February 28, 2025

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 of SBM Bank (India) Ltd continue to factor in its parentage in the form of SBM Holdings Limited, which is also the ultimate holding company of SBM Bank (Mauritius) Limited (rated Baa3 (stable)/P-3/BCA ba2 by Moody's). The parent company has supported the operations by way of a capital infusion of Rs. 180 crore in FY2024 and FY2025 and has committed further capital of Rs. 160 crore to the bank to help it achieve its growth target as well as a higher scale of operations.

The ratings, however, factor in the weak earnings profile, which remained under pressure in 9M FY2025, thinning the capital buffers over the regulatory limits. The revenue decline amid the pressure on the scale of operations, given the regulatory actions, along with efforts to enhance the systems and processes as well as the branch expansion impacted the operating profitability. The proposed capital infusion will be crucial for SBM Bank (India) Ltd to scale up its operations and profitability. Moreover, the asset quality metrics have remained under control, despite the slight uptick in non-performing advances (NPAs), with healthy recoveries. However, the same remains monitorable as the cushions to absorb any asset quality shock remain thin, given the weak operating profitability.

The Stable outlook on the long-term rating factors in the continued operational and capital support from the parent company and the maintenance of a majority stake in the bank. ICRA's expects that the capital infusion will help SBM Bank (India) Ltd improve its capital buffers, scale up its operations bringing in scale efficiencies, and help it turn profitable in the next few quarters.

Key rating drivers and their description

Credit strengths

Part of SBM Group (Mauritius) – ICRA continues to factor in the parentage of SBM Bank (India) Ltd and its position as a step-down wholly-owned subsidiary (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 with a 42% stake as on September 30, 2024. Additionally, SBM Bank (Mauritius) Limited is the second largest bank in Mauritius with assets of $6.75 billion as on September 30, 2024. The parent's continued strong commitment towards supporting the Indian operations serves as a credit positive. Strong operational linkages with the Group, in terms of ownership and the shared name, as well as its overall importance in advancing the Group's growth plans in the region provide further comfort.

The parent has shown support through capital infusions of Rs. 100 crore in FY2024 and Rs. 80 crore in Q1 FY2025 and has further committed Rs. 160 crore of capital for FY2026. SBM (Bank) Holdings Limited has demonstrated a track record of providing capital support to the bank, aggregating ~Rs. 380 crore (including ~Rs. 180 crore infused in Indian branches for transitioning to the subsidiary model in FY2019) during FY2019-FY2023. 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 an in-principle undertaking to provide necessary financial support to the Indian entity to meet any liability it is unable to meet. This remains in line with the Reserve Bank of India's (RBI) framework for the WOS of foreign banks in India.

Asset quality metrics remain under control – In the past few years, the bank's slippages have held well with the fresh NPA generation rate[1] at 1.16% in 9M FY2025 compared to 1.88% in FY2024 (0.83% in FY2023). The uptick in slippage generation was partially offset by the healthy recoveries from bad loans. The provision coverage ratio (PCR), excluding write-offs, remained satisfactory at 80% as on December 31, 2024 (77% as on March 31, 2024). However, with the loan book staying relatively range-bound, SBM Bank (India) Ltd witnessed a slight uptick in the headline metrics with the gross and net NPA ratios at 2.88% and 0.58%, respectively, as on December 31, 2024 compared to 2.59% and 0.61%, respectively, as on March 31, 2024 (1.98% and 0.34%, respectively, as on March 31, 2023). Moreover, the bank's overall monitorable book, comprising overdues (special mention account (SMA)[2] 1 and SMA 2), grew to 1.03% of standard advances as on December 31, 2024 from 0.85% as on March 31, 2024.

Notwithstanding the asset quality indicators, which remain manageable at present, the bank's weak operating profitability level limits its ability to absorb a further increase in slippages. Its loan book concentration remains high with the top 20 exposures accounting for 17% of the total exposures and 166% of the net worth as on March 31, 2024 compared to 16% and 167%, respectively, as on March 31, 2023 (20% and 170%, respectively, as on March 31, 2022).

Credit challenges

Weak operating profitability and return metrics – SBM Bank (India) Ltd's loan book remained range-bound at Rs. 4,781 crore as on December 31, 2024 compared to Rs. 4,676 crore as on March 31, 2024. Amid the fallout of the regulatory action on the bank, its franchise was affected by the volatility in the deposit base and loan book. This exerted pressure on the net interest income and other fee income and the bank reported a loss of Rs. 43 crore in FY2024 with a return on assets (RoA) and a return on net worth (RoNW) of -0.45% and -5.43%, respectively. The profitability profile weakened further in H1 FY2025 with a loss of Rs. 73 crore and annualised RoA and RoNW metrics of -1.62% and -18.34%, respectively. Nonetheless, the bank is in the process of reorchestrating its operational costs and it reported a reduction in the loss to Rs. 1.5 crore in Q3 FY2025 (annualised RoA: -0.07%, RoNW: -0.76%). Although it is closer to achieving operational breakeven on a quarterly basis, the profitability is likely to take a few more quarters to be restored in a sustainable way and the earnings profile is expected to stay weak until the scale of operations improves meaningfully in the near future. With the effect of the regulatory action at bay, ICRA expects the bank's franchise to stabilise and the profitability to improve in the near term.

Continued dependence on capital support, given losses at net level – SBM Bank (India) Ltd's reported Tier I capital ratio moderated to 11.49% as on December 31, 2024 from 12.30% as on March 31, 2024 due to the increase in the risk weight density and capital erosion resulting from losses. Its credit risk-weighted density has followed an upward trajectory and reached 111% of net advances as on September 30, 2024 (105% as on March 31, 2024). While the parent infused capital in Q1 FY2025, SBM Bank (India) Ltd's near-to-medium-term dependency on the parent for fresh capital has increased due to the significant capital reduction in the past 12-18 months. Nonetheless, the parent remains committed to the bank with an in-principle approval for additional capital support in FY2026.

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[1] Fresh NPA generation rate depicts slippages during the period as a proportion of standard advances at the start of the period; annualised for the year

[2] SMA is defined as a special mention account (SMA), which is an account exhibiting signs of incipient stress resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant RBI guidelines; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days

Scale of operations remains suboptimal – SBM Bank (India) Ltd's scale of operations was affected as it had to navigate a regulatory action. Its net loan book and deposit base stood modest at Rs. 4,781 crore and Rs. 7,158 crore, respectively, as on December 31, 2024. The share of current account savings account (CASA) in total deposits also stood below the industry average at 21% on December 31, 2024 as the bank rebalanced/discontinued its business/fintech arrangements with a few partners. While SBM Bank (India) Ltd's business profile witnessed volatility in the recent past, the business has not moved past the March 31, 2023 level, leading to stagnancy in the assets for income generation. On the other hand, the cost-to-income ratio increased to 119% for 9M FY2025 from 104% in FY2024 and 91% in FY2023. The resultant erosion of capital further created frequent dependency on the parent for fresh capital infusions to sustain the operations. The bank's ability to meaningfully improve its scale of operations remains monitorable on its pathway to self-sustainability.

Liquidity position: Adequate

SBM Bank (India) Ltd continued to maintain its statutory liquidity ratio (SLR) at ~33-47% of net demand and time liabilities (NDTL) on the fortnightly reporting dates between January 2024 and January 2025, which was ~14-28% above the regulatory minimum of 18%. As a result, its liquidity coverage ratio stood at 144% for the quarter ended December 31, 2024, well above the regulatory requirement of 100%. Despite the 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 deposits as per the structural liquidity statement (SLS) as on December 31, 2024. Going forward, its ability to maintain a high rollover rate of deposits and improve the granularity of its deposit base will remain a key factor for sustaining liquidity.

Rating sensitivities

Positive factors – A sustained improvement in the profitability levels and an increase in the capital cushions will be positive factors. An improvement in the credit profile of the SBM Group (Mauritius) will also be a positive factor.

Negative factors – A capital cushion of less than 2% of the Tier I regulatory requirement (9.5%) and continued weakness in the earnings profile will be negative factors. Further, a deterioration in the credit profile of the SBM Group (Mauritius) or lack of adequate funding support to maintain the capital and liquidity cushions, if required, will be a negative factor.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Banks and Financial Institutions
Parent/Group support	**Parent: 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 it holds for SBM Holdings Limited for meeting its diversification objectives and for driving growth in the region. SBM Holdings Limited and SBM Bank (India) Ltd share a common name, which, in ICRA's opinion, would persuade the parent 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

The SBM Group (Mauritius) commenced banking operations in India in 1994 with four branches (Mumbai, Chennai, Hyderabad and Ramachandrapuram), which operated as branches of SBM Bank (Mauritius) Limited. In December 2018, the RBI sanctioned a Scheme of Amalgamation for 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 became effective 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. It currently has 21 branches across India.

SBM Bank (India) Ltd reported a net loss of Rs. 75 crore in 9M FY2025 (net loss of Rs. 43 crore in FY2024) on a total asset base of Rs. 9,000 crore as on December 31, 2024 (Rs. 8,946 crore as on March 31, 2024. The capital-to-risk weighted assets ratio (CRAR) stood at 15.76% as on December 31, 2024 (16.90% as on March 31, 2024; 16.16% as on March 31, 2023). The asset quality metrics increased marginally with the gross and net NPAs at 2.88% and 0.58%, respectively, as on December 31, 2024 (2.59% and 0.61%, respectively, as on March 31, 2023; 1.98% and 0.34%, respectively, as on March 31, 2023).

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 9M CY2024, SBM Bank (Mauritius) Limited reported a net profit of $116 million on total assets of $6.75 billion as on September 30, 2024 compared to a profit of $10.47 million on total assets of $6.38 billion as on December 31, 2023, and net profit of $7.99 million in CY2022 on total assets of $6.08 billion as on December 31, 2022. It reported a Tier I capital of 19.5% as on December 31, 2023 compared to 15.32% as on December 31, 2022.

SBM Holdings Limited

SBM Holdings Limited is the holding company of 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 operate banking and non-banking entities across Africa and India. Furthermore, the Government of Mauritius (rated Baa3 (negative) by Moody's) is the largest shareholder in 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, it reported a net profit of $89.5 million in 9M CY2024 on total assets of $8.84 billion as on September 30, 2024 compared to a net profit of $97.8 million in CY2023 on a total asset base of $8.23 billion as on December 31, 2023 (net profit of $82.3 million in CY2021 on total assets of $8.18 billion as on December 31, 2022).

Key financial indicators (standalone)

SBM Bank (India) Ltd	FY2023	FY2024	9M FY2025
Total operating income^	407	412	277
Profit after tax	21	-43	-75
Total assets	10,125	8,946	9,000
Return on average total assets (annualised)	0.23%	-0.45%	-1.11%
Common equity Tier I (CET I) ratio	11.46%	12.30%	11.49%
CRAR	16.16%	16.90%	15.76%
Gross NPA	1.98%	2.59%	2.88%
Net NPA	0.34%	0.61%	0.58%

Source: SBM Bank (India) Ltd & ICRA Research; Amount in Rs. crore
^Total operating income includes net interest income and non-interest income
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

Current (FY2025)				Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**Feb 28, 2025**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Certificates of deposit	Short term	500.00	[ICRA]A1+	-	-	Jul 20, 2023	[ICRA]A1+	Jul 28, 2022	[ICRA]A1+	Jun 3, 2021	[ICRA]A1+
			-	-	-	Mar 1, 2024	[ICRA]A1+	-	-	Sep 17, 2021	[ICRA]A1+
Basel III Tier II bonds	Long term	250.00	[ICRA]A (Stable)	-	-	Jul 20, 2023	[ICRA]A+ (Negative)	Jul 28, 2022	[ICRA]A+ (Stable)	Sep 17, 2021	[ICRA]A+ (Stable)
			-	-	-	Mar 1, 2024	[ICRA]A (Stable)	-	-	-	-

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: [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
INE07PX16426	**Certificates of Deposit**	Dec 12, 2024	8.05	Jul 10, 2025	25.00	[ICRA]A1+
INE07PX16392	**Certificates of Deposit**	Mar 12, 2024	8.75	Mar 12, 2025	125.00	[ICRA]A1+
NA	**Certificates of Deposit**	Unplaced	NA	7-365 days	350.00	[ICRA]A1+
INE07PX08019	**Basel III Tier II Bonds**	Apr-05-2022	9.75%	Apr-05-2032^	125.00	[ICRA]A (Stable)
INE07PX08027	**Basel III Tier II Bonds**	Jan-24-2023	9.88%	Jan-24-2033*	99.00	[ICRA]A (Stable)
NA	**Basel III Tier II Bonds**	Unplaced	NA	-	26.00	[ICRA]A (Stable)

*^Call option available on April 5, 2027; *Call option available on January 24, 2028, though it is subject to regulatory approval*
Source: SBM Bank (India) Ltd

Annexure II: List of entities considered for consolidated analysis

Not applicable

Key features of the rated debt instruments

The servicing of the rated certificates of deposit is not contingent on the capital ratios or the bank's profitability. However, the Basel III Tier II bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked by the RBI. These bonds have equity-like loss-absorption features. Such features may translate into higher loss severity vis-à-vis conventional debt instruments.

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