

July 28, 2022

SBM Bank (India) Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel III Tier II Bond Programme	250.00	250.00	[ICRA]A+ (Stable); Reaffirmed
Certificates of Deposit	500.00	500.00	[ICRA]A1+; Reaffirmed
Total	750.00	750.00	

*Instrument details are provided in Annexure I

Rationale

The ratings continue to factor in SBM Bank (India) Ltd's overall satisfactory performance, given the strong growth in its scale, the adequate capitalisation profile and the improvement in the overall asset quality levels. Moreover, the monitorable book, comprising the overdue and restructured book, remains manageable at 0.33% of standard advances as on March 31, 2022. Furthermore, as the bank continues to grow its franchise, operational costs remain high, thereby weighing down on its overall profitability. Also, despite the improvement in the granularity of the asset and liability profile, the same remains concentrated. The bank's ability to build a low-cost and granular liability base while reducing its cost of funds will remain critical for its ability to scale up its assets and absorb the increase in overheads to further improve its profitability.

The ratings continue to draw comfort from the parentage in the form of SBM Holdings Limited, the ultimate holding company of SBM Bank (Mauritius) Limited (rated Baa3 (negative)/P-3/BCA ba1 by Moody's) and SBM Bank (India) Ltd. SBM Holdings Limited is the holding company for all the banking and financial activities of the SBM Group(Mauritius) It houses two intermediate investment arms of the Group, namely SBM (Bank) Holdings Limited for banks and SBM (NFC) Holdings Limited for non-banks, which together operate banking and non-banking entities across Africa and India. Furthermore, the Government of Mauritius (rated Baa2 (negative) by Moody's) is the largest shareholder in SBM Holdings Limited.

ICRA draws comfort from the operational linkages of SBM Bank (India) Ltd with the Group and its position as a 100% step-down subsidiary of SBM Holdings Limited. ICRA will continue to closely monitor the credit profile and the impact of international developments on both SBM Holdings Limited and SBM Bank (Mauritius) Limited as these could also be the rating drivers of SBM Bank (India) Ltd in the near to medium term.

As per the Reserve Bank of India's (RBI) framework for the wholly-owned subsidiaries (WOS) of foreign banks in India, SBM (Bank) Holdings Limited has undertaken to provide necessary financial support to SBM Bank (India) Ltd if it is unable to meet any of its liabilities as well as ensure that it maintains a minimum net worth at the regulatory requirement of Rs. 500 crore. The parent infused Rs. 100 crore of equity into SBM Bank (India) Ltd in FY2022, which led to further expansion in the overall net worth position over the regulatory levels. This supported the capitalisation profile and growth, even while internal capital generation remained suboptimal.

Key rating drivers and their description

Credit strengths

Part of SBM Group (Mauritius) – ICRA continues to draw comfort from the parentage of SBM Bank (India) Ltd and its position as a step-down WOS of SBM Holdings Limited, the ultimate holding company of SBM Bank (Mauritius) Limited. SBM Holdings Limited's shareholders include the Government of Mauritius, which, along with other state-owned entities including state-owned pension funds, remains the largest shareholder. Additionally, SBM Bank (Mauritius) Limited is the second largest bank in Mauritius with assets of USD 6.26 billion as on December 31, 2021. SBM Holdings Limited's operations are spread across countries like Kenya and Madagascar. The parent company's continued strong commitment towards supporting the Indian operations serves as a credit positive. Strong operational linkages with the Group in terms of ownership, a shared name and its overall importance in advancing the growth plans of the Group in the region provide further comfort.

The parent has demonstrated support through capital infusions in the past as the Indian branches transitioned to the subsidiary model with SBM (Bank) Holdings Limited infusing capital of ~Rs. 48 crore during FY2019 and ~Rs.52 crore in FY2020 for provisions on legacy stressed assets while maintaining the capital above the regulatory requirements. Additional capital support of Rs. 100 crore was extended in FY2022, which, in turn, helped the overall growth momentum during the year. ICRA factors in the strong likelihood of continued support from the parent to the Indian entity, if required. Moreover, SBM Bank (Holdings) Limited has given 'in-principle approval' to provide the necessary financial support to the Indian entity to meet any liability that SBM Bank (India) Ltd is unable to meet. This remains in line with the RBI's framework for the WOS of foreign banks in India.

Adequate capitalisation supported by capital infusion – SBM Bank (India) Ltd's overall net worth increased to Rs. 715 crore as on March 31, 2022 from Rs. 599 crore as on March 31, 2021, leading to an expansion in the cushion above the regulatory requirement of Rs. 500 crore for the WOS of foreign banks. This was mainly attributable to the Rs. 100-crore infusion by the parent in FY2022, as internal capital generation remained suboptimal. Further, the Tier I ratio and the capital-to-risk weighted assets ratio (CRAR) remained adequate at 16.06% and 17.28%, respectively, as on March 31, 2022 (against 19.46% and 20.72%, respectively, as on March 31, 2021). As the bank will continue to push towards growing its franchise, the cost-to income level is likely to remain elevated over the near to medium term, resulting in modest internal capital generation. Accordingly, it may need to raise capital to scale up the business and to provide for unexpected asset quality shocks in future.

Asset quality metrics improve – The fresh non-performing advances (NPA) generation remained steady at 0.68% in FY2022 (0.00% in FY2021). This, along with the rapid scaling up of the book, resulted in an improvement in the headline asset quality levels with the gross NPA (GNPA) and net NPA (NNPA) at 2.10% and 0.39%, respectively, as on March 31, 2022 (2.97% and 0.90%, respectively, as on March 31, 2021) while the provision coverage ratio (PCR), excluding write-offs, was satisfactory at 81.62% as on March 31, 2022 (70.33% as on March 31, 2021). Furthermore, the overall monitorable book of the bank, comprising the overdue (special mention account (SMA) 1 and SMA 2) and restructured book, remained manageable at 0.33% of standard advances as on March 31, 2022. However, given the limited operating profitability and the concentrated loan book, any slippage from the corporate borrowers could drive an increase in the credit provisions, which could put pressure on the bank's net profitability.

Credit challenges

Despite improvement in granularity, deposit base remains concentrated – SBM Bank (India) Ltd's deposit base registered a strong ~76% YoY growth in FY2022 (to Rs. 6,799 crore as on March 31, 2022), while net advances grew by ~49% (to Rs. 4,354 crore as on March 31, 2022), albeit on a small base. During this period, the share of current and savings accounts (CASA) improved to 27% as on March 31, 2022 (21.3% as on March 31, 2021), largely driven by the stronger growth in CA deposits. Thus, the overall deposit concentration level as reflected by the share of the top 20 depositors moderated to 34% of the

total deposits as on March 31, 2022 (38% as on March 31, 2021, 43.01% as on March 31, 2020) although it remains high. Similarly, loan book concentration remains very high and the asset quality and profitability could remain susceptible to slippages of any large exposure. The top 20 exposures accounted for 20.02% of the total exposures and 170.29% of the bank's net worth as on March 31, 2022 compared to 27.75% and 173.20%, respectively, as on March 31, 2021.

Operating profitability and return metrics expected to remain modest as bank scales up its operations – Deposit growth outpaced advances growth in FY2022, leading to a moderation in the credit-to-deposit ratio and higher liquidity levels. As a result, the net interest margin (NIM) declined to 1.95% of the average total assets (ATA) in FY2022 (2.16% in FY2021). Furthermore, with the scaling up of the book, including the expansion of retail products (co-branded credit cards, etc), forex income, etc, supported the traction in non-interest income. Accordingly, fee income improved to 1.69% of average assets in FY2022 (1.08% in FY2021, excluding cyber fraud recoveries). However, as the bank continues to scale up, the operating cost remained elevated at 2.91% of average assets (3.5% in FY2021), resulting in a muted core operating profitability of 0.74% of ATA in FY2022 (0.67% in FY2021). While the limited fresh gross slippages in FY2022 and the relatively high provision coverage on the legacy NPAs resulted in total provision including credit cost of 0.57% in FY2022 (0.18% in FY2021), the return indicators remained suboptimal with the return on assets (RoA) at 0.25% in FY2022 (0.52% in FY2021).

As a part of its strategy to improve its scale and profitability, SBM (Bank) India Ltd is working towards offering various transaction-related businesses to improve the float of low-cost CASA deposits. To offer these services, the bank has tied up with third-party service providers. Further, on the asset side, while the focus is on relatively smaller-ticket loan exposures to mid-sized corporates, the bank continues to focus on relatively larger corporates as well. To improve its franchise and liability base, SBM (Bank) India Ltd will position itself as a premium bank and grow its footprint in India by expanding its branches while outsourcing the associated infrastructure. However, as the overall scale improves over time, operating leverage is likely to improve, which, in turn, could support an improvement in the operating profitability from the current level over the medium to long term.

Liquidity position: Adequate

The statutory liquidity ratio (SLR) stood at ~31% of the net demand and time liabilities (NDTL) as on March 31, 2022, which was well above the regulatory requirement of 18%, while the liquidity coverage ratio (LCR) remained comfortable at ~158% in FY2022. Despite a high level of surplus Government securities, which can be sold to generate liquidity, SBM (Bank) India Ltd has negative cumulative mismatches in the less than 1-year bucket because of the relatively longer tenor of its loans in relation to the deposits as per the structural liquidity statement (SLS) as on March 31, 2022. While the bank has sizeable near-term liquid assets, high depositor concentration leads to significant reliance on deposit rollovers to maintain liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating on an improvement in the credit profile of the SBM Group.

Negative factors – ICRA could downgrade the ratings if the Tier I capital cushion declines to less than 2% over the regulatory levels (9.5%). Further, a deterioration in the credit profile of the SBM Group or lack of adequate funding support to help SBM Bank (India) Ltd maintain its capital and liquidity cushions, if required, will be negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Banks Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Group Company: SBM Holdings Limited ICRA expects SBM Bank (India) Ltd's parent, SBM Holdings Limited, which is also the holding company of SBM Bank (Mauritius) Limited, to be willing to extend financial support to the bank, if required, given the high strategic importance that the bank holds for SBM Holdings Limited for meeting its diversification objectives and for driving growth in the region. Both SBM Holdings Limited and SBM Bank (India) Ltd share a common name, which, in ICRA's opinion, would persuade SBM Holdings Limited to provide financial support to the bank to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

SBM Bank (India) Ltd: The SBM Group commenced banking operations in India in 1994 with four branches in Mumbai, Chennai, Hyderabad and Ramachandrapuram, which operated as branches of SBM Bank (Mauritius) Limited. In December 2018, the RBI sanctioned a Scheme of Amalgamation of the Indian branches of SBM Bank (Mauritius) Limited and SBM Bank (India) Ltd, which was granted a licence to carry out banking operations under the WOS mode. The scheme came into effect from December 1, 2018. Following this, all the Indian branches started functioning as branches of SBM Bank (India) Ltd. As on June 30, 2021, the bank had eight branches in India against four at the time of its conversion to a WOS.

The bank reported a net profit of Rs. 16 crore in FY2022 on a total asset base of Rs. 8,085 crore as on March 31, 2022. The CRAR stood at 17.28% as on March 31, 2022 (20.72% as on March 31, 2021). The asset quality improved marginally with the GNPA and NNPA at 2.10% and 0.39%, respectively, as on March 31, 2022 (2.97% and 0.90%, respectively, as on March 31, 2021).

SBM Bank (Mauritius) Limited: Established in 1973, it is the second-largest domestic bank in Mauritius. It provides retail, corporate, small-and-medium-sized enterprise, and cross-border banking as well as other services, including bancassurance, financial market services such as structured treasury and money market instruments, and custodial services. In 2014, the Group restructured its operations and segregated its banking operations from its non-banking operations. SBM Holdings Limited was established as the new holding company for the operating companies and is the entity listed on the Stock Exchange of Mauritius.

For calendar year (CY) 2021, SBM Bank (Mauritius) Limited reported a net profit of USD 50.1 million on total assets of USD 6.26 billion as on December 31, 2021, compared to a net profit of USD 38.4 million in CY2020 on total assets of USD 5.78 billion as on December 31, 2020. It reported a Tier I capital of 17.33% as on December 31, 2021 compared to 15.90% as on December 31, 2020.

SBM Holdings Limited: SBM Holdings Limited is the ultimate holding company of SBM Bank (India) Ltd and SBM Bank (Mauritius) Limited. On a consolidated basis, SBM Holdings Limited reported a net profit of USD 41.60 million on total assets of USD 8.12 billion as on December 31, 2021 compared to a net profit of USD 26.56 million in CY2020 on total assets of USD 7.27 billion as on December 31, 2020.

Key financial indicators (standalone)

SBM Bank (India) Ltd	FY2020	FY2021	FY2022
Months	12	12	12
Net interest income	48	78	125
Operating profit (excl trading gain)	26	25	54
Profit after tax	2	19	16
Loan book	1,266	2,917	4,354
Total assets	2,474	4,739	8,085
Net interest margin / Average total assets	2.37%	2.17%	1.95%
Return on average assets	0.09%	0.52%	0.25%
Return on net worth	0.33%	3.11%	2.28%
Tier I	31.48%	19.46%	16.06%
CRAR	32.44%	20.72%	17.28%
Gross NPA	8.59%	2.97%	2.10%
Net NPA	2.90%	0.90%	0.39%
PCR (excl TWO)	68.18%	70.33%	81.62%
Solvency (Net NPA/Tier I capital)	6.61%	4.60%	NA

Source: SBM Bank (India) Ltd & ICRA Research; Amount in Rs. crore
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 (Rs. crore)	Rating	FY2022		FY2021	FY2020
					Jul-28-2022	Sep-17-2021	Jun-03-2021	May-26-2020	Apr-30-2019
1	Basel III Tier II Bonds	Long Term	250.00	125.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-
2	Certificates of Deposit Programme	Short Term	500.00	185.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: ICRA Research

Complexity level of the rated instrument

Instrument	Complexity Indicator
Basel III Tier II Bonds	Highly Complex
Certificates of Deposit	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 instruments 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 I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE07PX16269	Certificates of Deposit	February 23, 2022	4.90%	August 19, 2022	30.00	[ICRA] A1+
INE07PX16251	Certificates of Deposit	February 23, 2022	4.90%	August 26, 2022	30.00	[ICRA] A1+
INE07PX16277	Certificates of Deposit	March 15, 2022	5.05%	September 14, 2022	25.00	[ICRA] A1+
INE07PX16285	Certificates of Deposit	March 16, 2022	5.05%	September 2, 2022	50.00	[ICRA] A1+
INE07PX16293	Certificates of Deposit	March 16, 2022	5.05%	September 9, 2022	50.00	[ICRA] A1+
NA	Certificates of Deposit	Yet to be placed	-	7-365 days	315.00	[ICRA] A1+
INE07PX08019	Basel III Tier II Bonds	April 5, 2022	9.75%	April 5, 2032	125.00	[ICRA]A+ (Stable)
NA	Basel III Tier II Bonds	Yet to be placed	-	-	125.00	[ICRA]A+ (Stable)

* As on July 21, 2022

Source: SBM Bank (India) Ltd

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Karthik Srinivasan

+91 22 6114 3444

karthiks@icraindia.com

Gayatri Kulkarni

+91 22 6114 3471

gayatri.kulkarni@icraindia.com

Devesh Lakhotia

+91 22 6114 3404

devesh.lakhotia@icraindia.com

Anil Gupta

+91 124 4545 314

anilg@icraindia.com

Aashay Choksey

+91 22 6114 3430

aashay.choksey@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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