seven-year average (FY2015 to FY2021) return on assets (RoA[1]) and return on equity (RoE) of about 4.4% and 28%, respectively and adequate capitalisation with a capital to risk weighted assets ratio (CRAR) of 24.8% and a gearing of 2.9 times as on March 31, 2021. Further, while the asset quality pressure and resultant credit cost increased significantly to over 8% of the average total assets in FY2021 (compared to the seven-year average of about 4.4%), following a challenging operating environment, however, ICRA notes that SBICPSL enjoys adequate capital and profitability buffers to absorb the asset-side shock emanating from Covid-19-induced disruptions. Profitability, though moderated in FY2021 due to lower revenues and higher credit costs still remain adequate with RoA and RoE of 3.6% and 16.9% respectively.

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 4.99% in March 31, 2021 from 2.01% as on March 31, 2020, despite sizable write offs (9.7% of gross advances in FY2021 as per P&L compared to five year average of 5.4%). Further, the company had restructured about 8% of the loan book (under the Reserve Bank of India's (RBI) resolution plan) as on March 31, 2021 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 to medium term, especially considering the second wave of Covid and the resultant impact on its profitability will remain a monitorable. While reaffirming the ratings, ICRA continues

[1] *All ratios as per ICRA's calculations*

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 shareholding held by India's largest PSB – SBICPSL is a subsidiary of India's largest and oldest bank i.e. SBI (SBI held a 69.39% stake in SBICPSL as on March 31, 2021). 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. As on March 31, 2021, ~56% of the borrowings were from SBI. Though the company has been increasing share of market instruments in the funding mix over the past few years, bank lines continued to account for majority 60% of borrowing base as on March 31, 2021, followed by debentures (28%) and commercial paper (12%)). This augurs well for the borrowing and liquidity profile of the company.

Track record of strong profitability with adequate buffer to absorb the asset side shock emanating from Covid-19 induced disruption – 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 (FY2015 to FY2021) RoA and RoE of about 4.4% and 28%, respectively. As expected, the credit cost has however increased significantly to over 8% during FY2021 (compared to seven-year average of about 4.4%) amid the Covid-19 induced disruption and resulting impact on asset quality. Nonetheless, ICRA notes that SBICPSL enjoys strong capital and profitability buffers to absorb the asset side shock emanating from Covid-19 induced disruption. Profitability, though moderated in FY2021 due to lower revenues and higher credit costs still remain adequate with RoA and RoE of 3.6% and 16.9% respectively.

Rising delinquencies along with increased share of transactors in the portfolio mix, lead to moderation in yields from 22.6% to 20.0% in FY2021. However, reduction in cost of borrowings (from 8.3% to 5.9% in FY2021), amidst the declining interest rate environment, helped in limiting the moderation in NIMs to 14.1% (vs. 15.0% in FY2020). The operating expenses (primarily acquisition and marketing costs,), though moderated in FY2021 (17% of average assets in FY2021 as compared to seven-year average of 20% from FY2015 to FY2021), had been witnessing an upward trend prior to onset of the pandemic, reflecting high competition and the company's focus on gaining market share. However, the company's sizable interchange/fee-based income (47% of total income in FY2021) is expected to continue to support the profitability thereby keeping it range-bound at a strong level over the medium to longer term.

Adequate capitalisation – The company remains adequately capitalised with a net worth of Rs. 6,302 crore as on March 31, 2021 and a CRAR of 24.8% against the regulatory requirement of 15%, and a gearing of 2.9 times. In ICRA's opinion, a prudent capitalisation level is one of the key risk mitigants 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 pressures emanating from Covid-19 induced disruption – Given the Covid-19 induced disruption and resultant slowdown in economy, SBICPSL's asset quality has come under significant pressure as reflected by the uptick in percentage of gross non-performing loans to 4.99% as on March 31, 2021 from 2.0%, as on March 31, 2020. Further, the company had restructured about 7.6% of the loan book (under the Reserve Bank of India's (RBI) resolution plan) as on March 31, 2021 (2.7% of which has been already classified into NPA), whereby the outstanding balances were converted to term loans with tenor upto 2 years and interest rate in mid-teens. 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 to medium term, especially considering the second Covid wave and resultant impact on profitability will remain a monitorable. Also, ICRA notes that share of transactors (consumer who pays credit card balance in full and on time every month) in the receivables mix has increased to 35% as on March 31, 2021 from 27% as on March 31, 2020, reflecting relatively tighter sourcing done in FY2021. Remaining receivables mix is in the form of revolver (consumer who carries a credit card balance from one month to the next): 28%, term balances (EMIs): 29%, Restructured book: 8%, as on March 31, 2021.

ICRA notes that the company had last faced major asset quality challenges during 2008-2009, before it revamped its business model and credit underwriting standards/processes. Further, SBICPSL's management had undertaken measures like revising the screening policy to exclude higher delinquency segments, proactive blocking, reduction in credit lines, focussed collection activities, etc during past few years. This resulted in the stabilisation of delinquencies, following the modest uptick in delinquencies in 2018 due to the incremental portfolio originated in 2017.

Monoline nature of operations with presence in relatively risky target segment - Due to the nature of its business, SBICPSL's product diversification remains low, being concentrated only in the credit cards business. Also, the company's portfolio remains relatively risky being largely unsecured with less than 2% of the portfolio being secured in nature as on March 31, 2021.

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). The company's liquidity profile also benefits from easy access to funding from its parent i.e. SBI. Against debt repayments of Rs 13,267 crore in FY2022, SBICPSL has bank balances and advance inflows of Rs 20,264 crore as per March 31, 2021 asset liability maturity profile. Along with it, the company also had Rs 6,124 crore sanctioned but unutilized bank lines as on March 31, 2021, which further supports its liquidity profile.

Rating sensitivities

Positive factors – Not applicable

Negative factors – 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 69.39%-subsidiary of SBI as on March 31, 2021 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 11.8 million as of March 31, 2021. 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 69.5% as on March 31, 2020 from 74% as on March 31, 2019.

SBICPSL reported a profit after tax (PAT) of Rs. 985 crore on an asset base of Rs. 28,668 crore in FY2021 vis-à-vis PAT of Rs. 1,245 crore on an asset base of Rs. 26,632 crore in FY2020. As on March 31, 2021, its reported capital adequacy ratio was 24.8% (22.4% as on March 31, 2020) with a net worth of Rs. 6,302 crore (Rs. 5,341 crore as on March 31, 2020).

Key financial indicators (audited)

Company Name	FY2019	FY2020	FY2021
Total income (Rs. crore)	7,033	9,282	9,278
Profit after tax (Rs. crore)	865	1,245	985
Net worth (Rs. crore)	3,588	5,341	6,302
Loan book (Rs. crore)	18,526	24,141	25,114
Total assets (Rs. crore)	20,764	26,632	28,350
Return on assets (%)	4.8%	5.5%	3.6%
Return on net worth (%)	28%	27%	16.9%
Gross gearing (times)	3.7	3.2	2.9
Gross NPA (%)	2.4%	2.0%	4.99%
Net NPA (%)	0.8%	0.7%	1.15%
Solvency (Net stage 3/Net worth)	4.2%	3.0%	4.4%
CRAR (%)	20.1%	22.4%	24.8%

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of May 14, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
					May 21, 2021	Jan 05, 2021	Jul 16, 2020	Feb 18, 2020	Oct 01, 2019	Sep 21, 2018	Apr 18, 2018
1	Non-convertible debenture	LT	3,990	3,990	[ICRA]AAA (Stable); reaffirmed	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-convertible debenture	LT	110	--	[ICRA]AAA (Stable); reaffirmed & withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Non-convertible debenture	LT	3,000	-	[ICRA]AAA (Stable); assigned						
4	Subordinate debt	LT	1,700	1,250 (Rs. 450 crore yet to placed)	[ICRA]AAA(Stable); reaffirmed	[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	~10,623	[ICRA]AAA(Stable)/ [ICRA]A1+; reaffirmed	[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	3,990	[ICRA]AAA(Stable); reaffirmed	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore
**As of March 31, 2021; 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 instruments

Instrument	Complexity Indicator
Non-convertible Debentures*	Very Simple
Subordinated Debt*	Very Simple
Long-term Short-term Bank Lines/ Commercial Paper Programme^	Simple

** Assuming the new instruments issued will be similar in terms of complexity as the previous NCDs raised. Indicator will be changed once they are placed, if required ^ CP borrowings are carved out of working capital lines;*

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 analyzing 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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
INE018E08136	NCD	12/18/2018	9.15%	6/17/2022	450	[ICRA]AAA(Stable)
INE018E08151	NCD	5/13/2019	8.55%	8/12/2022	175	[ICRA]AAA(Stable)
INE018E08177	NCD	11/14/2019	7.60%	2/14/2023	410	[ICRA]AAA(Stable)
INE018E08185	NCD	12/16/2019	7.50%	3/9/2023	300	[ICRA]AAA(Stable)
INE018E08193	NCD	2/26/2020	7.40%	2/25/2025	300	[ICRA]AAA(Stable)
INE018E08201	NCD	6/29/2020	6.85%	6/29/2023	400	[ICRA]AAA(Stable)
INE018E08219	NCD	8/17/2020	5.75%	11/17/2023	500	[ICRA]AAA(Stable)
INE018E08227	NCD	12/22/2020	6.00%	12/22/2025	450	[ICRA]AAA(Stable)
INE018E08235	NCD	2/23/2021	5.90%	2/23/2024	550	[ICRA]AAA(Stable)
INE018E08243	NCD	5/10/2021	5.70%	5/10/2024	455	[ICRA]AAA(Stable)
Yet to be placed	NCD	-	-	-	3,000	[ICRA]AAA(Stable)
INE018E08052	Sub-debt	11/26/2014	9.00%	11/26/2021	100	[ICRA]AAA(Stable)
INE018E08060	Sub-debt	2/25/2016	9.65%	4/25/2022	100	[ICRA]AAA(Stable)
INE018E08078	Sub-debt	10/17/2016	8.10%	10/17/2023	200	[ICRA]AAA(Stable)
INE018E08086	Sub-debt	7/17/2017	8.30%	5/17/2023	500	[ICRA]AAA(Stable)
INE018E08144	Sub-debt	1/29/2019	9.55%	1/29/2029	250	[ICRA]AAA(Stable)
INE018E08169	Sub-debt	6/12/2019	8.99%	6/12/2029	100	[ICRA]AAA(Stable)
Yet to be placed	Sub-debt	-	-	-	450	[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+
INE018E08102	NCD	18-Jan-18	8.10%	10-May-21	110	[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 consolidated analysis: Not applicable

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