

January 25, 2022

National Payments Corporation of India (NPCI): Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term bank facilities	9,800.00	9,800.00	[ICRA]A1+; reaffirmed
Total	9,800.00	9,800.00	

*Instrument details are provided in Annexure-1

Rationale

While arriving at the ratings for National Payments Corporation of India (NPCI), ICRA has considered the consolidated business and financial risk profiles of NPCI and its wholly owned subsidiary – NPCI Bharat Billpay Limited (NBBL) as these entities have significant operational and management linkages and operate under the common NPCI brand. The rating takes into consideration National Payments Corporation of India’s (NPCI) position as a prominent financial market infrastructure provider in the country being the key player for clearing and settlement of retail transactions across various instruments/segments and also operates its own card scheme by the name of “RuPay”. The rating also factors in NPCI’s shareholders profile, experienced board of directors, low business risk on account of dealing only with regulated entities and its risk management systems and processes. The rating also considers the company’s stable financial profile with healthy profitability & diversified product profile, low leverage position and healthy business growth prospects given increasing digital penetration. Given NPCI’s significance in the overall financial system, it has been classified as a System Wide Important Payment System (SWIPS) by the RBI in June 2020. As NPCI plays a critical role in fostering financial stability in the market, the company must continuously enhance its risk management and technology systems. Going forward, its continued ability to maintain the key position in settlement of retail transactions remains a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Key institution for clearing and settlement of retail transactions - NPCI was licensed by RBI for operating retail payments and settlement systems in India under the provisions of the Payment and Settlement Systems Act, 2007, for creating payment & settlement Infrastructure in India. In the early years of operations, the company built its expertise in switching of interbank ATM transactions. Leveraging its experience, NPCI presently provides a multiple products catering to varying needs of retail customers, notably CTS (Cheque Truncation System), UPI (United Payments Interface), NFS (National Financial Switch), NACH (National Automated Clearing House). Classification of NPCI as a System Wide Important Payment System (SWIPS) by the RBI in June 2020. As on December 31, 2021, the shareholding of NPCI is diversified across 66 entities. While the shareholding is diversified and hence no single promoter, ICRA nevertheless expects capital support from member banks in case of exigencies, given the company’s strategic importance for the banking and financial system.

Healthy business growth prospects and diversified product profile. Nevertheless, Settlement volumes and hence, revenues, exposed to variety of macro-economic factors - With the increasing penetration of digital transactions and launch of new products, NPCI’s total volumes and revenue has been on increasing trend with 46% annualised growth in volumes and 24% annualised growth in revenue in H1FY2022, driven by growth across products (35% and 14% in FY2021). Total number of transactions across all products stood at 3,061 crore in H1FY2022 as compared to 4,184 crore in FY2021 (3,088 crore in FY2020). Further, RBI vision to empower every Indian with access to a bouquet of e-payment options that is safe, secure,

convenient, quick and affordable is likely to result in positive growth prospects for NPCI over the medium term. As on December 31, 2021, NPCI offers diversified range of services with low concentration on individual product for revenue. NPCI is in a fee-based business, dependent on settlement volumes across various products. Transaction volumes depend on a host of macro-economic factors and resulting level of regulatory intervention. The fee for majority of products is determined by committee of independent directors.

Low business/settlement risk on account of dealing only with regulated entities and risk management systems & processes

- NPCI's clientele primarily includes banks that operate in a regulated environment. Further, as trades are settled through the process of multilateral netting, as well as settlement cycle is run multiple times in a day for few of the products, the funding requirements for the members for each settlement cycle is reduced considerably, thereby reducing the risks of funds shortfall with the members. Further the risk is mitigated with presence of settlement guarantee mechanism (SGM) for its key products wherein a part of the money is collected from members in the form of settlement guarantee fund and presence of loss sharing arrangement among banks in case of default by a member and only small risk on NPCI. As on September 30, 2021, NPCI had total SGF of ~Rs. 4,763 crore including collateral of Rs. 694 crore.

Healthy financial risk profile - NPCI has strong financial profile characterised by healthy surplus (Surplus After Tax of Rs. 423 crore in FY2021 as compared to Rs. 388 crore in FY2020), healthy profitability (Surplus after tax/ operating income) of ~37% in FY2020 (35% in FY2020) and net worth of Rs. 2,161 crore as on March 31, 2021. NPCI's leverage is Nil as on March 31, 2021. Also, NPCI enjoys diversified product profile with its revenues spread across products. Strong internal accruals have led to a healthy net worth.

Credit challenges

Need to continuously upgrade risk management and technology systems - NPCI, being a retail payments organization, facilitates the payments and settlement, and thus strengthens the markets it serves. As it plays a critical role in fostering financial stability in the market, the information technology (IT) infrastructure and the risk management systems of the company have to be top notch and upgraded regularly based on the developments in technology space and financial services sector. Evolving regulatory requirements also drive upgradation of systems. NPCI currently has appropriate backup policies including off-site backup for each settlement cycle and permanent backup of critical data and applications.

Competition from new players, though unlikely in the short to medium term - While NPCI currently benefits being the key player for clearing and settlement of transactions in multiple retail service segments in India, there is no regulatory restriction on entry of a new player. Foray of new entrants into any of the segments where NPCI is currently operating could impact its market share and/or profitability. However, given NPCI's demonstrated track-record and established position in the key segments, it would take reasonable time for any new entrant to establish itself in the industry with same level of acceptance. Regulatory approvals for operating in each of the segments, the proprietary nature of the dealing systems and the well-established IT and risk management systems of the company further provides NPCI competitive advantage.

Liquidity position: Strong

As on September 30, 2021, NPCI had liquid funds in the form of cash and cash equivalents (own funds) of ~Rs. 226 crore while NPCI had nil borrowings and hence no repayment obligations as on September 30, 2021. Also, as on December 31, 2021, NPCI had lines of credit of Rs. 3,947.5 crore from various banks to meet any shortfall in the members' accounts during the settlement of transactions across the product segments.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on NPCI’s ratings could emerge if there is any adverse change in NPCI’s position as key Institution for settlement of retail payments in India due to change in regulatory stance of RBI for allowing other players as clearing and settlement agency for retail transactions. Further, any adverse change in the operating environment which could negatively impact the settlement volumes of instruments or significant deterioration in financial health of NPCI’s clients (banks and other financial institutions) could warrant a rating revision for the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated (refer to annexure 2)

About the company

National Payments Corporation of India (NPCI), an umbrella organisation for operating retail payments and settlement systems in India, is an initiative of the Reserve Bank of India (RBI) and Indian Banks’ Association (IBA) under the provisions of the Payment and Settlement Systems Act, 2007, for creating a robust Payment & Settlement Infrastructure in India. NPCI was incorporated in December 2008 and started its operations in October 2009. Considering the utility nature of the objectives of NPCI, it had been incorporated as a “Not for Profit” Company under the provisions of Section 25 of Companies Act 1956 (now Section 8 of Companies Act 2013), with a purpose to provide infrastructure to the entire Banking system in India for physical as well as electronic payment and settlement systems. The Company is focused on facilitating and developing the retail payment systems through the use of technology for achieving greater efficiency in operations and widening the reach of payment systems. NPCI is promoted by ten banks (including 6 PSBs, 2 private banks and 2 foreign banks). The ten core promoter banks of NPCI are State Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda, Union Bank of India, Bank of India, ICICI Bank, HDFC Bank, Citibank N. A. and HSBC. In 2016, the shareholding of NPCI was broad-based to 56-member banks to include more banks representing all sectors. Further in November 2020, additional capital raising of Rs. 82 crore resulted in broad basing of shareholding among 67 banks. As on December 31, 2021, 66 shareholders of NPCI include PSBs, private banks, foreign banks, multi state co-op banks and regional rural banks.

NPCI reported a Surplus After Tax of Rs. 423 crore in FY2021 as compared to Rs. 388 crore in FY2020. net worth stood at Rs. 2,161 crore as on March 31, 2021.

Key financial indicators (audited)

National Payments Corporation of India (standalone) (In Rs. Crore)	FY2019	FY2020	FY2021
Revenue from Operations	902	1092	1121
Other Income	79	122	143
Total Income	980	1,214	1,265
Total operating expenses (including depreciation)	503	676	675
Surplus Before Tax	478	538	590
Surplus After Tax	307	388	423
Total assets	1,892	2,632	3,660
Net Worth	1,275	1,664	2,161
% Net Surplus/Average total assets	19.2%	17.1%	13.4%
% Return on Net Worth	27.3%	26.4%	22.1%
Surplus After Tax /OI	34.0%	35.5%	37.7%

Source: Company, ICRA Research; All ratios as per ICRA 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 (Rs Crore)	Date and rating in FY2022		Date and rating in FY2021	Date and rating in FY2020	Date and rating in FY2019
					Jan-25-22	Jul-07-21	Oct-28-20 Jul-31-20	Feb-17-20 Aug-06-19	-
1	Short term bank facilities	Short Term	9,800	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Source: Company, ICRA Research

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short term bank facilities	Very 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date**	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short term bank facilities	NA	NA	NA	9,800	[ICRA]A1+

Source: Company; **Repayment within 7 days from first day of disbursement

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
National Payments Corporation of India	Company	Full consolidation
NPCI Bharat Billpay Limited	100%	Full consolidation

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