SBI Cards and Payment Services (P) Limited Revised

April 18, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Subordinate bonds/debt programme	-	500	[ICRA]AAA (Stable); Assigned
Long term – Bonds / NCD / LTD	-	500	[ICRA]AAA (Stable); Assigned
Long term borrowing programme	11,000	11,000	[ICRA]AAA (Stable); Outstanding
Short term borrowing programme^	11,000	11,000	[ICRA]A1+(Stable); Assigned
Long term – Subordinate bonds/debt programme	1,090	1,090	[ICRA]AAA (Stable); Outstanding
Long term – Bonds / NCD / LTD	1,000	1,000	[ICRA]AAA (Stable); Outstanding
Total	**13,090**	**14,090**	

*Instrument details are provided in Annexure-1; ^ interchangeable with long-term borrowing programme

Rating action

ICRA has assigned a long-term rating of [ICRA]AAA (pronounced ICRA triple A) to the Rs. 500-crore long-term bonds/NCD programme and Rs. 500-crore long-term subordinated bonds/debt programme of SBI Cards and Payment Services (P) Limited (SBICPSL). The outlook on the long-term ratings is Stable.

ICRA has an outstanding rating of [ICRA]AAA(stable) (pronounced ICRA triple A with Stable outlook)/ [ICRA]A1+(pronounced ICRA A one plus) on the Rs. 11,000-crore long-term/short-term borrowing programmes of the company. ICRA also has an outstanding rating of [ICRA]AAA(stable) on the Rs. 1,090-crore long-term subordinated bonds/debt programme and the Rs. 1,000-crore long-term bonds/NCD programme of the company.

Rationale

The ratings factor in SBICPSL's parentage with the State Bank of India (SBI, rated [ICRA]AAA/Stable) holding a majority stake of 74% in the company. The ratings also take into account the experienced management team and good systems, which have helped the company operate the credit card business through economic cycles and generate business volumes while maintaining comfortable liquidity given its access to funding sources from SBI and adequate capitalisation. Given the strategic importance of SBICPSL to SBI, ICRA believes that SBI would continue to provide capital, managerial, liquidity and funding support to the venture. SBI increased its shareholding to 74% from 60%in December 2017, post the exit of General Electric Capital Corporation (GECC) from the joint venture. Any significant change in the parentage or a decline in the strategic importance to the parent could warrant a rating change for SBICPSL.

The ratings continue to factor in SBICPSL's established position and improving market share, with SBICPSL being the second-largest credit card issuer in the country, its good asset quality with gross NPA ratio of 1.9% as on December 31, 2017, notwithstanding some moderation in recent months. The company's capitalisation remained adequate with gearing of 5.7 times as on December 31, 2017, 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.

Outlook: Stable

ICRA believes SBICPSL will continue to benefit from its strong parentage. The outlook may be revised to Negative if there is any change in the credit profile of the parent, or any material change in the support from the parent or further significant deterioration in the company's asset quality and, hence, financial profile.

Key rating drivers

Credit strengths

Strong parentage - SBICPSL is majority (74% as on March 31, 2018) owned by SBI and gets continuous operational, management and capital support from the parent. Also, considering SBICPSL hosts the entire credit card business of SBI, the company remains strategically important to the parent. SBICPSL also shares strong management integration with the parent, with senior employees from SBI being deputed to senior positions at SBI Cards. 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. ICRA expects support from SBI to continue, going forward, too.

Good profitability indicators - SBICPSL reported healthy profitability indicators with return on average assets of 4.4% in 9M FY2018 (vs. 4.2% in FY2017), driven by good net interest margins, healthy interchange and fee-based income and controlled credit costs. Operating expenses (primarily acquisition and marketing costs), however, have been on an increasing trend reflecting high competition and the company's focus on gaining market share.

Adequate capital position - SBICPSL's capital position stands adequate with CRAR of 18.7% and gearing of 5.7x as on December 31, 2017. Also, we expect support from the parent to be forthcoming, in case of need.

Good asset quality - The company's asset quality indicators have remained under control, notwithstanding some moderation in the recent past. The gross NPA ratio deteriorated to 1.9% as on December 31, 2017 from 1.6% as on March 31, 2017 and may rise further due to increased delinquencies in certain segments. ICRA notes that management has undertaken certain measures like revising the screening policy so as to exclude higher delinquency segments, proactive blocking, credit line decrease, focused collection activities, etc, which are expected to result in stabilisation of asset quality in the medium term.

Credit challenges

Monoline nature of operations, relatively risky target segment - Due to the nature of its business, SBICPSL's profile diversification remains low, being concentrated only in the credit cards business. Also, the company's target segment remains relatively risky being purely unsecured in nature. SBICPSL's ability to maintain asset quality indicators through economic cycles, remains a key rating sensitivity.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA Rating Methodology for Non-Banking Finance Companies]

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 between SBI (rated [ICRA]AAA(Stable)/[ICRA]A1+) and CA Rover Holdings (an affiliate of Carlyle Asia Partners IV) holding 74% and 26%, respectively.

SBICPSL reported PAT of Rs. 390 crore on an asset base of Rs. 10,829 crore in FY2017 vis-à-vis PAT of Rs. 284 crore on an asset base of Rs. 7,880 crore in FY2015. SBICPSL reported PAT of Rs. 417 crore on an asset base of Rs. 14,663 crore in 9M FY2018. SBICPSL reported a capital adequacy ratio of 18.7% (Tier I of 12.2%) as on December 31, 2017.

Key financial indicators (audited)

	FY 2016	FY 2017	9MFY2018 (unaudited)
Net interest income (incl. processing fees)	977	1,300	1,198
Fees & other income	989	1,418	1,785
Profit before tax	438	598	617
Profit after tax	284	390	417
Receivables	7,396	10,276	
Total assets	7,880	10,829	14,663
% Tier 1	14.3%	12.8%	12.2%
% CRAR	18.1%	17.1%	18.7%
Gearing	5.1	5.7	5.7
% Net profit/Average total assets	4.0%	4.2%	4.4%
% Return on net worth	26.8%	30.0%	33.5%
% Gross NPAs	2.0%	1.6%	1.9%
% Net NPAs	1.5%	1.2%	1.4%
Net NPA/Net worth	9.5%	8.6%	10.4%

Source: SBICPSL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating Apr 2018	Date & Rating in FY2018 Apr 2017	Date & Rating in FY2017 Sep 2016	Date & Rating in FY2016 Dec 2015
1	Subordinate bonds/debt programme	Long Term	500	500	[ICRA]AAA (Stable)	-	-	-
2	Bonds/ NCD / LTD	Long Term	500	500	[ICRA]AAA (Stable)	-	-	-
3	Long term – Subordinate bonds/debt programme	Long Term	1,090	1,090	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA A (Stable)
4	Long term – Bonds/ NCD / LTD	Long Term	1,000	1,000	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA A (Stable)
5	Short Term Borrowing Programme^	Short Term	11,000	11,000	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Long Term Borrowing Programme	Long Term	11,000	11,000	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA A (Stable)

Source: SBICPSL; ^ interchangeable with long-term borrowing programme

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE018E08037	Subordinated bond SBIC 03	28-03-2012	9.85%	28-03-2019	50.0	[ICRA]AAA (Stable)
INE018E08045	Subordinated bond SBIC 04	28-09-2012	9.50%	28-09-2019	50.0	[ICRA]AAA (Stable)
INE018E08052	Subordinated bond SBIC 05	26-11-2014	9.00%	26-11-2021	100.0	[ICRA]AAA (Stable)
INE018E08060	Subordinated bond SBIC 06	25-02-2016	9.65%	25-04-2022	100.0	[ICRA]AAA (Stable)
INE018E08078	Subordinated bond SBIC 07	17-10-2016	8.10%	17-10-2023	200.0	[ICRA]AAA (Stable)
INE018E08086	Subordinated bond SBIC 08	17-07-2017	8.30%	17-05-2023	500.0	[ICRA]AAA (Stable)
INE018E08094	Senior bond SBIC 09	09-08-2017	7.55%	07-08-2020	500.0	[ICRA]AAA (Stable)
INE018E08102	Senior bond SBIC 10	18-01-2018	8.10%	10-05-2021	110.0	[ICRA]AAA (Stable)
n/a	Subordinate bonds (yet to be placed)	n/a	n/a	n/a	590	[ICRA]AAA (Stable)
n/a	Bonds / NCD / LTD (Yet to be placed)	n/a	n/a	n/a	890	[ICRA]AAA (Stable)
n/a	FCNRB loans	Mar-18	n/a	Apr-18, Sep-18	975	[ICRA]AAA (Stable)
n/a	WCDL loans	Jan-18 to Mar-18	n/a	Apr-18 to Feb-19	5,400	[ICRA]AAA (Stable)
n/a	Cash credit	n/a	n/a	n/a	901	[ICRA]AAA (Stable)
n/a	Long term borrowing programme (yet to be placed)	n/a	n/a	n/a	3,724	[ICRA]AAA (Stable)
n/a	Short term borrowing programme^	n/a	n/a	n/a	11,000	[ICRA]A1+(Stable)

Source: SBICPSL; ^ interchangeable with long-term borrowing programme

Annexure-2: Corrigendum

Document dated April 18, 2018 has been corrected with revisions as detailed below:

Summary of rated instruments, page 1: Total for current and previous rated amounts has been revised to Rs. 14,090 crore and Rs. 13,090 crore respectively. Also, interchangeability of short-term borrowing programme with long-term borrowing programme has been highlighted in the footnote to summary of rated instruments table.

Rating history for last three years, page 4: Interchangeability of short-term borrowing programme with long-term borrowing programme has been highlighted in the footnote to rating history table.

Instrument details, page 5: Interchangeability of short-term borrowing programme with long-term borrowing programme has been highlighted in the footnote to the instrument details table.

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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.

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