April 08, 2025

SBI DFHI Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Issuer rating	-	-	[ICRA]AAA (Stable); reaffirmed
Commercial paper programme	950.00	950.00	[ICRA]A1+; reaffirmed
Bank facilities (ST – Fund based)	5,000.00	5,000.00	[ICRA]A1+; reaffirmed
Total	**5,950.00**	**5,950.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in SBI DFHI's strong liquidity profile, as reflected in the high share of liquid Government securities (G-Secs) in the overall assets and access to call money and borrowings under repo from the market, apart from access to a standing liquidity facility (SLF) from the Reserve Bank of India (RBI). The share of non-G-Sec securities has continued to be higher than peers but largely remains in highly rated corporate bonds and short-term money market instruments. Moreover, the ratings consider the company's strong capitalisation and sound asset profile. The capitalisation profile is supported by the healthy net worth base, providing SBI DFHI with sufficient cushion to withstand the impact of adverse market movements. Further, SBI DFHI has adequate risk management policies which mitigate the market risks associated with dealing in debt securities.

The ratings are supported by the strength of SBI DFHI Limited's parent, State Bank of India {SBI; rated [ICRA]AAA (Stable) for its Basel III Tier II bonds}, which had a 69.04% stake (total stake of 72.17% held by SBI Group) in the company as on December 31, 2024. The ratings also consider the continued managerial, operational and financial support expected from SBI, given the shared brand name.

ICRA notes the susceptibility of the company's overall profitability and capitalisation profile to interest rate movements, given the nature of its business and the high share of debt securities in the overall assets. This is also reflected in the trading losses witnessed during FY2022-FY2023 amid rising interest rates. Additionally, it has increased its leverage in the past few quarters to enhance its net interest income (NII) due to elevated short-term borrowing costs and to capitalise on the trading opportunities amid expectations of policy rate cuts. This increases its vulnerability to market risks.

Going forward, with the expected further policy rate cut in H1 CY2025 and the easing of liquidity conditions, the company's NII could improve from the current level while the interest rate environment could remain conducive for increased trading opportunities in the near to medium term. While SBI DFHI's income remains less diverse and its earnings profile stays susceptible to adverse interest rate movements, its ability to adhere to its risk management policies will continue to be critical for the overall profitability. Continued linkages with the parent and the ability to withstand interest rate cycles and any regulatory changes for primary dealers (PDs) will remain key monitorable factors.

Key rating drivers and their description

Credit strengths

Strong parentage – ICRA takes comfort from the strong parentage in the form of SBI (69.04% stake as on December 31, 2024), the shared brand name and the resulting operational, managerial and financial support from the SBI Group. The company's board of directors consists of members who had previously served at SBI. Further, its key management personnel are on deputation from the bank. SBI has also sanctioned bank lines of Rs. 3,150 crore, including an intraday facility, as funding support to SBI DFHI. In ICRA's view, the company is likely to continue receiving support, if required. Nevertheless, the ratings will remain sensitive to SBI's shareholding in SBI DFHI and its continued support.

Strong capitalisation profile – SBI DFHI's capital adequacy remains strong with its capital-to-risk weighted assets ratio (CRAR) at 44.06% as on December 31, 2024 (36.04% as on March 31, 2024), well above the minimum regulatory requirement of 15% for PDs. The daily average leverage increased to 15.57 times in 9M FY2025 (14.81 times in FY2024), given the management's plan to capitalise on trading opportunities amid expectations of policy rate cuts and also to improve the NII due to the high short-term borrowing rates.

As it is a PD, the underwriting and trading of G-Secs constitute the company's core activity. Therefore, its profitability and capital profile are susceptible to market risks arising out of interest rate movements. Given the vulnerability of trading volumes and profitability to market volatility, a PD's net worth assumes considerable significance from a credit perspective. SBI DFHI's net worth of Rs. 1,816 crore (net owned funds (NOF) of Rs. 1,621[1] crore), as on December 31, 2024, provides considerable comfort. The price value of a basis point (PVBP[2]) stood at Rs. 4.64 crore as on December 31, 2024, indicating adequate ability to absorb large adverse movements in interest rates while maintaining the CRAR above the regulatory requirement.

Sound asset profile – SBI DFHI maintains 79.4% of its total assets in the form of G-Sec investments (non-G-Sec portfolio stood at Rs. 4,766 crore or 18.9% of total assets as on December 31, 2024). Credit risk largely emanates from the non-SLR portfolio and the company had only one non-performing investment of Rs. 45.99 crore as on March 31, 2021, which was partly recovered in FY2022 while the balance was written off. Apart from this, there were no credit losses in the past six years and the net non-performing assets (NPAs) remained nil as on December 31, 2024.

Strong liquidity profile – The company has a large portfolio of highly liquid G-Secs {Central/state government and Government of India (GoI) Treasury bills (T-bills)}. On a daily average basis, investment in G-Secs comprised ~82% of the total investments in 9M FY2025 (~81% in FY2024). Other assets include investments in highly rated corporate bonds/certificates of deposit and commercial paper of corporates/non-finance companies. SBI DFHI's non-SLR portfolio has also remained well diversified across highly rated corporates. About 34% of this book was in short-term money market instruments and equity shares while 75% was in the form of AAA/AA rated corporate bonds as on December 31, 2024. Corporate debt investments can be funded through term loans (225% of NOF) and call/notice/repo (to the extent of 50% of NOF), commercial paper, inter-corporate deposits (150% of NOF) or bank lines. These investments can also be sold to generate liquidity if required. With funds parked in highly liquid investments, SBI DFHI's overall liquidity remains strong.

SBI DFHI's liquidity is also supported by its access to the money market for call and repo borrowings, apart from the sanctioned bank limits of Rs. 3,150 crore from SBI (including Rs. 1,850 crore of overnight/term facility, intraday facility of Rs. 1,200 crore, Rs. 100-crore lines of credit) and the Rs. 1,400-crore intraday line from other banks. Though its liabilities are largely short term in nature compared to the long tenure of its assets, the liquid nature of the assets mitigates the asset-liability risk.

Adequate internal prudential norms and risk management systems – Prudent risk management policies and adherence to the same are critical for a PD, given its susceptibility to market risk related to debt securities and credit risk on account of non-SLR securities. ICRA takes comfort from the adequate risk management policies approved by the company's Risk Management

[1] SBI DFHI has investments in The Clearing Corporation of India Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+), which is adjusted from the net worth, resulting in lower NOF compared to the net worth
[2] PVBP measures the gain/loss on the entire portfolio for a 1 bps (0.01%) movement in the interest rate

Committee, comprising board members, with well-defined limits for various exposures and loss mitigation measures. The Committee also monitors and ensures adherence to these policies on a daily basis. As per the risk management policy, investment in non-SLR securities is allowed only for investments with a minimum rating of AA- for the private sector and A- for public sector undertakings, mitigating the credit risk to a certain extent. However, in practice, the company does not invest in securities with a rating below AAA/AA. Entities rated AAA/A1+ accounted for ~92% of the total non-SLR portfolio (other than equity shares) by value as on December 31, 2024.

Credit challenges

Low diversification of revenues – SBI DFHI's revenue stream is relatively less diversified compared to other PDs, with interest income and trading income accounting for almost 100% of its total revenue. The company earned underwriting and other related income of Rs. 4 crore in 9M FY2025 (Rs. 6 crore in FY2024 and Rs. 5 crore in FY2023). Other income during FY2023-9M FY2025 remained lower in comparison to past periods (FY2019-FY2022) on account of the favourable demand for G-Secs as reflected in the lower devolvement of G-Secs on PDs, leading to lower underwriting fees charged by PDs. Going forward, the revenue and profitability will remain linked to the quantum of government borrowings as well as the extent of underwriting commission.

Earnings vulnerable to interest rate movements – As the company's portfolio largely comprises debt securities, its earnings profile remains susceptible to adverse movements in the interest rates. This is reflected in the sizeable variation in trading income (including mark-to-market (MTM) gains/losses) during the past few fiscals because of the movement in bond yields (trading profit of Rs. 179 crore in 9M FY2025, Rs. 124 crore in FY2024 against trading losses of Rs. 130 crore in FY2023 and Rs. 101 crore in FY2022). Additionally, the net interest margin narrowed to 0.79% (annualised) in 9M FY2025 (0.75% in FY2024, 1.24% in FY2023 and 2.75% in FY2022) due to the higher cost of funds as short-term interest rates began to rise sharply from FY2023. Moreover, the interest rate movement results in significant variation in the NII.

Vulnerability to changes in regulatory framework for PDs – The RBI is the regulatory authority for PDs and has prescribed operational guidelines for underwriting commitments for G-Secs, bidding commitments and success ratios for T-bills, the achievement of minimum turnover ratios and funding support in the form of the SLF. Therefore, any significant change in the regulatory framework for PDs, which adversely impacts the company's operational and financial profile, can affect its funding costs and profitability.

Liquidity position: Strong

The company has a strong liquidity profile, given the inherent nature of the PD business. This is demonstrated by the high share of G-Secs in the total investments (82% of total assets on a daily average basis for 9M FY2025). Furthermore, SBI DFHI's non-SLR book (18% of investments on a daily average basis for 9M FY2025) largely comprises highly rated corporate debt securities, minimising the liquidity risk in the corporate bond portfolio to a certain extent. The liquidity is also supported by the company's access to the money market for call and repo borrowings, in addition to the RBI's SLF funding, apart from bank limits.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A deterioration in SBI's credit profile can lead to a rating downgrade. Additionally, a significant change in the shareholding or linkages with SBI DFHI will be a negative factor. Sustained losses, which result in considerable erosion of the net worth, or any regulatory change adversely impacting the PD business will also remain negative factors.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	[Rating Methodology for Primary Dealers]
Parent/Group support	ICRA expects SBI to provide financial, managerial and operational support when required, given the shared brand name and SBI's ownership
Consolidation/Standalone	To arrive at the ratings, ICRA has considered the standalone financials of the company

About the company

SBI DFHI is a State Bank of India Group company, created from the merger of the RBI-promoted Discount & Finance House of India (DFHI) and SBI Gilts Limited (subsidiary of SBI) in 2004. SBI DFHI was incorporated under the provisions of the Companies Act, 1956 (as amended by the Companies Act, 2013) on March 8, 1988. It is registered as a non-banking financial company (NBFC) and is a standalone primary dealer (PD), set up to support the book building process for the primary auction of G-Secs. Its shareholders include scheduled commercial banks (public and private sector banks), including SBI, insurance companies and All India Financial Institutions.

SBI DFHI is one of the largest standalone PDs in the country in terms of net worth (Rs. 1,816 crore as on December 31, 2024). The company reported a net profit of Rs. 214 crore (annualised return on assets (RoA) of (1.18%) and return on equity (RoE) of (16.63%) on total income of Rs. 1,415 crore in 9M FY2025 compared to a net profit of Rs. 180 crore (RoA of 0.89% and RoE of 11.16%) on total income of Rs. 1,509 crore in FY2024.

Key financial indicators

SBI DFHI Limited	FY2023	FY2024	9M FY2025
Profit after tax (PAT)	17	180	214
Net worth^	1,392	1,616	1,816
Total assets	17,264	23,262	25,271
PAT/Net worth (RoNW)	1.22%	11.14%	15.71%*
Leverage ratio (daily average; times)	10.93	14.81	15.57

Source: SBI DFHI, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; #Annualised

^ Including other comprehensive reserve

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2026)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Date & rating in FY2026	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023
			Apr, 08 2025	May 07, 2024	Mar 28, 2024	Apr 28, 2023	Apr 29, 2022
Issuer rating	Long term	-	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**
Commercial paper programme	Short term	950	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
Fund-based bank facilities	Short term	5,000	**[ICRA]A1+**	**[ICRA]A1+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Issuer rating	Not applicable
Commercial paper programme	Very Simple
Fund-based bank facilities	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	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	**Issuer rating**	NA	NA	NA	-	[ICRA]AAA (Stable)
Not placed	**Commercial paper programme**	NA	NA	NA	950	[ICRA]A1+
NA	**Fund-based bank facilities**	-	-	-	5,000	[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

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Sachin Sachdeva
+91 124 4545 307
sachin.sachdeva@icraindia.com

Vaibhav Arora
+91 124 4545 386
vaibhav.arora@icraindia.com

Sohil Mehta
+91 22 6114 3449
sohil.mehta@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches