

## SBM Bank (India) Ltd

April 30, 2019

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Certificate of Deposit	500.00	[ICRA]A1+; Assigned
<b>Total</b>	<b>500.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating draws comfort from the parentage of SBM Holdings Limited, the ultimate holding company of SBM Bank (Mauritius) Limited (rated by Moodys at baa2 (negative)/P-2) and SBM Bank (India) Limited. SBM Holdings Limited is the holding company for all the banking and financial activities housed under two intermediate investment arms of the group, namely SBM (Bank) Holdings Limited for banks and SBM (NFC) Holdings Limited for non-banks, which together operate banking and non-banking entities across Africa and India. Furthermore, the Government of Mauritius (rated by Moody's at baa1) is the largest shareholder of SBM Holdings Limited. ICRA draws comfort from the operational linkages of SBM Bank (India) Limited with the group and held through a 100% step-down subsidiary of SBM Holdings Limited. Additionally, three directors on the Board of SBM Holdings Limited currently serve as directors on the board of SBM Bank (India) Limited. ICRA will continue to closely monitor the international developments on both SBM Holdings Limited and SBM Bank (Mauritius) Limited and any rating action by Moody's Investor Services Limited. Furthermore, it should be noted that this rating will serve as a key determinant for the rating of SBM Bank (India) Limited in near to medium term. Furthermore, as per RBI's framework for Wholly Owned Subsidiaries (WOS's) of foreign banks in India, SBM (Bank) Holdings Limited has undertaken to provide necessary financial support to SBM Bank (India) Limited, if it is unable to meet any of its liabilities.

SBM Bank (India) Limited was granted license to operate as a Wholly Owned Subsidiary (WOS) with permission to commence operations as a universal bank from December 1, 2018. Furthermore, under a scheme of amalgamation, all the assets and liabilities of the erstwhile branches of SBM Bank (Mauritius) Limited in India were transferred to SBM Bank (India), effective from December 1, 2018. Following this, SBM has re-aligned its business plan, with focus on generating low-cost liabilities, which will be a driver of its growth. As a part of the strategy, the bank intends to offer various transaction related businesses which will improve the float of low cost current account and saving account deposits. To offer these services, the bank also plans to tie-up with third party service providers, which otherwise would have increased upfront capital allocation. Further, on the asset side, the focus will be on relatively smaller ticket loan exposure (~Rs 23-40 crore) to mid-sized corporates, doing co-lending with group entities for large corporates and loan syndication activities for small and medium corporates; which will result in support diversified loan book growth. As a part of improving its franchise and liability base, the bank will position itself as a premium bank and expand its foot print in India by way of branch expansion while outsourcing associated infrastructure.

As part of the transition to a WOS model, the parent infused capital of ~Rs.178 crore during FY2019 to provide against the legacy stressed assets as well as to increase the net worth of SBM Bank (India) Limited to meet the minimum capital required to be maintained by WOS's of foreign banks in India stands at Rs 500 crore. The networth of SBM Bank (India) Limited stood at Rs.506 crore as on November 28, 2018. ICRA takes note that while SBM Bank (India) Limited enjoys support from its parent; however, limited deposit franchise, high cost of deposits and legacy assets will drive sub-optimal profitability in near to medium term. Further, limited capital cushion above regulatory minimum level will continue to

keep the bank dependent on its parent for capital support in the near to medium term, even though the same will be driven by the growth targets of the Indian operations and the internal accruals.

Going forward, the ability of the bank to build-up a low-cost and granular liability base to reduce its cost of funds will remain critical for its ability to scale up its assets and absorb the expected increase in overheads and report profitable operations. Given some of the legacy exposure of the bank can impact the asset quality and profitability in future, the ability of bank to reduce these exposures and improve granularity in its assets will be positive. These apart the extent of capital support provided by the parent in future, if required and the Moody's rating on the SBM Bank (Mauritius) Limited will remain as the rating drivers.

## Outlook: Not applicable

### Key rating drivers

#### Credit strengths

**Parentage driven rating** - ICRA draws comfort from the parentage of SBM Bank (India) Limited and being a step-down Wholly Owned Subsidiary (WOS) of SBM Holdings Limited, the ultimate holding company of SBM Bank (Mauritius) Limited (rated by Moodys at baa2 (negative)/P-2). SBM Holdings Limited's largest shareholders includes the Government of Mauritius which along with other state-owned entities including state owned pension funds remain the largest shareholders. Additionally, SBM Bank (Mauritius) Limited is the second largest bank in Mauritius, with asset of US\$5.4 billion and operation of SBM Holdings Limited spread across countries like Kenya and Madagascar. With the parent company remaining strongly committed to support the India operations, it serves as credit positive. As a part of the scheme of amalgamation, all the assets and liabilities of the Indian branches of SBM Bank (Mauritius) Limited were transferred to SBM Bank (India) Limited, however, the group infused the requisite capital to increase its net worth and meet its regulatory capital requirement before the scheme took effect from December 1, 2018. ICRA factors in the strong likelihood of the support to continue from parent to the India entity, if required. Moreover, SBM Bank (Holdings) Limited has given its 'in principal approval' to provide necessary financial support to the Indian entity to meet any liability that SBM Bank (India) Limited is unable to meet, which remains in line with RBI's framework for Wholly Owned Subsidiaries (WOS's) of foreign banks in India.

**Adequate capitalisation, however continued support may be required for growth if internal accruals remain weak:** SBM had a net worth of Rs.506 crore as on November 28, 2018 and the capital ratios as determined by Tier 1 or CRAR are expected to remain well above the regulatory requirements for banks (CRAR for SBM India stood at 24.72% (Tier-1 at 24%) as on March 31, 2018). However, as the bank intends to scale up its Indian operations by expanding branch presences and rolling out new business verticals towards which it has been hiring experienced management teams across various verticals, the internal accruals may remain under pressure in near term till the time bank scales up its operations and may need regular capital infusion as reflected in further infusion Rs 50 crore of capital during March 2019.

**High provisioning on legacy stressed exposure - positive for solvency and future earnings:** The bank's asset quality numbers stood weak with GNPA and NNPA's of Rs 178 crore (15.06%) and Rs 11 crore (1.06%) as on March 31, 2018 and translated in net NPAs/ net worth of Indian operations at 2.85%. Additionally, the bank also suffered a loss of Rs 19 crore on account of cyber fraud during October 2018. Prior to the amalgamation of the Indian branches with SBM Bank (India), the parent group, infused ~Rs.178 crore, not only to increase the provision coverage ratio on its past NPAs, but as well as increase capital to meet regulatory requirements of a WOS. Accordingly, SBM Bank (India) Limited has commenced operations with a high Provision Coverage Ratio (PCR), thereby reducing the overhang of any credit costs from legacy assets, which will be positive for future profitability. The provision coverage ratio, as on November 30, 2018 stood at

95.73% on GNPA stock of Rs.86 crore as against a PCR of 93.98%. Furthermore, high provisioning improved solvency metrics of the bank with Net NPA's/Net worth at 0.71% as on November 30, 2018.

## Credit challenges

**Ability to scale up deposit base at competitive cost will drive the scale and probability:** The liability base of the bank remains limited and funded with wholesale deposits with ~62% of the total deposits funded by top 20 depositors as on March 31, 2018. Moreover, the cost of interest bearing funds stood at 6.48% as compared to 5.10% for the banking sector average during FY2018. With planned increase in scale of operations and increased establishment costs, it will be imperative for the bank to increase the asset base by mobilising the deposits at competitive costs to maintain profitable operations and prevent capital erosion. The scale of operations for the bank has declined since March 2018 with total assets declining from Rs 1795 crore to Rs 1667 crore as on November 2018 after the large-scale redemption of FCNR deposits during November 2018. As a strategy to improve the deposit base at competitive cost of funds, the bank has plans to increase its transactional business which may offer some float of low-cost deposits, however the outcome of these initiatives remains to be seen and will be key driver of bank's ability to grow its asset base and improve profitability.

**Profitability to remain under pressure as the bank scales up its establishment and branch network:** Prior to operating as a WOS, the Indian branches reported weak profitability, with pre-tax losses of Rs.104.74 crore in FY2018 which increased sharply from losses of Rs.34.47 crore in FY2017. Historically, weak profitability stemmed from weak asset quality with GNPA as a percentage of gross advances at 14.30% as on March 31, 2018 as against 13.86% as on March 31, 2017 as well as a low CASA base, resulting in relatively high cost of interest bearing funds for the branches in India. Going forward even though the bank has provided for the legacy exposures which will reduce the profitability pressures because of credit provisioning, however as highlighted above the bank plans to expand its footprint in India by adding 8-12 branches over the next two years, besides ramping-up of its work force in order to meet the demand of branch expansion while adding new business segments. While these measures augur well for improving profitability in the medium to long term, the costs that the bank will incur towards its expansion drive could keep profitability subdued in the near term.

**Legacy exposures needs to addressed to reduce concentration risk and risks to profitability - SBM Bank (India) Limited** inherited legacy assets, some of which were NPA and have been provided, however Top 20 exposure still account for 64% of total exposures as on December 31, 2018 which pose concentration risk. Additionally, ICRA notes that the bank has exposure to the group entity of large infrastructure group, on which the bank has already made voluntary provisioning and hence may not impact the profitability and capital in near term, however it may worsen the reported asset quality and solvency numbers, if not resolved. Further, the bank incrementally intends to keep its single party exposures low to mitigate any credit concentration risks; ability to reduce the concentration of existing exposures and maintain granularity in future exposure will remain a key mitigant against any credit events given the profitability expectations and limited capital cushions over regulatory minimum levels. In order to improve underwriting, the bank has de-linked the underwriting process from its parent, put in place a new management and underwriting framework as well as target smaller sized exposures, altering the loan mix, with increased focus on working capital loans while increasing its retail loan segment by growing its branch network. While these steps are aimed at improving the granularity of the loan book and profitability, the outcomes of these measure remains to be seen.

## Liquidity position

The overall liquidity position of SBM India remains at comfortable levels. While the bank reported negative gaps in the less than one year maturity buckets of its structural liquidity statement of December 31, 2018, the overall liquidity position remains supported by access to borrowing from the parent upto 50% of the Tier-1 capital of the bank (~Rs.250 crore), arrangement with banks for undertaking inter-bank borrowings upto ~US\$175 million as well as excess SLR

investments totalling Rs.208 crore as on December 31,2018 which together can help meet funding shortfalls if any. Moreover, SBM India has maintained Liquidity Coverage Ratio (LCR) at comfortable levels over the years with quarterly daily average of 155% as on December 31, 2018, 172% as on September 30, 2018 and 112% as on June 30, 2018 as against a regulatory requirement of 100%.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Banks</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Group Support	Group Company: SBM Holdings Limited ICRA expects SBM Bank (India) Ltd's parent, SBM Holdings Limited, which is also the holdings company of SBM Bank (Mauritius) Limited [rated Moodys baa2 (negative)/P-2, BCA ba1], to be willing to extend financial support to SBM Bank (India), should there be a need, given the importance that SBM Bank (India) holds for SBM Holdings for meeting its diversification objectives and driving growth in the region. Both SBM Holdings and SBM India also share a common name, which in ICRA's opinion would persuade SBM Holdings to provide financial support to SBM India to protect its reputation from the consequences of a group entity's distress
Consolidation / Standalone	Standalone

## About the company

**SBM Bank (India) Ltd:** SBM Group, commenced banking operations in India in 1994 with four branches located at Mumbai, Chennai, Hyderabad and Ramachandrapuram and operated as branches of SBM Bank (Mauritius) Limited. In December 2018, RBI sanctioned the Scheme of amalgamation, of the Indian branches of SBM Bank (Mauritius) Limited and SBM Bank (India) Limited, which was granted license a to carry our banking operations under a Wholly Owned Subsidiary (WOS) mode. The scheme came into effect from December 1, 2018. Following the scheme, all the Indian branches started functioning as branches of SBM Bank (India) Limited.

**SBM Bank (Mauritius) Ltd. (SBM),** established in 1973, is the second-largest domestic bank in Mauritius. As of September 2018, the bank's total consolidated assets were MUR191 billion (\$5.6 billion). SBM 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 Ltd was established as the new holding company for operating companies and is the entity listed on the Stock Exchange of Mauritius.

## Key financial indicators - Standalone

	FY2017	FY2018
Net interest income	32	46
Profit before tax	-34	-105
Profit after tax	-34	-105
Net advances	731	1,016
Total assets	1,761	1,795
%Tier-I	33.14%	24.00%
% CRAR	33.84%	24.72%
% Net interest margin/Average total assets	1.91%	2.59%
% Net profit/Average total assets	-2.06%	-5.89%
% Return on net worth	-7.16%	-27.81%
% Gross NPAs	16.12%	15.06%
% Net NPAs	5.92%	1.06%
% Provision coverage	67.23%	93.98%
% Net NPA/Net worth	8.99%	2.85%

Source: SBM Bank (India) Ltd  
Amount in Rs. crore

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

	Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years				
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Certificate of Deposit	Short Term	500.00	-	April 2019 [ICRA]A1+	-	-	-

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Certificate of Deposit	NA	NA	7-365 days	500.00	[ICRA]A1+

*Source: SBM Bank(India) Ltd*

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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