

June 27, 2022

SBI Global Factors Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated Debt Programme	200.0	200.0	[ICRA]AAA (Stable); reaffirmed
Subordinated Debt Programme	159.8	-	[ICRA]AAA (Stable); reaffirmed & withdrawn
Long-term Fund-based Bank Lines	1,000.0	1,435.0	[ICRA]AAA (Stable); assigned & reaffirmed
Short-term Fund-based Bank Lines	1,000.0	1,435.0	[ICRA]A1+; assigned & reaffirmed
Short-term Debt Programme	2,000.0	2,000.0	[ICRA]A1+; reaffirmed
Total	4,359.8	5,070.0	

*Instrument details are provided in Annexure-1

Rationale

SBI Global Factors Limited (SBIGF) is a subsidiary of State Bank of India (SBI), which had a stake of 86.18% in the company as on March 31, 2022. The company shares the brand name of the parent and receives considerable management support from SBI. A General Manager of SBI is appointed as the Managing Director (MD) and Chief Executive Officer (CEO) of SBIGF, while SBI's MD is the Chairman of SBIGF. SBI has historically infused capital in the company. ICRA assumes that it would continue to provide capital support as and when required. As SBIGF is the only non-banking financial company (NBFC) under the SBI Group, it is also strategically important to the parent for selling products, which would not have been possible at the bank level. The ratings factor in the company's comfortable capitalisation and adequate liquidity profile.

ICRA, however, takes note of SBIGF's legacy non-performing assets (NPAs) though it has adequately provided for the same, the unsecured lending book and the modest scale of operations. The domestic factoring loan book (36% of the loan book as of March 31, 2022) does not have any hard collateral but is mitigated by the relatively shorter tenor. ICRA also notes the moderate funds in use (FIU) and the profitability in FY2022. This was due to the decline in the net interest margins (NIMs), given the increased competition in the factoring industry. The company's collection efficiency and ability to maintain the asset quality will be key monitorables.

ICRA has withdrawn the rating assigned to SBIGF's Rs. 159.8-crore subordinated debt programme at its request as there was no amount outstanding against the said instrument. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal and suspension of credit ratings.

Key rating drivers and their description

Credit strengths

Strong parentage – SBIGF is a subsidiary of SBI, which had a stake of 86.18% in the company as on March 31, 2022. The company shares the brand name of the parent and receives considerable management support from SBI. A General Manager of SBI is appointed as the MD and CEO of SBIGF, while SBI's MD is the Chairman of SBIGF. The heads of SBIGF's branches are appointed through deputation from SBI. The company is of strategic importance to the parent as it operates in ticket sizes,

which are underpenetrated by the bank and require specialised systems and back-end operations. SBIGF also enjoys sizeable unutilised bank lines from its parent to meet any liquidity shortfalls. Nevertheless, the ratings remain sensitive to SBI's shareholding in SBIGF and its support to the company.

Comfortable capitalisation levels – The company's capitalisation remained comfortable with a capital-to-risk weighted assets ratio (CRAR) of 35% (Tier I – 27%) as on March 31, 2022, up from 21% (fully Tier I) as of March 31, 2021. The capitalisation concerns are further alleviated considering SBI's 86.18% stake in the company. SBIGF's gearing was comfortable at 2.1 times as on March 31, 2022, improving from 2.7 times as of March 31, 2021. With modest growth plans over the near to medium term, the capitalisation profile is expected to remain largely unchanged.

Adequate funding flexibility – As a subsidiary of SBI, the company has access to diverse sources of funds. This is reflected by its borrowing profile, which comprises debentures (13%), commercial papers (20%) and bank loans (67%). Additionally, SBIGF has significant sanctioned but unutilised bank lines to meet its short-term funding requirements. The company primarily has short-term funding as the assets also have a shorter tenor.

Credit challenges

Moderate profitability – SBIGF reported net losses till FY2017 with a median return on equity (RoE) of -1.01%. The primary reason for the losses was the credit provisions required for slippages. Since FY2019, the profit after tax (PAT) has been increasing gradually and stood at Rs. 25 crore in FY2022 (Rs. 18 crore in FY2021). The operating profit was Rs. 39 crore in FY2022 (Rs. 40 crore in FY2021), driven by the increase in the net interest income. The overall yields on the loans reduced to 8% in FY2022 from 9% in FY2021 due to higher competition in LCBD (Bill Discounting backed by Letter of Credit) and export factoring. The cost of funds, however, declined to 4% in FY2022 from 5% in FY2021, resulting in NIMs of 5.3% in FY2022 (5.6% in FY2021). The company's return on assets (RoA) and RoE were 2% and 7%, respectively (1% and 5%, respectively, in FY2021). In FY2021, provisions of Rs. 28 crore were reversed compared to Rs. 63 crore in FY2022, which led to higher operating profit. SBIGF's ability to increase the core and non-factoring business while maintaining its profitability remains a key monitorable.

Weak asset quality indicators; however, adequately provisioned – The stress in SBIGF's portfolio continues on account of slow recoveries from legacy delinquent accounts and fresh slippages in FY2022. The company had a large amount of NPAs due to the poor quality of its legacy accounts. Moreover, a major part of the book is unsecured (57% of the total FIU as on December 31, 2021; 3% backed by LC (Letter of Credit) and 40% through reverse factoring on TReDS platform – Trade Receivables Discounting System), though the company does have a recourse on the client in domestic factoring and on import factors for the export factoring product. The account limits, in respect of more than 58% of the NPAs as of March 31, 2022, were sanctioned by Global Trade Finance Ltd (GTF) before SBIGF came into existence.

Fresh slippages have been reducing continuously over the last few years, though they increased to Rs. 18 crore in FY2022 from Rs. 12 crore in FY2021. Consequently, the company has pushed its efforts to make recoveries from the fresh slippages during the year. The gross NPA declined to 7% as on March 31, 2022 from 12% as on March 31, 2021 on account of the continuous write-offs and improved recoveries. The net NPAs also declined to 0.43% as on March 31, 2022, with the higher provision coverage ratio (PCR) of 94%. Going forward, the ability to manage the asset quality and collections, while maintaining the profitability, will be a key monitorable.

Liquidity position: Adequate

SBIGF's liquidity profile remains adequate, supported by a healthy resource profile, a matched asset-liability management (ALM) profile and adequate undrawn bank lines. The company had a liquidity cushion of Rs. 25 crore of cash and cash equivalents and unutilised bank lines of Rs. 409 crore from SBI, Rs. 235 crore from HDFC Bank and Rs. 275 crore from HSBC Limited as on May 31, 2022. The liquidity profile remains adequate in relation to the near-term debt maturities (borrowings of Rs. 634 crore due for maturity by November 30, 2022). In the shorter term, the on-balance sheet liquidity, undrawn lines, and

current collection levels would cover any debt repayments. The liquidity profile is supported by the significant financial flexibility enjoyed by SBIGF on account of its strong parentage.

Rating sensitivities

Positive Factors – NA

Negative Factors – The ratings could be revised if there is a deterioration in the credit risk profile of the parent, SBI, or a change in the parentage or a decline in the strategic importance of SBIGF to its promoter companies or a reduction in the expectation of support from the promoters. A material deterioration in the asset quality, affecting the company’s capitalisation, could also lead to a rating downgrade.

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	ICRA expects SBI to provide financial, managerial and operational support, when required, given the shared brand name and SBI’s ownership of ~86%
Consolidation/Standalone	The ratings are based on the company’s standalone financial statements

About the company

SBIGF was incorporated in 2010 following the merger of SBI Factors & Commercial Services Pvt. Ltd. with Global Trade Finance Ltd. At present, SBI holds an 86.18% stake in SBIGF, with the rest being held by Small Industries Development Bank of India (SIDBI; 6.53%), Bank of Maharashtra (4.34%) and Union Bank of India (2.95%). Headquartered in Mumbai with 10 branches across India, SBIGF provides export and domestic factoring services with a focus on small and medium-sized enterprises (SMEs). The company is licensed by the Reserve Bank of India to undertake export (with and without recourse) and import factoring. SBIGF is a member of Factors Chain International (FCI), an umbrella organisation for global factoring companies.

Key financial indicators (audited)

SBI Global Factors Limited	FY2020	FY2021	FY2022
Total income (Rs. crore)	114	109	101
Profit after tax (Rs. crore)	17	18	25
Net worth (Rs. crore)	332	351	376
Loan book (Rs. crore)	1,321	1,379	1,208
Total assets (Rs. crore)	1,250	1,318	1,195
Return on assets (%)	1%	1%	2%
Return on net worth (%)	5%	5%	7%
Gross gearing (times)	2.69	2.7	2.1
Gross NPA (%)	18%	12%	7%
Net NPA (%)	4%	3%	0%
Gross stage 3 (%)	18%	12%	7%
Net stage 3 (%)	4%	3%	0%
Solvency (Net stage 3/Net worth)	10%	11%	1%
CRAR (%)	22%	21%	35%

Source: Company, ICRA Research; All 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 (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of May 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Jun 27, 2022	Jun 30, 2021	Jul 03, 20	May 16, 2019	
1	Subordinated Debt Programme	Long Term	200.00	100.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	
2	Subordinated Debt Programme	Long Term	159.80	-	[ICRA]AAA (Stable); reaffirmed & withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
3	Long-term Bank Lines	Long Term	1,435.00	455.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
4	Short-term Bank Lines	Short Term	1,435.00	455.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
5	Short-term Debt Programme	Short Term	2,000.00	185.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated Debt Programme	Very Simple
Subordinated Debt Programme	Very Simple
Long-term Fund-based Bank Lines	Very Simple
Short-term Fund-based Bank Lines	Very Simple
Short-term Debt Programme	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 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: 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
INE912E08AE7	Subordinated Debt Programme	Jul 28, 2021	7.28%	Jul 28, 2031	100.0	[ICRA]AAA (Stable)
Not yet placed	Subordinated Debt Programme	-	-	-	100.0	[ICRA]AAA (Stable)
INE912E08AC1	Subordinated Debt Programme	Jul 29, 2011	9.22%	Jul 29, 2021	100.0	[ICRA]AAA (Stable); reaffirmed and withdrawn
INE912E08AD9	Subordinated Debt Programme	Aug 17, 2010	8.75%	Aug 25, 2020	50.0	[ICRA]AAA (Stable); reaffirmed and withdrawn
INE912E08916	Subordinated Debt Programme	Feb 27, 2009	9.75%	Apr 04, 2016	9.80	[ICRA]AAA (Stable); reaffirmed and withdrawn
NA	Long-term Bank Lines	-	-	-	1,435.0	[ICRA]AAA (Stable)
NA	Short-term Bank Lines	-	-	-	1,435.0	[ICRA]A1+
INE912E14LT0	Short-term Debt Programme	Jan 01, 2022	4.72%	Jun 20, 2022	50.0	[ICRA]A1+
INE912E14LV6	Short-term Debt Programme	Apr 06, 2022	4.50%	Jul 07, 2022	75.0	[ICRA]A1+
INE912E14LW4	Short-term Debt Programme	May 23, 2022	5.75%	Aug 22, 2022	30.0	[ICRA]A1+
Not yet placed	Short-term Debt Programme	-	-	7-365 days	1,845.0	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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