

March 22, 2023^(Revised)

SBI Cards and Payment Services Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	7,655	7,655	[ICRA]AAA (Stable); reaffirmed
Non-convertible debentures	710	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Subordinated debt	1,500	1,500	[ICRA]AAA (Stable); reaffirmed
Long-term short-term bank lines/ Commercial paper programme [^]	25,000	25,000	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Term loan	1,000	4,000	[ICRA]AAA (Stable); reaffirmed/ assigned
Long-term fund based – Other	1,000	1,000	[ICRA]AAA (Stable); reaffirmed
Total	36,865	39,155	

*Instrument details are provided in Annexure I; [^] CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 25,000 crore

Rationale

The ratings factor in the strong parentage of SBI Cards and Payment Services Limited (SBICPSL) with a 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 to 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 also factor in SBICPSL's strong liquidity position and the track record of strong profitability with an eight-year average (FY2015 to FY2022) return on assets (RoA) and return on equity (RoE) of 4.5% and 27.1%, respectively. The ratings also factor in the company's adequate capitalisation for the current scale of operations, with a capital to risk weighted assets ratio (CRAR) of 23.3% and a gearing of 3.1 times as on December 31, 2022. With the easing of asset quality pressure and the strong post-Covid-19 pandemic recovery, the resultant credit cost {in relation to average total assets (ATA)} declined to 7.0% and 5.1% in FY2022 and 9M FY2023, respectively, from 8.1% in FY2021 though it remains higher than the eight-year average of 4.5%. SBICPSL has adequate capital and profitability buffers to absorb asset-side shocks emanating from any future events. The profitability improved in 9M FY2023 with the RoA and RoE increasing to 5.5% and 25.8%, respectively, largely driven by the decline in credit costs.

Post the pandemic-led disruptions and the resultant slowdown in the economy, SBICPSL's portfolio vulnerability has declined due to the good quality of the incremental book, driven by tighter sourcing norms. This is reflected in the stable gross non-performing advances (GNPAs) of 2.2% as on December 31, 2022 (2.2% as on March 31, 2022). Further, the standard restructured book declined to negligible levels as on December 31, 2022 from 4.9% as on March 31, 2021. However, ICRA notes SBICPSL's intention to recalibrate its risk appetite due to the comfort derived from the decline in the asset quality pressures and further increase the interest income generating assets in the overall portfolio mix. The evolving trajectory of the asset quality due to SBICPSL's strategic decision to recalibrate its risk appetite will remain a key monitorable. In this regard, the company's track record of range-bound asset quality metrics provides comfort. While reaffirming the ratings, ICRA continues to note SBICPSL's monoline nature of operations. The company's portfolio remains relatively risky, with only 1.1% of the same being secured in nature as on March 31, 2022.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 710-crore non-convertible debentures as these have been fully redeemed with no amount outstanding against the same. The rating was withdrawn in accordance with ICRA's policy on withdrawal (click [here](#) for the policy).

Key rating drivers and their description

Credit strengths

Strong parentage with majority stake held by India's largest PSB – SBICPSL is a subsidiary of India's largest and oldest PSB, i.e. SBI (69.01% stake in SBICPSL as on December 31, 2022). The company hosts the credit card business of the parent. As the credit card business is a key product offering to the bank's customers, SBICPSL is strategically important for SBI. This is also reflected in the bank's track record of providing branding and funding support to the company. Also, 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 and vast customer base and branch network.

Moreover, SBI continues to be the largest lender to SBICPSL with a track record of enhancement in the working capital lines, whenever required. Though the company has been increasing the share of market instruments in the funding mix over the past few years, bank lines including term loans continued to account for the majority (68%) of the borrowing base as on December 31, 2022, followed by debentures (30%) and commercial paper (CP; 2%). This augurs well for its borrowing and liquidity profile.

Track record of strong profitability with adequate buffer to absorb asset-side shocks – Driven by the high lending spreads and the sizeable interchange and fee-based income, SBICPSL has consistently reported strong profitability, as reflected by the eight-year average (FY2015 to FY2022) RoA and RoE of 4.5% and 27.1%, respectively. With the strong post-pandemic recovery, driven by tailwinds in the credit card industry, the credit cost moderated to 7.0% and 5.1% in FY2022 and 9M FY2023, respectively, though still higher than the eight-year average of 4.5%. This led to SBICPSL reporting a recovery in its profitability with RoA and RoE of 5.5% and 25.8%, respectively, in 9M FY2023. The strong profitability provides the company with buffers to absorb asset-side shocks, if any, going forward.

Adequate capitalisation – The company remains adequately capitalised with a net worth of Rs. 9,459 crore as on December 31, 2022, a CRAR of 23.3% (against the regulatory requirement of 15%), and a gearing of 3.1 times. In ICRA's opinion, a prudent capitalisation level is one of the key risk mitigants and a monitorable, given the monoline nature of the company's 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

Higher portfolio vulnerability due to unsecured nature of loans – Post the pandemic-led disruptions and the resultant slowdown in the economy, SBICPSL's portfolio vulnerability has declined due to the good quality of the incremental book, driven by tighter sourcing norms. This was reflected in the GNPA's of 2.2% as on December 31, 2022 (declined from 5.0% as on March 31, 2021). Further, the standard restructured book declined to negligible levels as on December 31, 2022 from 4.9% as on March 31, 2021. However, ICRA notes SBICPSL's intention to recalibrate its risk appetite due to the comfort derived from the decline in the asset quality pressures and also increase the interest income generating assets in the overall portfolio mix further. The evolving trajectory of the asset quality due to SBICPSL's strategic decision to recalibrate its risk appetite will remain a key monitorable. In this regard, improved credit norms, driven by the learnings during the pandemic, and SBICPSL's track record of range-bound asset quality metrics provide comfort.

Monoline nature of operations with presence in relatively risky segment – Due to the nature of its business, SBICPSL's product diversification remains low, being concentrated only in the credit cards business. Also, its portfolio remains relatively risky as it is largely unsecured with only 1.1% of the same being secured in nature as on March 31, 2022.

Liquidity position: Strong

Given the relatively shorter tenure of its assets, SBICPSL's asset-liability maturity (ALM) profile, in the normal course of business, is characterised by positive cumulative mismatches in all buckets. Further, it maintains sizeable liquidity backup in the form of sanctioned and unutilised bank lines (Rs. 4,770 crore sanctioned but unutilised bank lines as on December 31, 2022; 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. 22,305 crore in the next one year, SBICPSL has expected advance inflows of Rs. 33,206 crore as per the asset-liability statement as on December 31, 2022. The liquidity is also supported by the cash and bank balance of Rs. 785 crore (27% of total borrowings) as on December 31, 2022.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the ratings could emerge on 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. A sustained deterioration in the 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 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 69.01%-subsidiary (as on December 31, 2022) of State Bank of India (SBI), is a non-deposit taking systemically important non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). It is the second largest credit card provider in the country, with a card base of 1.59 crore as on December 31, 2022.

While SBICPSL was incorporated 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% while CA Rover Holdings acquired the remaining 26% stake on December 15, 2017. This resulted in SBI holding a 74% stake in the company while CA Rover Holdings held the remaining 26%. 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. SBI's shareholding stood at 69.01% as on December 31, 2022.

SBICPSL reported a profit after tax (PAT) of Rs. 1,616 crore on an asset base of Rs. 35,745 crore in FY2022 vis-à-vis a PAT of Rs. 985 crore on an asset base of Rs. 28,690 crore in FY2020. In 9M FY2023, SBICPSL reported a PAT of Rs. 1,662 crore on an asset base of Rs. 44,260 as on December 31, 2022. As on December 31, 2022, the capital adequacy ratio was 23.3% (23.8% as on March 31, 2022) with a net worth of Rs. 9,459 crore (Rs. 7,753 crore as on March 31, 2022).

Key financial indicators (audited)

	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22	9M FY2023/Dec-22*
Total income	9,282	9,254	10,689	10,372
Profit after tax	1,245	985	1,616	1,662
Net worth	5,341	6,302	7,753	9,459
Loan book	24,141	25,114	31,281	38,626
Total assets	26,636	28,690	35,745	44,260
Return on assets	5.25%	3.56%	5.02%	5.54%
Return on net worth	27.88%	16.91%	23.00%	25.75%
Gross gearing (times)	3.29	2.87	2.96	3.11
Gross NPA	484	1,254	693	856
Net NPA	159	278	241	306
Gross stage 3	2.01%	4.99%	2.22%	2.22%
Net stage 3	0.66%	1.14%	0.78%	0.80%
Solvency (Net stage 3/Net worth)	2.97%	4.41%	3.11%	3.24%
CRAR	22.43%	24.75%	23.80%	23.30%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Limited financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding as of Mar 16, 2023 (Rs. crore)	Date & Rating			Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
				Mar 22, 2023	Aug 22, 2022	Apr 05, 2022	Dec 31, 2021 May 21, 2021	Jan 05, 2021 Jul 16, 2020	Feb 18, 2020 Oct 01, 2019	
1 Non-convertible debenture	LT	7,655	6,405	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
2 Non-convertible debenture	LT	-	-	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
3 Non-convertible debenture	LT	710	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
4 Subordinated debt	LT	1,500	1,300	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
5 Subordinated debt	LT	-	-	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
6 LT/ST bank lines^^	LT/ST	25,000	24,500	[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	25,000	500	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
8 Term loan	LT	1,000	1,000	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	
9 Term loan	LT	3,000	-	[ICRA]AAA (Stable)	-	-	-	-	-	
10 Long-term fund based – Other	LT	1,000	1,000	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	

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. 25,000 crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture	Very Simple
Subordinated debt	Very Simple
LT/ST bank lines	Simple
Term loan	Simple
Long-term fund based – Other	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 I: Instrument details (as on March 16, 2023)

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE018E08193	NCD	Feb-26-2020	7.40%	Feb-25-2025	300	[ICRA]AAA (Stable)
INE018E08201	NCD	Jun-29-2020	6.85%	Jun-29-2023	400	[ICRA]AAA (Stable)
INE018E08219	NCD	Aug-17-2020	5.75%	Nov-17-2023	500	[ICRA]AAA (Stable)
INE018E08227	NCD	Dec-22-2020	6.00%	Dec-22-2025	450	[ICRA]AAA (Stable)
INE018E08235	NCD	Feb-23-2021	5.90%	Feb-23-2024	550	[ICRA]AAA (Stable)
INE018E08243	NCD	May-10-2021	5.70%	May-10-2024	455	[ICRA]AAA (Stable)
INE018E08250	NCD	Jun-14-2021	5.55%	Jun-14-2024	500	[ICRA]AAA (Stable)
INE018E08268	NCD	Aug-17-2021	5.70%	Aug-16-2024	500	[ICRA]AAA (Stable)
INE018E08276	NCD	Nov-15-2021	5.75%	Nov-14-2024	500	[ICRA]AAA (Stable)
INE018E08284	NCD	Dec-24-2021	5.82%	Dec-24-2024	650	[ICRA]AAA (Stable)
INE018E08292	NCD	Jun-03-2022	7.51%	Jun-03-2025	750	[ICRA]AAA (Stable)
INE018E08318	NCD	Sep-15-2022	7.39%	Sep-15-2025	500	[ICRA]AAA (Stable)
INE018E08326	NCD	Nov-14-2022	7.90%	Nov-14-2025	350	[ICRA]AAA (Stable)
Yet to be placed	NCD	NA	NA	NA	1,250	[ICRA]AAA (Stable)
INE018E08177	NCD	Nov-14-2019	7.60%	Feb-14-2023	410	[ICRA]AAA(Stable); withdrawn
INE018E08185	NCD	Dec-16-2019	7.50%	Mar-09-2023	300	[ICRA]AAA(Stable); withdrawn
INE018E08078	Sub-debt	Oct-17-2016	8.10%	Oct-17-2023	200	[ICRA]AAA(Stable)
INE018E08086	Sub-debt	Jul-17-2017	8.30%	May-17-2023	500	[ICRA]AAA(Stable)
INE018E08144	Sub-debt	Jan-29-2019	9.55%	Jan-29-2029	250	[ICRA]AAA(Stable)
INE018E08169	Sub-debt	Jun-12-2019	8.99%	Jun-12-2029	100	[ICRA]AAA(Stable)
INE018E08300	Sub-debt	Jun-30-2022	8.25%	Jun-30-2032	250	[ICRA]AAA(Stable)
Yet to be placed	Sub-debt	NA	NA	NA	200	[ICRA]AAA (Stable)
INE018E14PI0	Commercial paper^	Mar-23-2022	5.15%	Mar-23-2023	500	[ICRA]A1+
Yet to be placed	Commercial paper^	NA	NA	7-365 days	24,500	[ICRA]A1+
NA	Bank lines^	NA	NA	NA	16,250	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	750	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	2,300	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,300	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,300	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,100	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,500	[ICRA]AAA (Stable)/[ICRA]A1+
Yet to be placed	Bank lines^	NA	NA	NA	500	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Term loan - 1	Mar-28-2022	NA	June-28-2025	500	[ICRA]AAA (Stable)
NA	Term loan - 2	Jan-20-2023	NA	Jan-20-2026	500	[ICRA]AAA (Stable)
NA	Long-term fund based – Other	Jul-22-2022	NA	April-21-2027	500	[ICRA]AAA (Stable)
NA	Long-term fund based – Other	Feb-06-2023	NA	Feb-04-2028	500	[ICRA]AAA (Stable)
Yet to be placed	Term loan	NA	NA	NA	3,000	[ICRA]AAA (Stable)

Source: Company; ICRA Research;

Note: ^CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 25,000 crore

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

Corrigendum:

Analytical Approach (pg-3): Updated the link for withdrawal policy

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