April 05, 2022

SBI Cards and Payment Services Limited: Reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	8,990	8,990	[ICRA]AAA (Stable); reaffirmed
Subordinated Debt	1,600	1,600	[ICRA]AAA (Stable); reaffirmed
Long-term/Short-term Bank Lines/Commercial Paper Programme^	20,000	20,000	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Long-term Bank Facilities	-	1,000	[ICRA]AAA (Stable); Assigned
Total	**30,590**	**31,590**	

**Instrument details are provided in Annexure-1*

^ Commercial paper (CP) borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 20,000 crore

Rationale

The ratings factor in the strong parentage of SBI Cards and Payment Services Limited (SBICPSL) with India's largest public sector bank (PSB), i.e., State Bank of India (SBI; rated [ICRA]AAA (Stable)/[ICRA]A1+), holding a majority stake in the company. As the credit card business is a key product offering to the bank's customers, SBICPSL is strategically important for SBI. This is reflected in the bank's track record of providing branding and funding support to the company. ICRA believes that SBI will continue to hold a majority stake in SBICPSL and support from the parent will continue, going forward as well.

The ratings factor in SBICPSL's strong liquidity position and its track record of strong profitability with a seven-year average (FY2015 to FY2021) return on assets (RoA) and return on equity (RoE) of 4.4% and 28%, respectively. The ratings note the company's adequate capitalisation for the current scale of operations, with a capital to risk weighted assets ratio (CRAR) of 24.2% and a gearing of 2.8 times as on December 31, 2021. The asset quality pressure increased and the resultant credit cost grew significantly to 8.1% and 8.0% of the average total assets in FY2021 and 9M FY2022, respectively (compared to the seven-year average of 4.4%), given the challenging operating environment. However, ICRA notes that SBICPSL enjoys adequate capital and profitability buffers to absorb the asset-side shocks emanating from the Covid-19 pandemic-induced disruptions. SBICPSL reported a modest improvement in its profitability in 9M FY2022 with the RoA and RoE increasing to 4.5% and 20.2%, respectively, from 3.6% and 16.9%, respectively in FY2021. The improvement in 9M FY2022 was on account of higher non-interest income driven by increasing spend.

Given the pandemic-led disruptions and the resultant impact on the economy, SBICPSL's portfolio vulnerability had increased as reflected by the uptick in the percentage of gross non-performing loans to 4.99% as on March 31, 2021 from 2.01% as on March 31, 2020, despite sizeable write-offs (8.6% of gross advances in FY2021 as per the profit & loss account compared to five-year average of 5.4%). Further, the company had restructured 7.6% of the loan book (under the Reserve Bank of India's (RBI) resolution plan) as on March 31, 2021. However, the asset quality showed some improvement with the gross non-performing advances (GNPAs) easing to 2.4% and the restructured portfolio declining to 2.0% (with restructured assets beyond 90 days overdue remaining nil) of advances as on December 31, 2021. In this regard, SBICPSL's past track record of range-bound asset quality metrics provides comfort. ICRA also notes SBICPSL's monoline nature of operations. The company's portfolio remains relatively risky, with less than 2% of the portfolio being secured in nature as on March 31, 2021.

Key rating drivers and their description

Credit strengths

Strong parentage with India's largest PSB holding majority stake – SBICPSL is a subsidiary of India's largest and oldest PSB i.e. SBI (69.2% stake in SBICPSL as on December 31, 2021). The company hosts the credit card business of the parent. As the credit card business is a key product offering to the bank's customers, SBICPSL is strategically important for SBI. This is also reflected in the bank's track record of providing branding and funding support to the company. Also, ICRA notes that SBICPSL shares strong management integration with the parent, with senior employees from the bank being deputed to senior positions at SBICPSL. The association with SBI has helped the company grow its business volumes by leveraging the parent's brand name and vast customer base and branch network.

Also, SBI continues to be the largest lender to SBICPSL with a track record of enhancement in the working capital lines, whenever required. As on March 31, 2021, ~56% of the borrowings were from SBI. Though the company has been increasing the share of market instruments in the funding mix over the past few years, bank lines continued to account for the majority 60% of the borrowing base as on December 31, 2021, followed by debentures (36%) and commercial paper (CP; 4%). This augurs well for the company's borrowing and liquidity profile.

Track record of strong profitability with adequate buffer to absorb asset-side shocks caused by the pandemic – Driven by high lending spreads, sizeable interchange and fee-based income, SBICPSL has consistently reported strong profitability, as reflected by the seven-year average (FY2015 to FY2021) RoA and RoE of 4.4% and 28%, respectively. Amid the challenging operating environment since March 2020 and its consequent impact on the asset quality indicators, the credit cost increased significantly to 8.1% and 8.0% in FY2021 and 9M FY2022, respectively (compared to seven-year average of 4.4%). Nonetheless, SBICPSL enjoys strong capital and profitability buffers to absorb the asset-side shocks emanating from Covid-19-induced disruptions and other economic impacts. Despite some moderation in its profitability due to lower revenues and higher credit costs, the same remained adequate with RoA and RoE of 4.5% and 20.2%, respectively, in 9M FY2022.

Rising delinquencies, along with the increased share of transactors in the portfolio mix, led to a moderation in the yields to 19.9% and 17.5% in FY2021 and 9M FY2022, respectively, from 22.6% in FY2020. However, the reduction in the cost of borrowings (5.9% and 5.2% in FY2021 and 9M FY2022, respectively, from 8.3% in FY2020), amid the declining interest rate environment, drove the increase in the net interest margin (NIM) to 15.6% in FY2021 (vs. 15.0% in FY2020). Nevertheless, the NIM moderated to 14.0% in 9M FY2022 due to the further decline in yields in 9M FY2022 while the cost of funds remained stable at 5.2%. While the operating expenses (primarily acquisition and marketing costs) moderated in FY2021 (16.8% of average assets in FY2021 compared to seven-year average of 20% from FY2015 to FY2021), the same is expected to be on an upward trajectory, which was set prior to the onset of the pandemic, reflecting stiff competition and SBICPSL's focus on gaining market share. This was reflected by the increase in the operating costs to 18.4% of the average assets in 9M FY2022. However, the company's sizeable interchange/fee-based income is likely to continue to support its profitability, thereby keeping it range-bound at a strong level over the medium to longer term.

Adequate capitalisation – The company remains adequately capitalised with a net worth of Rs. 7,396 crore as on December 31, 2021 and a CRAR of 24.2% against the regulatory requirement of 15%, and a gearing of 2.8 times. In ICRA's opinion, a prudent capitalisation level is one of the key risk mitigants and a monitorable, given the monoline nature of operations with an unsecured portfolio. In this regard, SBICPSL is expected to maintain a prudent capitalisation level and ICRA believes that liquidity support from SBI will be forthcoming, if required.

Credit challenges

Asset quality pressures – Given the Covid-19-induced disruptions and the resultant slowdown in the economy, SBICPSL's asset quality came under pressure as reflected by the uptick in the percentage of gross non-performing loans to 4.99% as on March 31, 2021 from 2.0%, as on March 31, 2020. Further, the company had restructured 7.6% of the loan book (under the RBI's resolution plan) as on March 31, 2021 (2.7% of which has been already classified into NPA), whereby the outstanding balances were converted to term loans with a tenor of up to 2 years and interest rate in the mid-teens. However, in 9M FY2022 the asset quality pressures eased with the GNPA% and restructured portfolio declining to 2.4% and 2.0% (0% of which is already under NPA classification), respectively, as on December 31, 2021. In this regard, SBICPSL's track record of range-bound asset quality metrics over several years provides comfort.

Also, ICRA notes that the share of transactors (consumer who pays credit card balance in full and on time every month) in the receivables mix increased to 35% and 38% as on March 31, 2021 and December 31, 2021, respectively, from 27% as on March 31, 2020, reflecting the relatively tighter sourcing done after FY2020. As on December 31, 2021, the remaining receivables mix was in the form of revolver (consumer who carries a credit card balance from one month to the next; 27%), term balances (EMIs; 33%) and the restructured book (2%).

Monoline nature of operations with presence in relatively risky target segment – Due to the nature of its business, SBICPSL's product diversification remains low, being concentrated only in the credit cards business. Also, the company's portfolio remains relatively risky as it is largely unsecured. Only 2% of the portfolio was secured in nature as on March 31, 2021.

Liquidity position: Strong

Given the relatively shorter tenure of the assets, SBICPSL's asset-liability maturity (ALM) profile, in the normal course of business, is characterised by positive cumulative mismatches in the near-and-medium-term buckets. Further, the company typically maintains sizeable liquidity backup in the form of sanctioned and unutilised bank lines (its CP borrowings are also carved out of bank lines). The company's liquidity profile also benefits from easy access to funding from its parent, i.e. SBI. As per the ALM profile as on February 28, 2022, SBICPSL has bank balances and advance inflows of Rs. 25,737 crore against debt repayments of Rs. 15,215 crore for the next one year.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the ratings could emerge on a significant decline in SBI's shareholding, leading to a lower likelihood of support from the parent and/or reduced operational linkages, besides a change in the credit profile of SBI. A sustained deterioration in the asset quality profile, thereby weakening the solvency profile, would also be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Company: SBI ICRA expects SBI to be willing to extend financial support to SBICPSL, if needed, given the importance of the credit card business for SBI. SBI and SBICPSL also share a common name, which, in ICRA's opinion, would persuade SBI to provide financial support to SBICPSL to protect its reputation from the consequences of a Group entity's distress
Consolidation/Standalone	Standalone

About the company

SBI Cards and Payment Services Limited (SBICPSL), incorporated in 1998 and a 69.20%-subsidiary (as on December 31, 2021) of State Bank of India (SBI), is a non-deposit taking systemically important non-banking financial company registered with the RBI. It is the second largest credit card provider in the country, with a card base of 1.32 crore as on December 31, 2021. Apart from the corporate office in Gurgaon and the registered office in New Delhi, SBICPSL had 19 branches with 140+ sourcing locations, 39,000+ sales agents, four call centres and over 6,000 collection agents across 140+ cities in India as on March 31, 2021.

While SBICPSL was incorporated as a joint venture between SBI and GE Capital Corporation, GE Capital Mauritius Overseas Investment sold its 40% stake in the company to SBI, which took 14% while CA Rover Holdings acquired the remaining 26% stake on December 15, 2017. This resulted in SBI holding a 74% stake in the company while CA Rover Holdings held the remaining 26%. Subsequently, SBICPSL got listed on stock exchanges in Q4 FY2020, whereby SBI's shareholding declined to 69.5% on March 31, 2020 from 74% as on March 31, 2019.

SBICPSL reported a profit after tax (PAT) of Rs. 985 crore on an asset base of Rs. 28,690 crore in FY2021 vis-à-vis a PAT of Rs. 1,245 crore on an asset base of Rs. 26,632 crore in FY2020. As on March 31, 2021, the capital adequacy ratio was 24.8% (22.4% as on March 31, 2020) with a net worth of Rs. 6,302 crore (Rs. 5,341 crore as on March 31, 2020). In 9M FY2022, it recorded a net profit of Rs. 1,035 crore on an asset base of Rs. 33,266 crore. The company reported a capital adequacy ratio of 24.2% and net worth of Rs. 7,396 crore as on December 31, 2021.

Key financial indicators (audited)

SBI Cards and Payment Services	FY2019	FY2020	FY2021	9MF Y2022
	Audited	Audited	Audited	Provisional
Profit after tax (Rs. crore)	865	1,245	985	1,035
Net worth (Rs. crore)	3,588	5,341	6,302	7, 396
Gross loan book (Rs. crore)	18,526	24,141	25,114	29,129
Total assets (Rs. crore)	20,764	26,632	28,690	33,266
Return on assets (%)	4.8%	5.5%	3.6%	4.5%
Return on net worth (%)	28%	27%	16.9%	20.2%
Gross gearing (times)	3.7	3.2	2.9	2.8
Gross stage 3 (%)	2.4%	2.0%	4.99%	2.40%
Net stage 3 (%)	0.8%	0.7%	1.14%	0.84%
Solvency (Net stage 3/Net worth)	4.2%	3.0%	4.4%	3.4%
CRAR (%)	20.1%	22.4%	24.8%	24.24%
Tier I (%)	14.9%	17.7%	20.9%	21.30%

Source: *ICRA Research, SBICPSL; All figures and 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

	Instrument				Current Rating (FY2023)	Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020	
					Apr 05, 2022	Dec 31, 2021	May 21, 2021	Jan 05, 2021	Jul 16, 2020	Feb 18, 2020	Oct 01, 2019
1	Non-convertible debenture	LT	8,990	6,140	**[ICRA]AAA (Stable)**	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Subordinated debt	LT	1,600	1,150	**[ICRA]AAA (Stable)**	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	LT/ST bank lines	LT/ST	20,000	~12,662	**[ICRA]AAA (Stable)/[ICRA]A1+**	[ICRA]AAA(Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
4	CP^^	ST	20,000	881	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Bank facilities	LT	1,000	500	**[ICRA]AAA (Stable)**	-	-	-	-	-	-

LT – Long term, ST – Short term; ^^ CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 20,000 crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debenture	Very Simple
Subordinated Debt	Very Simple
LT/ST Bank Lines	Simple
Commercial Paper Programme	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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate/ Yield	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE018E08136	NCD	12/18/2018	9.15%	6/17/2022	450	[ICRA]AAA (Stable)
INE018E08151	NCD	5/13/2019	8.55%	8/12/2022	175	[ICRA]AAA (Stable)
INE018E08177	NCD	11/14/2019	7.60%	2/14/2023	410	[ICRA]AAA (Stable)
INE018E08185	NCD	12/16/2019	7.50%	3/9/2023	300	[ICRA]AAA (Stable)
INE018E08193	NCD	2/26/2020	7.40%	2/25/2025	300	[ICRA]AAA (Stable)
INE018E08201	NCD	6/29/2020	6.85%	6/29/2023	400	[ICRA]AAA (Stable)
INE018E08219	NCD	8/17/2020	5.75%	11/17/2023	500	[ICRA]AAA (Stable)
INE018E08227	NCD	12/22/2020	6.00%	12/22/2025	450	[ICRA]AAA (Stable)
INE018E08235	NCD	2/23/2021	5.90%	2/23/2024	550	[ICRA]AAA (Stable)
INE018E08243	NCD	5/10/2021	5.70%	5/10/2024	455	[ICRA]AAA (Stable)
INE018E08250	NCD	6/14/2021	5.55%	6/14/2024	500	[ICRA]AAA (Stable)
INE018E08268	NCD	08/17/2021	5.70%	08/16/2024	500	[ICRA]AAA (Stable)
INE018E08276	NCD	15/11/2021	5.75%	14/11/2024	500	[ICRA]AAA (Stable)
INE018E08284	NCD	24/12/2021	5.82%	24/12/2024	650	[ICRA]AAA (Stable)
Yet to be placed	NCD	NA	NA	NA	2850	[ICRA]AAA (Stable)
INE018E08060	Sub-debt	2/25/2016	9.65%	4/25/2022	100	[ICRA]AAA (Stable)
INE018E08078	Sub-debt	10/17/2016	8.10%	10/17/2023	200	[ICRA]AAA (Stable)
INE018E08086	Sub-debt	7/17/2017	8.30%	5/17/2023	500	[ICRA]AAA (Stable)
INE018E08144	Sub-debt	1/29/2019	9.55%	1/29/2029	250	[ICRA]AAA (Stable)
INE018E08169	Sub-debt	6/12/2019	8.99%	6/12/2029	100	[ICRA]AAA (Stable)
Yet to be placed	Sub-debt	NA	NA	NA	450	[ICRA]AAA (Stable)
INE018E14PF6	Commercial paper^	10/25/2021	4.20%	3/30/2022	250	[ICRA]A1+
INE018E14PG4	Commercial paper^	11/24/2021	3.95%	2/21/2022	300	[ICRA]A1+
INE018E14PH2	Commercial paper^	12/2/2021	4.82%	12/2/2022	350	[ICRA]A1+
Yet to be placed	Commercial paper^	NA	NA	7-365 days	19,100	[ICRA]A1+
NA	Bank lines^	NA	NA	NA	13,500	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,500	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,800	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,300	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,300	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	600	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Long-Term Bank Facilities	28/03/2022	NA	NA$	500	[ICRA]AAA (Stable)
NA	Long-term Bank Facilities*	NA	NA	NA	500	[ICRA]AAA (Stable)

Source: *ICRA Research; ^ CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 20,000 crore; $Tenor – 39 months ; *yet to be placed;*

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

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

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