September 20, 2022(Revised)

# 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 fund based CC | 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 National Payments Corporation of India (NPCI) and its wholly owned subsidiary – NPCI Bharat Billpay Limited 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 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). As on August 31, 2022, 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 73% year-on-year growth in volumes and 42% year-on-year growth in revenue in FY2022, driven by growth across products. Total number of transactions across all products increased to 7,227 crore in FY2022 as compared to 4,184 crore in FY2021. Further, RBI vision to empower every Indian with access to a bouquet of e-payment options that is safe, secure, convenient, quick and affordable and enhance cross-border payments is likely to result in positive growth prospects for NPCI over the medium term. As on March 31, 2022, 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 and NBBL'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 June 30, 2022, NPCI had total SGF of ~Rs. 9,073 crore (Including SGF of Rs. 405 crore for BBPS).

**Healthy financial risk profile -** NPCI has strong financial profile characterised by healthy surplus (Surplus After Tax of Rs. 769 crore in FY2022 as compared to Rs. 423 crore in FY2021), healthy profitability (Surplus after tax/ operating income) of ~49% in FY2022 (38% in FY2021) and net worth of Rs. 2,922 crore as on March 31, 2022. NPCI's leverage is Nil as on March 31, 2022. Strong internal accruals have led to a healthy net worth.

### Credit challenges

**Need to continuously upgrade risk management and technology systems** – Both NPCI and NBBL, 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 must 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 and NBBL 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 impacts 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 March 31, 2022, NPCI had liquid funds in the form of cash and cash equivalents (own funds) of ~Rs. 157 crore while NPCI had nil borrowings and hence no repayment obligations as on March 31, 2022. Also, as on March 31, 2022, NPCI had lines of credit of Rs. 7,779 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 ratings could emerge if there is any adverse change in NPCI's consolidated 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<br>Rating Approach - Consolidation |
| **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 entities. 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. 769 crore in FY2022 as compared to Rs. 423 crore in FY2021. Net worth stood at Rs. 2,922 crore as on March 31, 2022.

### Key financial indicators (audited)

| National Payments Corporation of India (standalone) (In Rs. Crore) | FY2020 | FY2021 | FY2022 |
|---|---|---|---|
| Revenue from Operations | 1,092 | 1,121 | 1,583 |
| Other Income | 122 | 143 | 227 |
| Total Income | 1,214 | 1,265 | 1,810 |
| Total operating expenses (including depreciation) | 676 | 675 | 824 |
| Surplus Before Tax | 538 | 590 | 986 |
| Surplus After Tax | 388 | 423 | 769 |
| Total assets | 2,632 | 3,677 | 4,713 |
| Net Worth | 1,664 | 2,161 | 2,922 |
| | | | |
| % Net Surplus/Average total assets | 17.1% | 13.4% | 18.4% |
| % Return on Net Worth | 26.4% | 22.1% | 30.3% |
| Surplus After Tax /OI | 35.5% | 37.7% | 48.6% |

*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 (FY2023) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs Crore) | Date and rating in FY2023 | Date and rating in FY2022 | Date and rating in FY2021 | Date and rating in FY2020 |
| | | | | | Sep-20-22 | Jan-25-22<br>Jul-07-21 | Oct-28-20<br>Jul-31-20 | Feb-17-20<br>Aug-06-19 |
| 1 | **Short term fund based CC** | 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 fund based CC | 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: Click Here

### Annexure-I: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date** | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | **Short term fund based CC** | 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 |

## Corrigendum

Updated the link for "Rating Approach-Consolidation" in the analytical approach section on page 3 on the document dated September 20, 2022.

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