

September 11, 2023

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 I

Rationale

While arriving at the rating 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 NPCI's position as a prominent financial market infrastructure provider in the country. The company is the key player for the clearing and settlement of retail transactions across various instruments/segments and it also operates its own card scheme under the name of 'RuPay'. The rating also factors in NPCI's shareholder profile, experienced board of directors, low business risk as it deals only with regulated entities, and its risk management systems and processes. The rating also considers the company's strong financial profile with healthy profitability and a diversified product profile, low leverage and good business growth prospects, given the increasing digital penetration.

Given NPCI's significance in the overall financial system, it was classified as a System Wide Important Payment System (SWIPS) by the Reserve Bank of India (RBI) in June 2020. As the company plays a critical role in fostering financial stability in the market, it must continuously enhance its risk management and technology systems. Going forward, its continued ability to maintain its position in the settlement of retail transactions remains a key monitorable.

Key rating drivers and their description

Credit strengths

Key institution for clearing and settlement of retail transactions – NPCI was licensed by the RBI for operating retail payment and settlement systems in India, under the provisions of the Payment and Settlement Systems Act, 2007 for creating a payment and settlement infrastructure in India. In its early years of operations, the company built its expertise in the switching of interbank ATM transactions. Leveraging the same, it currently provides multiple products catering to the varying needs of retail customers, notably Cheque Truncation System (CTS), Unified Payments Interface (UPI), National Financial Switch (NFS), and National Automated Clearing House (NACH). As on May 31, 2023, NPCI's shareholding was diversified across 65 entities. Despite this, ICRA expects capital support from member banks in case of exigencies, given the company's strategic importance for the banking and financial system.

Good business growth prospects and diversified product profile; however, settlement volumes and revenues exposed to macro-economic factors – With the increasing penetration of digital transactions and the launch of new products, NPCI's total volumes and revenue have been on a rising trend with 54% year-on-year (YoY) growth in transaction volumes in FY2023, driven by growth across products. The total number of transactions across all products increased to 11,128 crore in FY2023 from 7,227 crore in FY2022. Further, the RBI's vision to empower every Indian with access to a bouquet of safe, secure, convenient, quick and affordable e-payment options and enhance cross-border payments is likely to result in favourable growth prospects for NPCI over the medium term. As on August 31, 2023, the company had a diversified range of services with low concentration of individual products 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 the resulting level of regulatory intervention. The fee for products is determined by a 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 multilateral netting process and the settlement cycle is run multiple times a day for some of the products, the funding requirements for the members for each settlement cycle declines considerably, thus reducing the risk of fund shortfall with the members. The risk is also mitigated by the presence of a settlement guarantee mechanism (SGM) for the key products, wherein a part of the money is collected from the members in the form of a settlement guarantee fund (SGF), and loss-sharing arrangements among banks in case of default by a member. This results in small risk for NPCI. As on June 30, 2023, NPCI’s total SGF was ~Rs. 9,951 crore {including SGF of Rs. 527 crore for Bharat Bill Payment System (BBPS)}.

Healthy financial risk profile – NPCI has a strong financial profile characterised by a strong surplus (surplus after tax of Rs. 809 crore in FY2023 compared to Rs. 769 crore in FY2022), healthy profitability (surplus after tax/operating income) of ~41% in FY2023 (49% in FY2022) and a net worth of Rs. 3,710 crore as on March 31, 2023. NPCI’s leverage was Nil as on March 31, 2023. Moreover, it has a diversified product profile with its revenues spread across products. Strong internal accruals led to the healthy net worth of Rs. 3,710 crore as on March 31, 2023.

Credit challenges

Need to continuously upgrade risk management and IT systems – As retail payment organisations, NPCI as well as NBBL facilitate payments and settlements, thus strengthening the markets they serve. As NPCI plays a critical role in fostering financial stability in the market, its information technology (IT) infrastructure and risk management systems must be top-notch and upgraded regularly based on developments in technology and the financial services sector. Evolving regulatory requirements also drive the upgradation of the systems. NPCI and NBBL currently have 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 from being the key player for the clearing and settlement of transactions in multiple retail service segments in India, there is no regulatory restriction on the entry of a new player. New entrants in any of the segments in which NPCI operates could impact its market share and/or profitability. However, given its demonstrated track record and established position in the key segments, it would take time for any new entrant to establish itself in the industry with the same level of acceptance. Regulatory approvals for operating in each segment, the proprietary nature of the dealing systems and the well-established IT and risk management systems provide NPCI with additional competitive advantage.

Liquidity position: Strong

As on March 31, 2023, NPCI had cash and cash equivalents of ~Rs. 1,049 crore. With nil borrowings, it had no repayment obligations as on March 31, 2023. As on June 30, 2023, NPCI had lines of credit of Rs. 8,454 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 the rating could emerge on an adverse change in NPCI’s consolidated position as a key institution for the settlement of retail payments in India due to a change in the RBI’s regulatory stance for allowing other players as a 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 a significant deterioration in the 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 Rating Approach – Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated (refer to Annexure II)

About the company

National Payments Corporation of India (NPCI), an umbrella organisation for operating retail payment and settlement systems in India, is an initiative of the Reserve Bank of India (RBI) and the Indian Banks' Association (IBA), under the provisions of the Payment and Settlement Systems Act, 2007, for creating a robust payment and settlement infrastructure in India. NPCI was incorporated in December 2008 and started its operations in October 2009. Considering the utility nature of its objectives, NPCI was incorporated as a not-for-profit company under Section 25 of the Companies Act, 1956 (now Section 8 of Companies Act, 2013) 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 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 10 banks (including 6 public sector banks (PSBs), 2 private banks and 2 foreign banks). The 10 core promoter banks 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 NA and HSBC. In 2016, NPCI's shareholding was broad-based to 56-member banks to include more banks representing all sectors. In November 2020, additional capital raising of Rs. 82 crore resulted in the broad-basing of the shareholding among 67 entities. As on May 31, 2023, the company's 65 shareholders include PSBs, private banks, foreign banks, multi-state co-op banks, payments banks and regional rural banks.

NPCI reported a surplus after tax of Rs. 809 crore in FY2023 compared to Rs. 769 crore in FY2022. The net worth stood at Rs. 3,710 crore as on March 31, 2023.

Key financial indicators (audited)

National Payments Corporation of India (standalone)	FY2021	FY2022	FY2023
Revenue from operations	1,121	1,583	1,987
Other income	143	227	239
Total income	1,265	1,810	2,225
Total operating expenses (including depreciation)	675	825	1,124
Surplus before tax	590	986	1,101
Surplus after tax	423	769	809
Total assets	3,677	4,653	5,571
Net worth	2,161	2,922	3,710
Net surplus/Average total assets	13.4%	18.5%	15.8%
Return on net worth	22.1%	30.3%	24.4%
Surplus after tax /OI	37.7%	48.6%	40.7%

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

NPCI Bharat Billpay Limited	FY2021	FY2022	FY2023
Revenue from operations	0.0	35.2	58.0
Other income	0.0	3.5	7.2
Total income	0.0	38.7	65.2
Total operating expenses (including depreciation)	0.3	32.1	44.0
Profit before tax	-0.3	6.5	21.1
Profit after tax	-0.2	4.1	14.7
Total assets	85.9	152.7	178.5
Net worth	84.8	103.9	117.5
Net profit/Average total assets	NA	3.5%	8.8%
Return on net worth	NA	4.4%	13.2%
Profit after tax/OI	NM	10.7%	22.5%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; NM – Not material
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date and rating in FY2024	Date and rating in FY2023	Date and rating in FY2022	Date and rating in FY2021
					Sep-11-23	Sep-20-22	Jan-25-22 Jul-07-21	Oct-28-20 Jul-31-20
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 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

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	1,345.9	[ICRA]A1+
NA	Short-term fund-based CC	FY2022-FY2024	NA	NA	8,454.1	[ICRA]A1+

Source: Company; **Repayment within 7 days from first day of disbursement: ^Unutilised/yet to be placed

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Annexure II: 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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