

August 22, 2022

SBI Cards and Payment Services Limited: 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	8,365	8,365	[ICRA]AAA (Stable); reaffirmed
Non-convertible debentures ^{&}	625	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Subordinated debt	1,500	1,500	[ICRA]AAA (Stable); reaffirmed
Subordinated debt [%]	100	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Long-term short-term bank lines/ Commercial paper programme [^]	20,000	25,000	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed and assigned
Term Loan	1,000	1,000	[ICRA]AAA (Stable); reaffirmed
Long-term fund based - other	-	1,000	[ICRA]AAA (Stable); assigned
Total	31,590	36,865	

*Instrument details are provided in Annexure I; ^ CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 25,000 crore; [&]Reaffirmed and withdrawn for the amount of Rs. 625 crore as the amount was redeemed basis publicly available information; [%] Reaffirmed and withdrawn for the amount of Rs. 100 crore as the amount was redeemed basis publicly available information

Rationale

The ratings factor in the strong parentage of SBI Cards and Payment Services Limited (SBICPSL) with a 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 to the bank's customers, SBICPSL is strategically important for SBI. This is 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 factor in SBICPSL's strong liquidity position and the track record of strong profitability with an eight-year average (FY2015 to FY2022) return on assets (RoA) and return on equity (RoE) of 4.5% and 27.1%, respectively. The ratings also factor in the company's adequate capitalisation for the current scale of operations, with a capital to risk weighted assets ratio (CRAR) of 24.7% and a gearing of 3.0 times as on June 30, 2022. With the easing of the asset quality pressure, the resultant credit cost {in relation to average total assets (ATA)} declined to 7.0% and 4.9% in FY2022 and Q1 FY2023, respectively (compared to the eight-year average of 4.5%), from 8.1% in FY2021 due to the strong post-Covid-19 pandemic recovery. ICRA also notes that SBICPSL enjoys adequate capital and profitability buffers to absorb asset-side shocks emanating from any future events. ICRA also notes the improvement in the profitability in Q1 FY2023 with the RoA and RoE increasing to 6.8% and 31.1%, respectively, largely driven by the decline in credit costs.

Post the pandemic-led disruptions and the resultant slowdown in the economy, SBICPSL's portfolio vulnerability has declined due to the good quality of the incremental book, driven by tighter sourcing norms. This is reflected by the decline in the gross non-performing advances (GNPAs) to 2.24% as on June 30, 2022 and 2.22% as on March 31, 2022 from 4.99% as on March 31, 2021. Further, the standard restructured book declined to 0.43% as on June 30, 2022 from 4.9% as on March 31, 2021. However, ICRA notes SBICPSL's intention to recalibrate its risk appetite due to the comfort derived from the decline in the asset quality pressures. It plans to increase the interest income generating assets in the overall portfolio mix further. The evolving trajectory of the asset quality due to SBICPSL's strategic decision to recalibrate its risk appetite will remain a key monitorable. In this regard, SBICPSL's track record of range-bound asset quality metrics provides comfort. While reaffirming

the ratings, ICRA continues to note SBICPSL's monoline nature of operations. The company's portfolio remains relatively risky, with only 1.1% of the same being secured in nature as on March 31, 2022.

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 PSB, i.e. SBI (69.19% stake in SBICPSL as on June 30, 2022). The company hosts the credit card business of the parent. As the credit card business is a key product offering to the bank's customers, SBICPSL is strategically important for SBI. This is also reflected in the bank's track record of providing branding and funding 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.

Moreover, SBI continues to be the largest lender to SBICPSL with a track record of enhancement in the working capital lines, whenever required. Though the company has been increasing the share of market instruments in the funding mix over the past few years, bank lines including term loans continued to account for the majority (63%) of the borrowing base as on June 30, 2022, followed by debentures (32%) and commercial paper (CP; 5%). This augurs well for its borrowing and liquidity profile.

Track record of strong profitability with adequate buffer to absorb asset-side shocks – Driven by the high lending spreads and the sizeable interchange and fee-based income, SBICPSL has consistently reported strong profitability, as reflected by the eight-year average (FY2015 to FY2022) RoA and RoE of 4.5% and 27.1%, respectively. With the strong post-pandemic recovery, driven by tailwinds in the credit card industry, the credit cost declined to 7.0% and 4.9% in FY2022 and Q1 FY2023, respectively (compared to eight-year average of 4.5%). This led to SBICPSL reporting a recovery in its profitability with RoA and RoE of 6.8% and 31.1%, respectively, in Q1 FY2023. The strong profitability provides the company with buffers to absorb asset-side shocks, if any, going forward.

Adequate capitalisation – The company remains adequately capitalised with a net worth of Rs. 8,373 crore as on June 30, 2022, a CRAR of 24.7% (against the regulatory requirement of 15%), and a gearing of 3.0 times. In ICRA's opinion, a prudent capitalisation level is one of the key risk mitigants and a monitorable, given the monoline nature of the company's 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

Higher portfolio vulnerability due to unsecured nature of loans – Post the pandemic-led disruptions and the resultant slowdown in the economy, SBICPSL's portfolio vulnerability has declined due to the good quality of the incremental book, driven by tighter sourcing norms. This was reflected by the decline in the GNPA's to 2.2% as on June 30, 2022 and March 31, 2022 from 5.0% as on March 31, 2021. Further, the standard restructured book declined to 0.43% as on June 30, 2022 from 4.9% as on March 31, 2021. However, ICRA notes SBICPSL's intention to recalibrate its risk appetite due to the comfort derived from the decline in the asset quality pressures. It plans to increase the interest income generating assets in the overall portfolio mix further. The evolving trajectory of the asset quality due to SBICPSL's strategic decision to recalibrate its risk appetite will remain a key monitorable. In this regard, improved credit norms, driven by the learnings during the pandemic, and SBICPSL's track record of range-bound asset quality metrics provide comfort.

Monoline nature of operations with presence in relatively risky 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 as it is largely unsecured with only 1.1% of the same being secured in nature as on March 31, 2022.

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 all buckets. Further, the company maintains sizeable liquidity backup in the form of sanctioned and unutilised bank lines (Rs. 3,659 crore sanctioned but unutilised bank lines as on June 30, 2022; 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. 15,666 crore in the next one year, SBICPSL has bank balances and advance inflows of Rs. 26,658 crore as per the asset-liability statement as on March 31, 2022.

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. A sustained deterioration in the asset quality profile, thereby weakening the solvency profile, would also be a credit negative.

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 ICRA's withdrawal policy
Parent/Group support	Parent/Group Company: State Bank of India ICRA expects SBI to be willing to extend financial support to SBICPSL, if needed, given the importance of the credit card business 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 69.19%-subsidiary (as on June 30, 2022) of State Bank of India (SBI), is a non-deposit taking systemically important non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). It is the second largest credit card provider in the country, with a card base of 1.43 crore as on June 30, 2022.

While SBICPSL was incorporated as a joint venture between SBI and GE Capital Corporation, GE Capital Mauritius Overseas Investment sold its 40% stake in the company to SBI, which took 14% while CA Rover Holdings acquired the remaining 26% stake on December 15, 2017. This resulted in SBI holding a 74% stake in the company while CA Rover Holdings held the remaining 26%. Subsequently, SBICPSL got listed on stock exchanges in Q4 FY2020, whereby SBI's shareholding declined to 69.5% on March 31, 2020 from 74% as on March 31, 2019. SBI's shareholding stood at 69.19% as on June 30, 2022.

SBICPSL reported a profit after tax (PAT) of Rs. 1,616 crore on an asset base of Rs. 35,745 crore in FY2022 vis-à-vis a PAT of Rs. 985 crore on an asset base of Rs. 28,690 crore in FY2020. SBICPSL reported a PAT of Rs. 627 crore in Q1 FY2023 on an asset base of Rs. 37,995 as on June 30, 2022. As on June 30, 2022, the capital adequacy ratio was 24.7% (23.8% as on March 31, 2022) with a net worth of Rs. 8,373 crore (Rs. 7,753 crore as on March 31, 2022).

Key financial indicators (audited)

SBI CPSL	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22	Q1 FY2023/Jun-22*
Total income	9,282	9,254	10,689	3,263
Profit after tax	1,245	985	1,616	627
Net worth	5,341	6,302	7,753	8,373
Loan book	24,141	25,114	31,281	33,215
Total assets	26,636	28,690	35,745	37,995
Return on assets	5.25%	3.56%	5.02%	6.80%
Return on net worth	27.88%	16.91%	23.00%	31.10%
Gross gearing (times)	3.29	2.87	2.96	2.96
Gross NPA	484	1,254	693	744
Net NPA	159	278	241	260
Gross stage 3	2.01%	4.99%	2.22%	2.24%
Net stage 3	0.66%	1.14%	0.78%	0.79%
Solvency (Net stage 3/Net worth)	2.97%	4.41%	3.11%	3.10%
CRAR	22.43%	24.75%	23.80%	24.70%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Limited financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Aug 22, 2022	Apr 05, 2022			
1	Non-convertible debenture&	LT	8,365	6,292	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-convertible debenture	LT	625	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Subordinated debt%	LT	1,500	1,196	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Subordinated debt	LT	100	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	LT/ST bank lines^^	LT/ST	20,000	14,180	[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	LT/ST bank lines^^	LT/ST	5,000	-	[ICRA]AAA (Stable)/[ICRA]A1+	-	-	-	-
7	CP^^	ST	20,000	815	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8	CP^^	ST	5,000	-	[ICRA]A1+	-	-	-	-
9	Term Loan	LT	1,000	1000	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-
10	Long-term fund based - other	LT	1,000	-	[ICRA]AAA (Stable)	-	-	-	-

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. 25,000 crore; * Reaffirmed and withdrawn for the amount of Rs. 625 crore as the amount was redeemed basis publicly available information; % Reaffirmed and withdrawn for the amount of Rs. 100 crore as the amount was redeemed basis publicly available information

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture	Very Simple
Subordinated debt	Very Simple
LT/ST bank lines	Simple
Term Loan	Simple
Long-term fund based - other	Simple
Commercial paper programme	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 I: Instrument details as on August 18, 2022

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE018E08177	NCD	14/11/2019	7.60%	2/14/2023	410	[ICRA]AAA (Stable)
INE018E08185	NCD	16/12/2019	7.50%	3/9/2023	300	[ICRA]AAA (Stable)
INE018E08193	NCD	26/2/2020	7.40%	2/25/2025	300	[ICRA]AAA (Stable)
INE018E08201	NCD	29/6/2020	6.85%	6/29/2023	400	[ICRA]AAA (Stable)
INE018E08219	NCD	17/8/2020	5.75%	11/17/2023	500	[ICRA]AAA (Stable)
INE018E08227	NCD	22/12/2020	6.00%	12/22/2025	450	[ICRA]AAA (Stable)
INE018E08235	NCD	23/2/2021	5.90%	2/23/2024	550	[ICRA]AAA (Stable)
INE018E08243	NCD	10/5/2021	5.70%	5/10/2024	455	[ICRA]AAA (Stable)
INE018E08250	NCD	14/6/2021	5.55%	6/14/2024	500	[ICRA]AAA (Stable)
INE018E08268	NCD	17/08/2021	5.70%	08/16/2024	500	[ICRA]AAA (Stable)
INE018E08276	NCD	15/11/2021	5.75%	14/11/2024	500	[ICRA]AAA (Stable)
INE018E08284	NCD	24/12/2021	5.82%	24/12/2024	650	[ICRA]AAA (Stable)
INE018E08292	NCD	03/06/2022	7.51%	03/06/2025	750	[ICRA]AAA (Stable)
INE018E08136	NCD	18/12/2018	9.15%	6/17/2022	450	[ICRA]AAA (Stable); withdrawn
INE018E08151	NCD	13/5/2019	8.55%	8/12/2022	175	[ICRA]AAA (Stable); withdrawn
Yet to be placed	NCD	NA	NA	NA	2,100	[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)
INE018E08300	Sub-debt	6/30/2022	8.25%	6/30/2032	250	[ICRA]AAA (Stable)
INE018E08060	Sub-debt	2/25/2016	9.65%	4/25/2022	100	[ICRA]AAA (Stable); withdrawn
Yet to be placed	Sub-debt	NA	NA	NA	200	[ICRA]AAA (Stable)
INE018E14PH2	Commercial paper^	2-Dec-21	4.82	2-Dec-22	350	[ICRA]A1+
INE018E14PI0	Commercial paper^	23-Mar-22	5.15	23-Mar-23	500	[ICRA]A1+
INE018E14PJ8	Commercial paper^	22-Apr-22	4.65	28-Sep-22	350	[ICRA]A1+
INE018E14PK6	Commercial paper^	19-Jul-22	5.60	19-Oct-22	400	[ICRA]A1+
Yet to be placed	Commercial paper^	NA	NA	7-365 days	23,400	[ICRA]A1+
NA	Bank lines^	NA	NA	NA	16,250	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	750	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	2,800	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,300	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,300	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,100	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,500	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Term Loan	28/03/2022	NA	28/06/2025	500	[ICRA]AAA (Stable)
NA	Term Loan	22/07/2022	NA	21/04/2027	500	[ICRA]AAA (Stable)
NA	Long-Term fund based – other	NA	NA	NA	1,000	[ICRA]AAA (Stable)

Source: Company; ICRA Research; ^CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 25,000 crore; * Yet to be placed

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Annexure II: List of entities considered for consolidated analysis: Not Applicable

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