SBI Cards and Payment Services (P) Limited Revised

September 21, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Bonds / NCD	-	1,500	[ICRA]AAA (Stable); Assigned
Long term – Bonds / NCD	1,500	1,500	[ICRA]AAA (Stable); Reaffirmed
Long term Short Term – Fund based/ non-fund-based bank lines	11,000	14,000	[ICRA]AAA (Stable)/ [ICRA]A1+; Reaffirmed
Commercial Paper programme^	11,000	14,000	[ICRA]A1+; Reaffirmed
Long term – Subordinate bonds/debt programme	1,590	1,590	[ICRA]AAA (Stable); Reaffirmed
Total	**14,090**	**18,590**	

**Instrument details are provided in Annexure-1; ^interchangeable with long-term/short-term – fund based/non-fund-based bank lines*

Rating action

ICRA has assigned a long-term rating of [ICRA]AAA (pronounced ICRA triple A) to the Rs. 1,500-crore long-term bonds/non-convertible debenture (NCD) programme of SBI Cards and Payment Services (P) Limited (SBICPSL). ICRA has reaffirmed a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 14,000-crore (enhanced from Rs. 11,000 crore) commercial paper programme of the company. ICRA has also reaffirmed the rating of [ICRA]AAA/[ICRA]A1+ to the Rs. 14,000-crore (enhanced from Rs. 11,000 crore) long term/short term fund-based/non-fund-based bank lines of the company and rating of [ICRA]AAA to the Rs. 1,590-crore long-term subordinated bonds/debt programme and the Rs. 1,500-crore long-term bonds/NCD programme of the company. The outlook on the long-term ratings is Stable.

Rationale

The ratings derive significant strength from SBICPSL's parentage with State Bank of India ((SBI, rated [ICRA]AAA(Stable)) holding a majority stake of 74% as on June 30, 2018 in the company and the demonstrated support in the form of both capital and management oversight. The ratings also factor in 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 the asset quality. The company's comfortable liquidity, given its access to funding sources from SBI, and adequate capitalisation have also been taken into consideration. Given that credit cards are an important extension of the services offered by SBI to its customers, the strategic importance of SBICPSL to SBI is likely to remain high - 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, and its good asset quality with gross stage 3 assets ratio of 2.7% as on June 30, 2018, notwithstanding some moderation in FY2018. The company's capitalisation remained adequate with gearing of 5.8 times as on June 30, 2018, supported by good internal capital generation and capital infusion of Rs. 470 crore from the promoters in Q2 FY2019. 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, if required. Overall, the company's ability to maintain the asset quality and capitalisation would remain key rating considerations.

Outlook: Stable

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

Key rating drivers

Credit strengths

Strong parentage – SBI has a majority stake (74% as on June 30, 2018) in SBICPSL and provides continuous operational, management and capital support. Also, considering that SBICPSL hosts the entire credit card business of SBI, the company remains strategically important to the parent. In addition to the funding support, SBICPSL 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 parent's brand name and its vast customer base and branch network. ICRA expects support from SBI to continue, going forward as well.

Good profitability indicators though moderated in FY2018 - Driven by good net interest margins, healthy interchange and fee-based income, SBICPSL reported healthy profitability indicators with return on average assets of 2.8% and return on average equity of 22.2% in FY2018, though below 4.2% and 30.0%, respectively, in FY2017. The moderation was primarily due to increased credit costs, with the company revising its provision coverage on gross NPAs to 100% from 25%. Operating expenses (primarily acquisition and marketing costs) have also been on an increasing trend reflecting high competition and the company's focus on gaining market share. In Q1 FY2019, as per IndAS, SBICPSL reported a net profit of Rs. 159 crore, with return on average assets of 3.9% and return on average equity of 30.4%.

Adequate capital and liquidity profile - SBICPSL's capital position was adequate with CRAR of 17.2% and Tier 1 of 11.2% as on March 31, 2018. The company raised Rs. 470 crore from the promoters in Q2 FY2019, which has further supported its capital position. The liquidity profile also remained adequate owing to the company's easy access to funding sources from SBI. ICRA expects capital and liquidity support from SBI to continue, going forward.

Good asset quality - The company's asset quality indicators have remained under control, notwithstanding some moderation in the recent past (gross NPA ratio deteriorated to 2.0% as on March 31, 2018 from 1.6% as on March 31, 2017). ICRA notes that management has undertaken certain measures like revising the screening policy to exclude the higher delinquency segments, proactive blocking, reduction in credit lines, focussed collection activities, etc, which have resulted in stabilisation of delinquencies over the past few months with the 90 days overdue ratio remaining stable at ~2.5% in Q1 FY2019. The gross and net stage 3 assets ratio, as per IndAS, stood at 2.7% and 0.9%, respectively, as on June 30, 2018.

Credit challenges

Monoline nature of operations, 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 purely unsecured in nature. SBICPSL's ability to maintain the 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. 363 crore on an asset base of Rs. 15,189 crore in FY2018 vis-à-vis PAT of Rs. 390 crore on an asset base of Rs. 10,829 crore in FY2017 as per IGAAP. SBICPSL reported PAT of Rs. 159 crore on an asset base of Rs. 17,130 crore in Q1 FY2019. Its capital adequacy ratio was 17.2% and Tier 1 was 11.2%, as on March 31, 2018.

Key financial indicators (audited)

Year	FY2017	FY2018	Q1 FY2019
Accounting method	IGAAP	IGAAP	IndAS
Net interest income	838	1,299	614
Fees & other income	1,418	2,312	750
Profit before tax	598	556	248
Profit after tax	390	363	159
Receivables	10,276		
Total assets	10,829	15,189	17,130
% Tier 1	12.8%	11.2%	N/A
% CRAR	17.1%	17.2%	N/A
Gearing	5.7	6.2	5.8
% Return on average assets	4.2%	2.8%	3.9%
% Return on net worth	30.0%	22.2%	30.4%
% Gross NPAs/ % Gross stage 3 assets	1.6%	2.0%	2.7%
% Net NPAs/ % Net stage 3 assets	1.2%	0.0%	0.9%
% Net NPA to net worth / % Net stage 3 assets to net worth	8.6%	0.0%	6.4%

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 (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Sep 2018	Date & Rating in FY2019 Apr-18	Date & Rating in FY2018 Apr-17	Date & Rating in FY2017 Sep-16
1	Long term – Bonds / NCD	Long Term	1,500	1,500	[ICRA]AAA (Stable)	-	-	-
2	Long term – Bonds / NCD	Long Term	1,500	1,500	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Long term Short Term – Fund based/ non-fund-based bank lines	Long Term	14,000	14,000	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Commercial Paper programme^	Long Term	14,000	14,000	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
5	Long term – Subordinate bonds/debt programme	Short Term	1,590	1,590	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

Source: SBICPSL; ^interchangeable with long-term/short-term – fund based/non-fund-based bank lines

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	Subordinate bonds	March-2012	9.85%	March-2019	50.00	[ICRA]AAA (Stable)
INE018E08045	Subordinate bonds	September-2012	9.50%	September-2019	50.00	[ICRA]AAA (Stable)
INE018E08052	Subordinate bonds	November-2014	9.00%	November-2021	100.00	[ICRA]AAA (Stable)
INE018E08060	Subordinate bonds	February-2016	9.65%	April-2022	100.00	[ICRA]AAA (Stable)
INE018E08078	Subordinate bonds	October-2016	8.10%	October-2023	200.00	[ICRA]AAA (Stable)
INE018E08086	Subordinate bonds	July-2017	8.30%	May-2023	500.00	[ICRA]AAA (Stable)
n/a	Subordinate bonds (yet to be placed)	n/a	n/a	n/a	590	[ICRA]AAA (Stable)
INE018E08094	Non-Convertible debenture	August-2017	7.55%	August-2020	500	[ICRA]AAA (Stable)
INE018E08102	Non-Convertible debenture	January-2018	8.10%	May-2021	110	[ICRA]AAA (Stable)
INE018E08110	Non-Convertible debenture	May-2018	8.90%	November-2021	400	[ICRA]AAA (Stable)
N/A	Non-Convertible debenture (Proposed)	N/A	N/A	N/A	490	[ICRA]AAA (Stable)
N/A	Cash credit/WCDL/FCNR-B	August-2018	N/A	August-2019	11,000	[ICRA]AAA (Stable)/A1+
N/A	Cash credit/WCDL/FCNR-B (Proposed)	N/A	N/A	N/A	3,000	[ICRA]AAA (Stable)/A1+
N/A	Commercial Paper^	N/A	N/A	7-365 Days	14,000	[ICRA] A1+

Source: SBICPSL; ^interchangeable with long-term/short-term – fund based/non-fund-based bank lines aggregating Rs. 14,000 crore

Annexure-2: Corrigendum

Document dated September 21, 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. 18,590 crore and Rs. 14,090 crore respectively. Also, interchangeability of commercial paper programme with Long term Short Term – Fund based/ non-fund-based bank lines has been highlighted in the footnote to summary of rated instruments table.

Rating history for last three years, page 4: Interchangeability of commercial paper programme with Long term Short Term – Fund based/ non-fund-based bank lines has been highlighted in the footnote to rating history table.

Instrument details, page 5: Interchangeability of commercial paper programme with Long term Short Term – Fund based/ non-fund-based bank lines has been highlighted in the footnote to the instrument details table.

ANALYST CONTACTS

Karthik Srinivasan
+91-22-6114 3444
karthiks@icraindia.com

Manushree Saggar
+91-124-4545316
manushrees@icraindia.com

Neha Kadiyan
+91-124-4545321
neha.kadiyan@icraindia.com

Deepak Narang
+91-124 4545 442
Deepak.narang@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91-22- 61143406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
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Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999

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