December 31, 2021 (Revised)

SBI Cards and Payment Services Limited: [ICRA]AAA (Stable)/ [ICRA]A1+ assigned; earlier ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	6,990	6,990	[ICRA]AAA (Stable); Reaffirmed
Non-convertible Debentures	-	2,000	[ICRA]AAA (Stable); Assigned
Subordinated Debt	1,600	1,600	[ICRA]AAA (Stable); Reaffirmed
Subordinated Debt	100	-	[ICRA]AAA (Stable); Reaffirmed and withdrawn[&]
Long-term / Short-term Bank Lines/ Commercial Paper Programme	19,000	19,000	[ICRA]AAA (Stable) /[ICRA]A1+; Reaffirmed
Long-term/ Short-term Bank Lines	-	1,000	[ICRA]AAA (Stable) /[ICRA]A1+; Assigned
Commercial Paper Programme^	-	1,000	[ICRA]A1+; Assigned
Total	**27,690**	**30,590**	

**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against the CP programme and bank lines should not exceed Rs. 20,000 crore; & The amount of Rs. 100 crore was withdrawn as it was redeemed basis publicly available information*

Rationale

The ratings factor in the strong parentage of SBI Cards and Payment Services Limited (SBICPSL) with 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 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, track record of strong profitability with a seven-year average (FY2015 to FY2021) return on assets (RoA) and return on equity (RoE) of about 4.4% and 28%, respectively. The ratings note the company's adequate capitalisation for the current scale of operations, with a capital to risk weighted assets ratio (CRAR) of 25.0% and a gearing of 2.9 times as on September 30, 2021. The asset quality pressure and resultant credit cost increased significantly to over 9.5% and 8.6% of the average total assets in FY2021 and H1 FY2022, respectively (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 pandemic-induced disruptions or any adverse economic trends. It reported modest improvement in its profitability in H1 FY2022 with RoA and RoE increasing to 4.5% and 19.5%, respectively, after witnessing some moderation in FY2021 due to lower revenues and higher credit costs resulting in a RoA and RoE of 3.6% and 16.9%, respectively.

Given the pandemic-led disruptions and the resultant slowdown in economy, SBICPSL's portfolio vulnerability has increased as reflected by the uptick in the percentage of gross non-performing loans to 4.99% as on March 31, 2021 from 2.01% as on March 31, 2020, despite sizeable write offs (8.6% of gross advances in FY2021 as per P&L compared to five-year average of 5.4%). Further, the company had restructured 7.6% of the loan book (under the Reserve Bank of India's (RBI) resolution plan) as on March 31, 2021. However, the asset quality showed some improvement with GNPA easing to 3.4% and restructured portfolio declining to 3.9% (including those already classified under NPA) of advances as on September 30, 2021. The sustainability of such improvement remains to be seen. In this regard, while SBICPSL's past track record of range-bound asset quality metrics provides comfort, the evolving asset quality trajectory over the near to medium term, especially considering the expectant third wave of Covid-19 infections and the resultant impact on its profitability will remain a monitorable. Also, given the RBI's recent clarification on IRAAC norms, the headline gross NPA numbers for the company could increase from the current levels, though adequate provision buffer available on the balance sheet could cushion the incremental impact on its profitability. While reaffirming the ratings, ICRA continues to note SBICPSL's monoline nature of operations. The company's portfolio remains relatively risky, with only less than 2% of the portfolio being secured in nature as on March 31, 2021.

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 69.34% stake in SBICPSL as on September 30, 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. 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, vast customer base and branch network. 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 its share of market instruments in the funding mix over the past few years, bank lines continued to account for majority (60%) of its borrowing base as on September 30, 2021, followed by debentures (34%) and commercial paper (6%). This augurs well for SBICPSL's borrowing and liquidity profile.

Track record of strong profitability with adequate buffer to absorb asset side shock caused by Covid-19 pandemic – Driven by high lending spreads, 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. Amid the challenging operating environment since March 2020 and consequent impact on asset quality indicators, the credit cost increased significantly to 9.5% and 8.6% in FY2021 and H1 FY2022, respectively, (compared to seven-year average of about 4.4%). Nonetheless, SBICPSL enjoys strong capital and profitability buffers to absorb the asset side shock emanating from the Covid-19 induced disruption and other economic impact. Despite some moderation in its profitability due to lower revenues and higher credit costs, the same remained adequate with RoA and RoE of 4.5% and 19.5%, respectively, in H1 FY2022.

Rising delinquencies, along with increased share of transactors in the portfolio mix, led to moderation in yields to 21.6% and 18.2% in FY2021 and H1 FY2022, respectively, from 22.6% in FY2020. However, reduction in the cost of borrowings (5.9% and 5.2% in FY2021 and H1 FY2022, respectively, from 8.3% in FY2020), amid the declining interest rate environment, drove the increase in Net Interest Margin(NIM) to 15.6% in FY2021 (vs. 15.0% in FY2020). Nevertheless, its NIM moderated to 12.7% in H1 FY2022, driven by further decline in yields in H1 FY2022, while the cost of funds remained at 5.1%. While its operating expenses (primarily acquisition and marketing costs) moderated in FY2021 (16.8% of average assets in FY2021 compared to seven-year average of 20% from FY2015 to FY2021), it is expected to continue the upward trend, which was set prior to the onset of the pandemic, reflecting the stiff competition and SBICPSL's focus on gaining market share. This was substantiated by the increase in operating costs to 17.6% of the average assets in H1 FY2022. However, the company's sizeable interchange/fee-based income is likely to continue to support its 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. 6,987 crore as on September 30, 2021 and a CRAR of 25.0% 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 pandemic-induced disruption – Given the pandemic-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 2.01% as on March 31, 2020. Further, it had restructured about 7.6% of the loan book (under the RBI's 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 up to two years and interest rate in mid-teens. However, in H1 FY2022, the asset quality pressures eased to a limited extent with GNPA and restructured portfolio declining to 3.4% and 3.9% (0.8% of which is already under NPA classification), respectively. In this regard, while SBICPSL's past track record of range-bound asset quality metrics provides comfort, the evolving asset quality trajectory over the near to medium term, especially considering the pandemic-led uncertainties and resultant impact on profitability will remain a monitorable. Also, given the recent clarification by the RBI on IRAAC norms, the company's headline gross NPA numbers could increase from the current levels, though adequate provision buffer available on the balance sheet could cushion the incremental impact on profitability. Further, ICRA notes that the share of transactors (consumer who pays credit card balance in full and on time every month) in the receivables mix has increased to 35% and 37% as on March 31, 2021 and September 30, 2021, respectively, from 27% as on March 31, 2020, reflecting on the relatively tighter sourcing done after FY2020. The remaining receivables mix is in the form of revolver (consumer who carries a credit card balance from one month to the next): 27%, term balances (EMIs): 32%, restructured book: 4%, as on September 30, 2021.

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 only 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. 16,567 crore for the next one year, SBICPSL has bank balances and advance inflows of Rs. 23,553 crore as per the asset liability maturity profile on November 30, 2021.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the ratings could emerge if there is 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. Sustained deterioration in 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](#) [Policy on Withdrawal of Credit Ratings](#)
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 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 69.34%-subsidiary (as on September 30, 2021) of State Bank of India (SBI), is a non-deposit taking systemically important non-banking finance 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 1.26 crore as on September 30, 2021. Apart from the corporate office in Gurgaon and the registered office in New Delhi, SBICPSL reported 19 branches with 140+ sourcing locations, 39,000+ sales agents, four call centres and over 6,000 collection agents across 140+ cities in India, as on March 31, 2021.

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, which took 14% and CA Rover Holdings took the remaining 26% stake on December 15, 2017. This resulted in SBI having 74% and CA Rover Holdings having the remaining 26% of shareholding in SBICPSL. 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.

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 a PAT of Rs. 1,245 crore on an asset base of Rs. 26,632 crore in FY2020. As on March 31, 2021, the capital adequacy ratio was at 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). In H1 FY2022, it recorded a net profit of Rs. 650 crore on an asset base of Rs. 29,167 crore. The company reported a capital adequacy ratio of 25.0% and net worth of Rs. 6,987 crore as on September 30, 2021.

Key financial indicators (audited)

SBI Cards and Payment Services	FY2019	FY2020	FY2021	H1FY2022
	Audited	Audited	Audited	Provisional
Profit after tax (Rs. crore)	865	1,245	985	650
Net worth (Rs. crore)	3,588	5,341	6,302	6,987
Gross Loan book (Rs. crore)	18,526	24,141	25,114	26,741
Total assets (Rs. crore)	20,764	26,632	28,690	29,166
Return on assets (%)	4.8%	5.5%	3.6%	4.5%
Return on net worth (%)	28%	27%	16.9%	19.5%
Gross gearing (times)	3.7	3.2	2.9	2.9
Gross stage 3 (%)	2.4%	2.0%	4.99%	3.58%
Net stage 3 (%)	0.8%	0.7%	1.14%	0.95%
Solvency (Net stage 3/Net worth)	4.2%	3.0%	4.4%	3.4%
CRAR (%)	20.1%	22.4%	24.8%	25.0%

SBI Cards and Payment Services	FY2019	FY2020	FY2021	H1FY2022
	Audited	Audited	Audited	Provisional
Tier I (%)	14.9%	17.7%	20.9%	21.8%

Source: *SBICPSL; All figures and ratios as per ICRA's 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 December 31, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
					Dec 31, 2021	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	6,990	6,140	[ICRA]AAA (Stable); reaffirmed	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-convertible debenture	LT	2,000	-	[ICRA]AAA (Stable); assigned	-	-	-	-	-	-	-
4	Subordinate debt	LT	1,600	1,150	[ICRA]AAA (Stable); reaffirmed	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	Subordinate debt	LT	100	0	[ICRA]AAA (Stable); reaffirmed and withdrawn&	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
6	LT/ST Bank Lines	LT/ST	20,000	~11,363	[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+	[ICRA]AAA (Stable)/ [ICRA]A1+
7	CP^^	ST	20,000	1,196	[ICRA]A1+; reaffirmed	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore; 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. 20,000 crore; & The Amount of Rs. 100 crore was redeemed basis publicly available information

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-Convertible debenture	Very Simple
Subordinate Debt	Very Simple
LT/ST Bank Lines	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: Click Here

Annexure-1: Instrument details as on December 24, 2021

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate/ Yield	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)
INE018E08250	NCD	6/14/2021	5.55%	6/14/2024	500	[ICRA]AAA(Stable)
INE018E08268	NCD	08/17/2021	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)
Yet to be placed	NCD	NA	NA	NA	2850	[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	NA	NA	NA	450	[ICRA]AAA(Stable)
INE018E14PF6	Commercial Paper^	10/25/2021	4.20%	3/30/2022	250	[ICRA]A1+
INE018E14PG4	Commercial Paper^	11/24/2021	3.95%	2/21/2022	300	[ICRA]A1+
INE018E14PH2	Commercial Paper^	12/2/2021	4.82%	12/2/2022	350	[ICRA]A1+
Yet to be placed	Commercial Paper^	NA	NA	7-365 days	19,100	[ICRA]A1+
State Bank of India	Bank lines^	NA	NA	NA	13,500	[ICRA]AAA(Stable)/[ICRA]A1+
Central Bank of India	Bank lines^	NA	NA	NA	1,500	[ICRA]AAA(Stable)/[ICRA]A1+
Punjab National Bank	Bank lines^	NA	NA	NA	1,800	[ICRA]AAA(Stable)/[ICRA]A1+
Bank of Baroda	Bank lines^	NA	NA	NA	1,300	[ICRA]AAA(Stable)/[ICRA]A1+
HSBC	Bank lines^	NA	NA	NA	1,300	[ICRA]AAA(Stable)/[ICRA]A1+
SMBC	Bank lines^	NA	NA	NA	600	[ICRA]AAA(Stable)/[ICRA]A1+
INE018E08052	Sub-Debt	26/11/2014	9.00%	26/11/2021	100	[ICRA]AAA(Stable); Withdrawn

Source: *ICRA Research; ^ CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 20,000 crore*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

Corrigendum

ICRA's withdrawal policy has been included in the "Application of rating methodologies" in the Analytical approach section

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About ICRA Limited:

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