ICRA

April 06, 2017

SBI Cards and Payment Services

Instrument*	Amount (Rs. crore)	Rating Action
Long term borrowing programme	8,500	[ICRA]AAA(Stable); Reaffirmed
Short term borrowing programme		[ICRA]A1+; Reaffirmed
Long term borrowing programme	2,500	[ICRA]AAA(Stable);Assigned
Short term borrowing programme		[ICRA]A1+; Assigned
Long term – Subordinate bonds/debt programme	590 (reduced from 675)	[ICRA]AAA(Stable); Reaffirmed
Long term – Bonds / NCD / LTD	1,000	[ICRA]AAA(Stable); Assigned
Subordinated bond/Lower Tier 2 bond Programme	500	[ICRA]AAA(Stable); Assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a rating of [ICRA]AAA(stable) (pronounced ICRA triple A with stable outlook)/ [ICRA]A1+(pronounced ICRA A one plus) to Rs 2,500 crore long term/ short term borrowing programme of SBI Cards and Payment Services Limited(SBICPSL). ICRA has also assigned a rating of [ICRA]AAA (stable) to the Rs 1,000 crore long term bonds programme and Rs 500 crore lower tier 2/ subordinated debt programme of the company.

ICRA has reaffirmed the ratings of [ICRA]AAA (stable) assigned earlier to Rs 590 crore (reduced from Rs 675 crore) long term- subordinate bonds/debt programme of SBICPSL. ICRA has also reaffirmed the rating of [ICRA]AAA (stable)/[ICRA]A1+ assigned earlier to Rs 8,500 crore long term/ short term borrowing programme of the Company.

Detailed rationale

The ratings factor in SBICPSL's strong ownership, experienced management team and good systems which have helped the company to operate the credit cards business through economic cycles and generate business volumes while maintaining comfortable liquidity and adequate capitalisation. State Bank of India (SBI), the country's largest commercial bank holds 60% equity stake in SBICPSL, while General Electric Capital Corporation (GECC) holds the balance 40% through its subsidiary GE Consumer (Mauritius) Investment I Limited. ICRA notes that GECC plans to exit from this joint venture and the shareholders are in process of identifying a new partner. However, ICRA takes comfort from that fact that SBI remains committed to providing capital, managerial, liquidity and funding support to the venture.

The ratings continue to factor in SBICPSL's established position and improving market share, with SBICPSL becoming the second largest credit card issuer in the country; SBICPSL had cards in force of 42.5 lakh and a market share of 15.0%, as on December 31, 2016. SBICPSL's asset quality also remained good with gross NPAs of 1.74% and net NPAs of 1.30% as on December 31, 2016. Maintaining good underwriting norms such as minimum income criteria, mandatory credit bureau track record of 6 months as well as increased tele-calling frequency to recover from delinquent accounts, has helped the company in keeping slippages under control.

The company's funding profile is comfortable given its access to funding sources from SBI. As of December 31, 2016, 88% of SBICPSL's borrowings were from SBI through bank loans, commercial papers and NCDs. The commercial paper borrowings of SBICPSL are carved out of its sanctioned bank limits resulting in a favourable liquidity position.

The company's capitalisation remained adequate with gearing of 5.2 times as on December 31, 2016, supported by good internal capital generation. While the company's pace of growth going forward is likely to be in line with its internal capital generation, ICRA expects capital support from SBI to be forthcoming in case of need. Overall, the company's ability to maintain asset quality and capitalisation would remain key rating considerations.

Improving fee income and controlled credit costs resulted in good profitability indicators with return on average equity of 28.9% and return on average assets of 4.2% in 9MFY2017

Key rating drivers

Credit Strengths

- Strong parentage; SBI's commitment to continue to provide operational, management and capital support provides comfort
- Good liquidity profile arising out of funding support from SBI
- Good profitability indicators supported by increasing interchange income and controlled credit costs, though operating expenses continue to remain high

Credit Weaknesses

- Monoline nature of operations; presence in relatively risky unsecured loan segment
- Ability to maintain asset quality indicators through economic cycles, especially in the unsecured credit cards business

Description of key rating drivers:

The association with SBI has helped SBICPSL grow its business volumes by leveraging the brand name and the vast customer base and branch network of the parent. SBICPSL had the second largest market share, in terms of both number of cards (15.0%) and transactions volumes (13.5%), as on December 31, 2016.

The company's asset quality indicators have remained largely stable, with gross NPAs of 1.74% and net NPAs of 1.30% as on December 31, 2016, in comparison with 1.98% and 1.48% respectively as on March 31, 2016. The company recognises NPAs at 90 days past due.

SBICPSL's funding profile remained comfortable, with a majority of the borrowings being from SBI in the form of working capital loans at the MCLR rate and commercial papers. The company's capital position also remained adequate, with gearing of 5.2 times and total CRAR of 18.5% as on December 31, 2016. Going forward, while the company's pace of growth is likely to be in line with its internal capital generation, ICRA expects support from SBI to be forthcoming in case of need.

The major sources of revenue for the company include interest income, interchange income, late payment and other fees while expenses are majorly towards client acquisition and marketing costs and reimbursement of services to GECC. SBICPSL's profitability improved marginally with return on average equity of 28.9% and return on average assets of 4.2% in 9MFY2017, as compared with 26.8% and 4.0% respectively in FY2016, driven by improved fee income and controlled credit costs.

Analytical approach:

For arriving at the ratings, ICRA has taken into account the business risk profile, financial risk drivers, management profile and debt servicing track record of SBICPSL.

Links to applicable criteria

http://www.icra.in/Files/Articles/Rating%20Methodology%20NBFC%20April%202016.pdf

About the company:

SBICPSL is an unlisted Non-Deposit taking Systemically Important Non- Banking Finance Company registered with the Reserve Bank of India. It is a joint venture of SBI (rated [ICRA]AAA(stable)/[ICRA]A1+) and GE Consumer (Mauritius) Investment I Ltd., a subsidiary of General Electric Capital Corporation, USA, holding 60% and 40% stake respectively.

SBICPSL reported a PAT of Rs. 284 crore on an asset base of Rs. 7,880 crore in FY2016 vis-a-vis a PAT of Rs. 267 crore on an asset base of Rs. 6,257 crore in FY2015. SBICPSL reported a PAT of Rs.280 crore on an asset base of Rs 10,029 crore in 9MFY2017. SBICPSL reported a capital adequacy ratio of 18.5% (Tier I% of 13.7%), as on December 31, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	April 2017	September 2016	December 2015	July 2014
1	Short Term Borrowing Programme	Short Term	11,000 (enhanced from 8,500)	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
2	Long Term Borrowing Programme	Long Term		[ICRA] AAA/ Stable	[ICRA] AAA/ Stable	[ICRA] AAA/ Stable	[ICRA] AAA/ Stable
3	Long term – Subordinate bonds/debt programme	Long Term	590 (reduced from 675)	[ICRA] AAA/ Stable	[ICRA] AAA/ Stable	[ICRA] AAA/ Stable	[ICRA] AAA/ Stable
4	Long term – Bonds/ NCD / LTD	Long Term	1,000	[ICRA] AAA/ Stable			
5	Subordinated bond/Lower Tier 2 bond Programme	Long Term	500	[ICRA] AAA/ Stable			

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
Details of Instrument

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (in Rs. crore)	Rating assigned along with Outlook
Subordinated Bond/Lower Tier 2 - SBICPSL Series – 02 (SBIC -02)	22-01-2008	9.95%	22-01-2018	40	[ICRA]AAA/ Stable
Subordinated Bond/Lower Tier 2 - SBICPSL Series – 03 (SBIC -03)	28-03-2012	9.85%	28-03-2019	50	[ICRA]AAA/ Stable
Subordinated Bond/Lower Tier 2 - SBICPSL Series – 04 (SBIC -04)	28-09-2012	9.50%	28-09-2019	50	[ICRA]AAA/ Stable
Subordinated Bond/Lower Tier 2 - SBICPSL Series – 05 (SBIC -05)	26-11-2014	9.00%	26-11-2021	100	[ICRA]AAA/ Stable
Subordinated Bond/Lower Tier 2 - SBICPSL Series – 06 (SBIC -06)	25-02-2016	9.65%	25-04-2022	100	[ICRA]AAA/ Stable
Subordinated Bond/Lower Tier 2 - SBICPSL Series – 07 (SBIC -07)	17-10-2016	8.10%	17-10-2023	200	[ICRA]AAA/ Stable
Long term – Subordinate bonds/debt programme (Yet to be placed)				50	[ICRA]AAA/ Stable
Long term – Bonds / NCD / LTD (Yet to be placed)				1,000	[ICRA]AAA/ Stable
Subordinated bond/Lower Tier 2 bond Programme (Yet to be placed)				500	[ICRA]AAA/ Stable

Source: SBI Cards and Payment Services Limited

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