March 22, 2024

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	200	[ICRA]AAA (Stable); reaffirmed
Long-term/Short-term fund based/Non-fund based bank lines^	1,852	2,452	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed/assigned
Commercial paper programme	300	300	[ICRA]A1+; reaffirmed
Commercial paper programme	1,700	0	[ICRA]A1+; reaffirmed and withdrawn
Total	**4,052**	**2,952**	

**Instrument details are provided in Annexure I*

^Total rated bank limits previously stood at Rs, 1,852 crore, represented separately under both long-term and short-term limits. However, the same has now been represented under long-term/short-term fund-based/non-fund-based facility. Rated amount has been enhanced to Rs. 2,452 crore from Rs. 1,852 crore

Rationale

The ratings factor in SBI Global Factors Limited's (SBIGF) strong parentage with the company being a wholly-owned subsidiary of State Bank of India (SBI; rated [ICRA]AAA (Stable) for Basel III Tier II bonds). SBIGF became a wholly-owned subsidiary of SBI in September 2022 after the bank purchased a 13.82% stake in the company from the other shareholders. The ratings factor in the management support from SBI and the shared brand name, which strengthens ICRA's expectation that SBIGF is likely to receive timely and adequate financial support from the bank. Further, as it is a subsidiary of SBI, the company enjoys strong financial flexibility with access to diverse sources of funds at competitive rates. The ratings also consider the company's comfortable capitalisation with a net worth of Rs. 440 crore and a gearing of 2.2 times as on December 31, 2023. While the gearing is likely to rise with the increase in the scale of operations, ICRA expects the capitalisation to remain comfortable in the medium term.

ICRA, however, takes note of SBIGF's modest scale of operations with funds in use (FIU) of Rs. 1,431 crore as on December 31, 2023, given the high competition in the factoring business. The gross stage 3 stood at 3.2% as on December 31, 2023. The company's profitability has been supported by the recoveries from written-off accounts. SBIGF's ability to grow while maintaining the asset quality will be the key driver of its profitability.

The Stable outlook reflects ICRA's expectation of continued benefit from the company's parentage, including capital support if required, financial flexibility as it is a subsidiary of SBI and operational synergies with the parent.

ICRA has withdrawn the rating assigned to the Rs. 1,700-crore commercial paper programme at the company's request and in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strong parentage – SBIGF is a wholly-owned subsidiary of SBI. It receives considerable management support from the bank. SBIGF's Managing Director (MD) and Chief Executive Officer (CEO) was with the SBI Group earlier. Further, the company's Chairman is the MD - Corporate Banking & Subsidiaries of SBI. Additionally, some of the heads of SBIGF's branches are appointed through deputation from SBI. As it is a subsidiary of SBI, the company enjoys financial flexibility with access to diverse sources of funds at competitive rates. SBIGF also enjoys sizeable unutilised bank lines from its parent to meet any liquidity requirements. Given the shared brand name, ICRA expects the company to receive capital/liquidity support from the parent, if required.

Comfortable capitalisation – The company's capitalisation remained comfortable with a capital-to-risk weighted assets ratio (CRAR) of 33.1% (Tier I – 26.5%) as on December 31, 2023. SBIGF's gearing was comfortable at 2.2 times as on December 31, 2023. Given the strong growth plans, ICRA expects the gearing to increase in the medium term, though it is likely to remain comfortable. Further, capital support from the parent is expected to be forthcoming if required.

The company reported an annualised return on managed assets (RoMA) and return on equity (RoE) of 3.1% and 10.1%, respectively, in 9M FY2024 (2.4% and 8.0%, respectively, in FY2023). Given the limited scale of operations, the operating expenses remain elevated. Profitability, is however, supported by the reversal in credit costs with the recoveries in the written-off accounts. Given the expectation of limited incremental recoveries from the written-off pool, the profitability will be driven by the company's ability to increase its scale of operations while maintaining the asset quality.

Credit challenges

Moderate scale of operations; exposure to unsecured loans – The company's scale of operations remains moderate with FIU of Rs. 1,431 crore as on December 31, 2023 (Rs. 1,278 crore as on March 31, 2023). SBIGF's growth has been limited, given the competition in the factoring industry from banks. The core factoring business, which includes domestic factoring, export factoring and TReDS, accounted for 72.6% of the overall book. Letter of credit discounting, reverse factoring and investment in gold loan pools accounted for 9.6%, 2.9% and 15.0%, respectively, of the FIU as on December 31, 2023.

The company's asset quality had been impacted by the legacy accounts, which were sanctioned by Global Trade Finance (GTF) before SBIGF came into existence. Following the merger of GTF and SBI Factors in FY2011, the credit policy and client selection process were revamped. As a result, fresh slippages from the newer originations have been limited. Supported by write-offs and recoveries over the years, the company's gross stage 3 declined to 3.2% as on December 31, 2023 from 12.4% as on March 31, 2021. Further, the stage 3 assets are adequately provided for with net stage 3 of 0.02% of total assets as on December 31, 2023. Going forward, the losses upon default can be high as the exposures taken by the company are typically unsecured. Hence, its ability to maintain strong asset quality on a consistent basis is key for profitability.

Liquidity position: Adequate

As on December 31, 2023, SBIGF held Rs. 1.3 crore of cash and liquid investments along with Rs. 1,006 crore of unutilised bank lines against total debt repayment of Rs. 847 crore until June 30, 2024. The liquidity is further supported by the high churn in the loan portfolio. The company had no cumulative mismatches as per the Statement of Structural Liquidity (SLS) as of December 31, 2023.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The ratings could be revised if there is a deterioration in the credit risk profile of the parent, SBI, or a significant change in the shareholding or linkages with the parent. 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](#) [Policy on Withdrawal of Credit Ratings](#)
Parent/Group support	ICRA expects SBI to provide financial, managerial and operational support, when required, given the parentage and shared brand name.
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. Prior to September 5, 2022, SBI held an 86.18% stake in SBIGF while the balance was held by Small Industries Development Bank of India (SIDBI), Bank of Maharashtra (BoM) and Union Bank of India (UBI). On September 5, 2022, SBI acquired the entire shareholding of the other shareholders via a share purchase agreement.

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	FY2022	FY2023	9M FY2024
Total income	101	113	100
PAT	25	31	32
Total managed assets	1,285	1,318	1,475
Return on managed assets	1.8%	2.4%	3.1%^
Managed gearing (times)	2.7	2.1	2.2
Gross stage 3	7.1%	2.7%	3.2%
CRAR	34.7%	34.4%	33.1%

^Annualized

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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 as of Dec 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Mar 22, 2024	Mar 29, 2023	Jun 27, 2022	Jun 30, 2021	Jul 03, 2020
1	Subordinated debt programme	Long term	200	100	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
2	Subordinated debt programme	Long term	-	-	-	-	[ICRA]AAA (Stable); reaffirmed & withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Long-term/Short-term fund-based/non-fund based bank lines – Others	Long term/Short term	2,452	847	[ICRA]AAA (Stable)/[ICRA]A1+	-	-	-	-
4	Long-term fund-based bank lines	Long term	0	0	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	Long-term non-fund based bank lines	Long term	0	0	-	[ICRA]AAA (Stable)			
6	Short-term fund-based bank lines	Short term	0	0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Short-term non-fund based bank lines	Short term	0	0	-	[ICRA]A1+			
8	Commercial paper programme	Short term	300	0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
9	Commercial paper programme	Short term	1,700	0	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt programme	Very Simple
Commercial paper programme	Very Simple
Long-term/Short-term fund-based/Non-fund based bank lines	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	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)
Not applicable	Long-term/Short-term fund-based/Non-fund based bank lines – Others	-	-	-	2,452.0	[ICRA]AAA (Stable)/[ICRA]A1+
Not yet placed	Commercial paper programme	-	-	7-365 days	1700.0	[ICRA]A1+; withdrawn
Not yet placed	Commercial paper programme	-	-	7-365 days	300.0	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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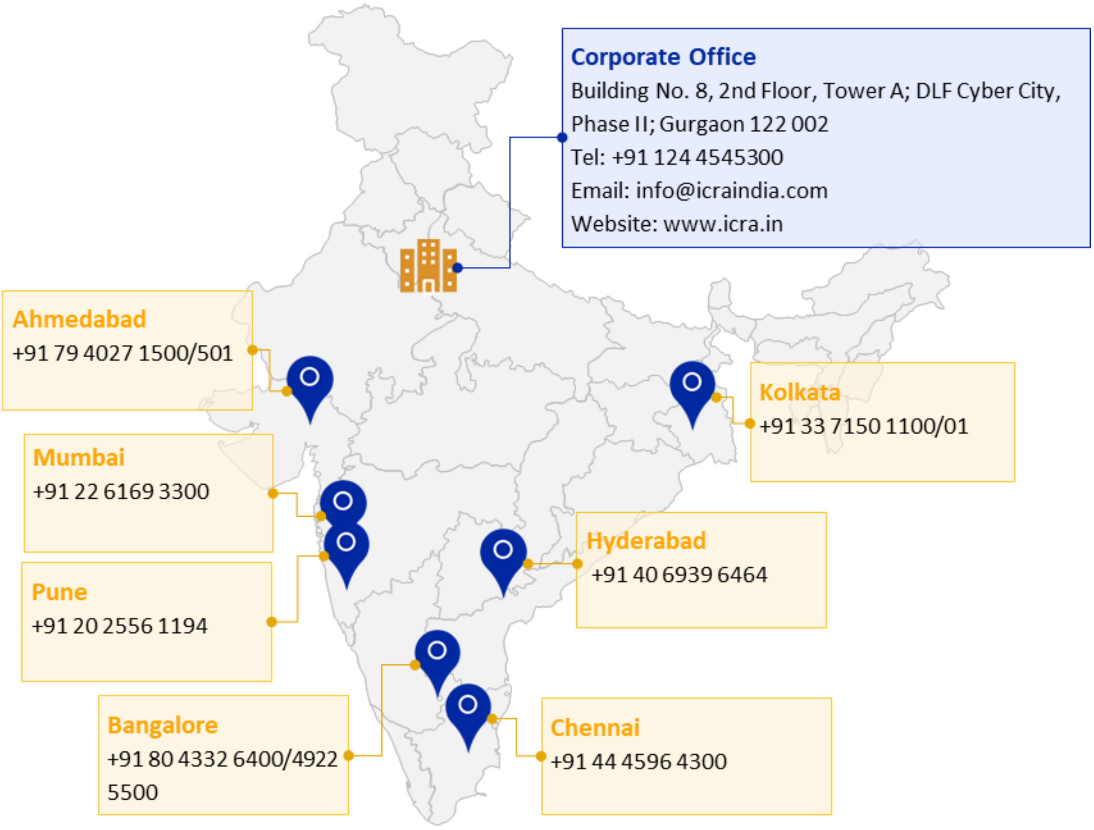

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