August 08, 2025

Small Industries Development Bank of India: Rating reaffirmed; withdrawn for Rs. 15,055-crore long-term bonds

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term bonds programme	22,210.0	22,210.0	[ICRA]AAA (Stable); reaffirmed
Long-term bonds programme	15,055.0	-	[ICRA]AAA (Stable); reaffirmed & withdrawn
Total	**37,265.0**	**22,210.0**	

**Instrument details are provided in Annexure I*

Rationale

The rating for Small Industries Development Bank of India (SIDBI) factors in its position as an apex financial institution (FI) for the promotion and development of the micro, small and medium enterprise (MSME) sector in India. SIDBI was established under an Act of Parliament in 1990 and is jointly owned by the Government of India (GoI; 20.85% as on March 31, 2025), public sector banks (PSBs), insurance companies and other FIs.

To enhance SIDBI's competitive funding position, the GoI facilitates access to low-cost micro and small enterprise (MSE) funds[1] under the Refinance Scheme for Micro and Small Enterprises (RMSE) for onward refinancing to eligible lending institutions at competitive rates. The allocation for FY2026 is yet to be finalised while it stood at Rs. 50,000 crore for FY2025, which was lower than the total allocation of Rs. 65,038 crore for FY2024. These deposits are available at a concessional interest rate and accounted for 35% of SIDBI's total borrowings as on March 31, 2025, helping it maintain a competitive cost of funds.

As a part of its indirect lending operations, which includes refinancing activities, SIDBI takes exposure to scheduled commercial banks (SCBs), private entities other than banks, and non-banking financial companies (NBFCs). In the direct lending segment, it takes credit risk to entities, some of which could have relatively weaker credit profiles. A few lumpy NBFC exposures have slipped in the past few years, resulting in a relative increase in the overall slippages during these periods. However, SIDBI has largely provided for these exposures and the headline asset quality metrics remain strong with nil outstanding net non-performing advances (NNPAs) as on March 31, 2025. Moreover, it has an additional provision of Rs. 3,657 crore, which is over the standard asset provisions as on March 31, 2025, as a buffer to absorb any asset quality shocks.

Although SIDBI's gearing[2] remains elevated, its capitalisation ratios continue to be comfortable with buffers over the regulatory permissible limits. This is due to the low risk weight density on account of the significant share of refinance exposure to banks in the loan book mix. Its capital-to-risk weighted assets ratio (CRAR) was 19.62% as on March 31, 2025. SIDBI reported a leverage ratio[3] of 5.39% as on March 31, 2025 compared to the minimum permissible ratio of 4%. This provides it with headroom to scale up the loan book further, though the gearing remained high at 15.86 times as on March 31, 2025.

ICRA expects that SIDBI will continue to benefit from its role of an apex FI for the development of the MSME sector and its strategic importance to the GoI, driving the Stable outlook on the rating. Given the cap on the lending margins, the earnings profile, in terms of return on assets/equity (RoA/RoE), is likely to remain modest.

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[1] *MSE fund is created out of deposits from SCBs against their shortfall in priority sector lending (PSL) targets*

[2] *Gearing = Total debt/Net owned funds*

[3] *From April 1, 2024, under Basel III, the leverage ratio is calculated as capital measure (Tier I capital) divided by exposure measure (on-balance sheet exposure, off-balance sheet exposure after applying the conversion factors and the derivative exposure). The leverage ratio of 5.39% as on March 31, 2025 roughly translates to a gearing (including off-balance sheet exposure and derivative exposures) of 18.6 times*

ICRA has withdrawn the rating assigned to the Rs. 15,055.00-crore long-term bonds as they have matured. The rating was withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings (ICRA's Policy on Withdrawal).

Key rating drivers and their description

Credit strengths

Strategic importance to GoI for development of MSME sector – SIDBI is an All-India Financial Institution (AIFI), which was established in 1990 under an Act of Parliament (SIDBI Act, 1989). With the evolving landscape and importance towards MSMEs, the GoI has imparted strategic focus on the development of this segment and SIDBI has been mandated to play an instrumental role as a single point of contact for the developmental and funding requirements of MSMEs. Under the Act, SIDBI has been described as a development bank established as 'the principal financial institution for the promotion, financing and development of industry in the small-scale sector and to coordinate the functions of the institutions engaged in the promotion, financing or developing of industry in the small-scale sector and for matters connected therewith or incidental thereto'.

The GoI became a shareholder in SIDBI in FY2016 as it infused capital for onward investment in Micro Units Development & Refinancing Agency (MUDRA) Limited. Upon the conversion of the Tier I capital bonds held by the GoI, amounting to Rs. 1,423 crore, into equity share capital in FY2022, its stake increased to 20.85% from 15.40%. Besides this, State Bank of India {SBI; [ICRA]AAA (Stable)}, which has the second highest stake in SIDBI, held 15.65%, while the share of Life Insurance Corporation of India (LIC) was at 13.33% as on March 31, 2025. The rest is held by other PSBs and institutions. Despite the relative increase in the GoI's stake, ICRA notes that the overall shareholding remains fragmented and future capital raising, if any, will remain monitorable. However, given the increased headroom under the permissible leverage ratio under Basel III norms, the requirement for capital support to maintain the regulatory capitalisation ratios remains limited in the near to medium term. Nevertheless, ICRA expects fresh equity infusion to be forthcoming, if required, to keep the leverage under control, given the anticipated growth.

Strong asset quality indicators – SIDBI's refinance portfolio accounted for 86% of the total net advances as on March 31, 2025 (86% as on March 31, 2024), which comprises counterparties with stronger credit profiles like banks (78% of net advances as on March 31, 2025). Although SIDBI has witnessed slippages in its direct lending portfolio, the fresh NPA generation rate was low at 0.04% in FY2025. Its gross NPA (GNPA) and NNPA ratios also remained strong at 0.04% and nil, respectively, as on March 31, 2025, with credit provisions of 0.43% of average total assets (ATA) in FY2025. The credit provisions in FY2025 included accelerated provisions for standard assets in excess of regulatory requirements. While the asset quality indicators in the direct lending book were comparatively weaker than the indirect book, the impact of the same on the overall asset quality metrics has been limited due to its relatively smaller share in net advances (8.2% as on March 31, 2025).

Funding profile remains strong with MSE fund allocations – SIDBI's funding profile remains characterised by a significant share of low-cost MSE refinance fund allocations and is supported by market borrowings. It has access to low-cost funds, which are made available by banks against their shortfalls in meeting their priority sector lending (PSL) targets in MSME segments. The total borrowings under the MSE fund programme stood at Rs. 1.81 lakh crore, comprising 35% of the overall borrowings as on March 31, 2025. Given its quasi-sovereign status, SIDBI mobilises funds at competitive rates from the capital markets in the form of bonds, commercial paper and certificates of deposit.

MSE refinance fund allocation for FY2026 is yet to be finalised while it stood at Rs. 50,000 crore for FY2025, which was lower than the total allocation of Rs. 65,038 crore for FY2024. Given the slower credit growth of the banking sector and hence their refinance demand, allocation of MSE refinance fund for FY2026 may remain at similar level. SIDBI also had some undrawn funds from the previous years' allocation under the Cluster Development Fund. Continued allocations under MSE funds will remain important for SIDBI for maintaining a competitive cost of funds as well as the scale of its refinancing business. Though the allocation under MSE funds is expected to remain a major funding source for SIDBI, the rising share of market borrowings could increase its cost of funds and its ability to pass on the same to its customers, especially in the direct lending book, would remain monitorable.

Credit challenges

Relatively concentrated exposure in indirect lending segment – SIDBI's lending is concentrated towards SCBs (78% as on March 31, 2025), followed by private sector entities (14%) and NBFCs (~8%). Given the dominant share of refinancing towards banks, the concentration of the top 20 borrowers in the total exposure remained high at ~81% as on March 31, 2025 (~77% as on March 31, 2024). This is, however, mitigated by the limited credit risk in the refinance portfolios of banks. Similarly, on the liability side, funding is driven by regulatory allocation under the PSL shortfalls of banks, leading to high concentration of deposits from banks under MSE funding.

Earnings profile remains range-bound due to capped margins in refinance book – Given the cap on the lending margins in the RMSE business and the high share of MSE funds in overall liabilities, the earnings profile, in terms of the RoA, stays range-bound and will remain exposed to any regulatory changes. This results in a subdued interest spread. However, the lean cost structure and limited credit costs support the RoA and RoE, which were comfortable at 0.88% and 13.21%, respectively, in FY2025. SIDBI increased its additional provisions on standard assets in FY2025 to Rs. 3,657 crore (0.74% of the loan book) as on March 31, 2025 from Rs. 1,539 crore (0.34% of the loan book) as on March 31, 2024, which is in addition to the floating provisions of Rs. 496 crore. Going forward, any regulatory change relating to the lending margins and dependence on market borrowings to support demand in the refinance business will remain key drivers of SIDBI's profitability.

Leverage remains manageable, but capital required to support high growth – As many banks focussed on correcting their elevated credit-to-deposit ratios, the overall refinancing demand was lower, which along with SIDBI's focus on growing direct lending portfolio led to a moderation in SIDBI's overall credit growth to 9% in FY2025 from 28% in FY2024. Earlier, it had received the Reserve Bank of India's (RBI) approval to borrow up to 18 times its net owned funds (NOF) until March 31, 2024. However, with the applicability of Basel III for AIFIs from April 1, 2024, the minimum permissible leverage ratio for AIFIs now stands at 4%, against which SIDBI's leverage ratio was 5.39% as on March 31, 2025. While the leverage remains manageable, it stays elevated compared to peer AIFIs.

SIDBI's capitalisation ratio remains comfortable at present, given the limited credit risk and strong counterparties on the asset side. Its exposure to various banks attracts a low risk weight, resulting in strong capital adequacy levels with a CRAR of 19.62% as on March 31, 2025 under Basel III regulations compared to 15.94% (under Basel I regulations) as on March 31, 2024.

Liquidity position: Superior

As a large part of SIDBI's loan book comprises refinance with a 3-year tenure, which is largely funded through RMSE refinance deposits and long-term borrowings with similar maturity, the overall asset-liability management (ALM) profile remains well matched to a large extent. As a result, SIDBI had positive cumulative asset-liability gaps across most of the maturity buckets as on March 31, 2025. Moreover, undrawn MSE refinance allocations can be called on at short notice and drawn to meet any shortfall/funding gaps in the near future.

Rating sensitivities

Positive factors – Not applicable

Negative factors – ICRA could downgrade the rating in case of a dilution in SIDBI's strategic role and importance to the GoI.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Banks and Financial Institutions ICRA's Policy on Withdrawal of Credit Ratings
Parent/Group support	ICRA expects SIDBI to remain strategically important to the GoI in extending its ambition to support the growth of the MSME sector in India and expects the GoI to provide financial support, including MSE fund allocation and capital, if required.
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of SIDBI. However, in line with ICRA's consolidation approach, the standalone assessment of the bank factors in the ordinary and extraordinary support that it is expected to extend to its subsidiaries and associates. In ICRA's view, the subsidiaries will remain self-sufficient in meeting their capital requirements in the near to medium term while capital infusion, if any, would be reimbursed by the GoI.

About the company

Small Industries Development Bank of India (SIDBI), initially a subsidiary of erstwhile Industrial Development Bank of India (IDBI), was constituted as an independent entity in 2000. An AIFI, it was constituted under an Act of Parliament (SIDBI Act, 1989) for the promotion and development of the MSME sector in India. The GoI infused capital into SIDBI in FY2016 for onward investment in Micro Units Development & Refinancing Agency Limited (MUDRA). SIDBI is jointly owned by the GoI (largest shareholder with a stake of 20.85% as on March 31, 2025), SBI (15.65%), LIC (13.33%) and other PSBs (the balance). ICRA notes that the GoI directly controls the operations of all the shareholders of SIDBI, which indirectly gives it total access to the bank's operations.

SIDBI's board of directors consists of –

- The Chairman & Managing Director appointed by the Central Government (for a term of three years)
- Two whole-time directors appointed by the Central Government
- Two directors who are officials of the Central Government
- Three directors to be nominated in the prescribed manner by the development bank, the PSBs, General Insurance Corporation of India (GIC), LIC and other institutions owned or controlled by the Central Government
- Three directors, including an official of a state financial corporation, nominated by the Central Government from among persons with special knowledge of or professional experience in science, technology, economics, industry, banking, industrial cooperatives, law, industrial finance, investment, accountancy, marketing or any other matter
- Such number of directors, not exceeding four, elected in the prescribed manner by shareholders other than the development bank, the PSBs, GIC, LIC and other institutions owned or controlled by the Central Government

Key financial indicators (standalone)

SIDBI	FY2024	FY2025
Total operating income^	8,973	10,006
Profit after tax	4,026	4,811
Total assets (Rs. lakh crore)	5.22	5.68
Return on average total assets	0.87%	0.88%
Tier I	15.37%	18.58%
CRAR	15.94%	19.62%
Gross NPA	0.02%	0.04%
Net NPA	0.00%	0.00%

Source: SIDBI & ICRA Research; Amount in Rs. crore unless mentioned otherwise; All ratios as per ICRA's calculations
^ Net interest income + Non-interest income excluding trading gains

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S.No	Instrument	Current rating (FY2026)			Chronology of rating history for the past 3 years					
		Type	Rated amount (Rs. crore)	Aug 8, 2025	FY2025		FY2024		FY2023	
					Date	Rating	Date	Rating	Date	Rating
1.	Long-term bonds programme	Long term	22,210.0*	[ICRA]AAA (Stable)	Aug 09, 2024	[ICRA]AAA (Stable)	Aug 11, 2023	[ICRA]AAA (Stable)	Aug 17, 2022	[ICRA]AAA (Stable)
2.	Long-term bonds programme	Long term	15,055.0	[ICRA]AAA (Stable); withdrawn	Aug 09, 2024	[ICRA]AAA (Stable)	Aug 11, 2023	[ICRA]AAA (Stable)	Aug 17, 2022	[ICRA]AAA (Stable)
3.	Long-term bonds programme	Long term	-	-	Aug 09, 2024	[ICRA]AAA (Stable); withdrawn	Aug 11, 2023	[ICRA]AAA (Stable)	Aug 17, 2022	[ICRA]AAA (Stable)

*Source: ICRA Research; *Balance yet to be placed – Rs. 1,210.00 crore as on July 31, 2025*

Complexity level of the rated instrument

Instrument	Complexity indicator
Long-term bonds	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	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
INE556F08JV4	Long-term bonds	Mar-02-2022	5.57%	Mar-03-2025	2,500.00	[ICRA]AAA (Stable); withdrawn
INE556F08JW2	Long-term bonds	Mar-16-2022	5.40%	Mar-17-2025	1,525.00	[ICRA]AAA (Stable); withdrawn
INE556F08JX0	Long-term bonds	Mar-28-2022	5.70%	Mar-28-2025	1,625.00	[ICRA]AAA (Stable); withdrawn
INE556F08JY8	Long-term bonds	May-31-2022	7.15%	Jun-2-2025	2,500.00	[ICRA]AAA (Stable); withdrawn
INE556F08JZ5	Long-term bonds	Jul-18-2022	7.15%	Jul-21-2025	3,000.00	[ICRA]AAA (Stable); withdrawn
INE556F08KA6	Long-term bonds	Jul-28-2022	7.25%	Jul-31-2025	3,905.00	[ICRA]AAA (Stable); withdrawn
INE556F08KB4	Long-term bonds	Aug-17-2022	7.11%	Feb-27-2026	4,000.00	[ICRA]AAA (Stable)
INE556F08KC2	Long-term bonds	Sep-08-2022	7.23%	Mar-09-2026	4,000.00	[ICRA]AAA (Stable)
INE556F08KD0	Long-term bonds	Oct-14-2022	7.75%	Oct-27-2025	4,000.00	[ICRA]AAA (Stable)
INE556F08KE8	Long-term bonds	Nov-15-2022	7.47%	Nov-25-2025	4,000.00	[ICRA]AAA (Stable)
INE556F08KF5	Long-term bonds	Dec-02-2022	7.54%	Jan-12-2026	5,000.00	[ICRA]AAA (Stable)
Unplaced	Long-term bonds	Unutilised	NA	NA	1,210.00	[ICRA]AAA (Stable)

Source: SIDBI

Annexure II: List of entities considered for consolidated analysis

Name of the entity	Ownership	Consolidation approach
MUDRA Ltd.	100.0%	Full consolidation
SIDBI Venture Capital Ltd (SVCL)	100.0%	Full consolidation
SIDBI Trustee Company Ltd	100.0%	Full consolidation

Source: SIDBI and ICRA Research

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

Varun Dhapade
+91 22 6114 3461
varun.dhapade@icraindia.com

Vaibhav Arora
+91 124 4545 864
vaibhav.arora@icraindia.com

RELATIONSHIP CONTACT

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

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ICRA Limited

Registered Office

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

Branches