August 18, 2023 (Revised)

SBI Cards and Payment Services Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	7,255	7,255	[ICRA]AAA (Stable); reaffirmed
Non-convertible debentures	400	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Non-convertible debentures	-	2,500	[ICRA]AAA (Stable); assigned
Subordinated debt	1,000	1,000	[ICRA]AAA (Stable); reaffirmed
Subordinated debt	500	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Subordinated debt	-	1,000	[ICRA]AAA (Stable); assigned
Long-term short-term bank lines/ Commercial paper programme^	25,000	34,000	[ICRA]AAA (Stable) /[ICRA]A1+; reaffirmed/assigned for enhanced amount
Term loan	4,000	5,000	[ICRA]AAA (Stable); reaffirmed
Long-term fund based-other	1000	0	-
Total	**39,155**	**50,755**	

**Instrument details are provided in Annexure I; ^ CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 34,000 crore*

Rationale

The ratings factor in the strong parentage of SBI Cards and Payment Services Limited (SBICPSL) with a majority stake held by India's largest public-sector bank (PSB), i.e. State Bank of India (SBI; rated [ICRA]AAA (Stable)/[ICRA]A1+). 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, funding and capital 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 the track record of good profitability with a 10-year average (FY2014 to FY2023) return on assets (RoA) and return on equity (RoE) of 4.9% and 29.1%, respectively. The ratings also consider the company's adequate capitalisation for the current scale of operations, with a capital to risk weighted assets ratio (CRAR) of 22.9%, net worth of Rs. 10,424 crore and a gearing of 3.2 times as on June 30, 2023. The asset quality has moderated marginally with the gross stage 3 at 2.4% as on June 30, 2023 and March 31, 2023 compared to 2.2% as on March 31, 2022. Given the elevated asset quality pressure on account of the expected stress from the pre-Covid-19 pandemic originations, the credit cost {in relation to average total assets (ATA)} increased to 5.0% Q1 FY2024 from 3.8% in FY2023 (compared to the 10-year average (FY2014 to FY2023) of 4.2%), leading to some moderation in the profitability. Nevertheless, SBICPSL enjoys adequate capital and profitability buffers to absorb asset-side shocks, if any, going forward.

ICRA notes that SBICPSL plans to increase the interest income generating assets in the overall portfolio mix further. The evolving trajectory of the asset quality due to the company's strategic decision to recalibrate its risk appetite will remain a key monitorable. While reaffirming the ratings, ICRA continues to note SBICPSL's monoline nature of operations. The company's portfolio remains relatively risky, with only 0.7% of the same being secured in nature as on March 31, 2023.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 400-crore non-convertible debentures and Rs. 500-crore subordinated debt as these have been fully redeemed and no amount is outstanding against the rated instruments. The rating was withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strong parentage with majority stake held by India's largest PSB – SBICPSL is a subsidiary of India's largest and oldest PSB, i.e. SBI (68.9% stake in SBICPSL as on June 30, 2023). The company hosts the credit card business of the parent. As this 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.

Moreover, SBI continues to be the largest lender to SBICPSL with a track record of enhancing the working capital lines, whenever required. The company's borrowing profile leans towards bank borrowings (both bank lines and term loans), which accounted for the majority (76%) of the funding base as on June 30, 2023, followed by debentures (24%). This augurs well for its borrowing and liquidity profile.

Track record of good profitability with adequate buffer to absorb asset-side shocks – Driven by the high lending spreads and the sizeable interchange and fee-based income, SBICPSL has consistently reported strong profitability, as reflected by the 10-year average (FY2014 to FY2023) RoA and RoE of 4.9% and 29.1%, respectively. However, given the higher credit costs on account of the stress from pre-pandemic originations and the increased cost of funding due to the systemic rise in interest rates, the RoA and RoE moderated to 4.9% and 23.4%, respectively, in Q1 FY2024 from 5.5% and 25.7%, respectively, in FY2023. The cost of funds could remain elevated over the short term, leading to a moderation in the net interest margin (NIM). Further, given the stress related to the pre-pandemic originations, credit costs could remain elevated at 5-6% of average total assets (compared with 3.8% in FY2023). Overall, the pressure on NIMs and elevated credit costs could keep the overall profitability under pressure in FY2024. Nevertheless, SBICPSL's profitability is expected to be sufficient for ensuring buffers to absorb asset-side shocks, if any, going forward.

Adequate capitalisation – The company remains adequately capitalised with a net worth of Rs. 10,424 crore as on June 30, 2023, a CRAR of 22.9% (against the regulatory requirement of 15%), and a gearing of 3.2 times. In ICRA's opinion, a prudent capitalisation level is one of the key risk mitigants and a monitorable, given the monoline nature of the company's operations with an unsecured portfolio. In this regard, SBICPSL is expected to maintain a prudent capitalisation level and ICRA believes that capital and liquidity support from SBI will be forthcoming, if required.

Credit challenges

Higher portfolio vulnerability due to unsecured nature of loans – The asset quality has moderated marginally with the gross stage 3 at 2.4% as on June 30, 2023 and March 31, 2023 compared to 2.2% as on March 31, 2022. The credit cost, in relation to ATA, increased to 5.0% in Q1 FY2024 from 3.8% in FY2023 and 5.1% in FY2022. The asset quality indicators could remain impacted in FY2024, given the expected stress from the pre-pandemic originations, which would keep the credit costs elevated at 5%-6% of ATA. ICRA notes that SBICPSL plans to increase the interest income generating assets in the overall portfolio mix further. The evolving trajectory of the asset quality due to SBICPSL's strategic decision to recalibrate its risk appetite will remain a key monitorable. In this regard, improved credit norms, based on the lessons learnt during the pandemic, and SBICPSL's track record of range-bound asset quality metrics provide comfort.

Monoline nature of operations with presence in relatively risky segment – Due to the nature of its business, SBICPSL's product diversification remains low as it is concentrated only in the credit cards business. Also, the company's portfolio remains relatively risky as it is largely unsecured with only 0.7% of the same being secured in nature as on March 31, 2023.

Environmental and social risks

Given the service-oriented business of SBICPSL, its direct exposure to environmental risks/ material physical climate risks is not material. Further, the company's exposure remains concentrated towards individuals in the form of unsecured credit card exposures. Thus, while in general, lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, SBICPSL's exposure to environmentally sensitive segments remains low and hence indirect transition risks arising from changes in regulations or policies concerning the underlying assets are not material.

With regard to social risks, data security and customer privacy are among the key sources of vulnerabilities for lending institutions as any material lapses could be detrimental to the reputation and invite regulatory censure. SBICPSL hasn't faced such lapses over the years, which highlights its sensitivity to such risks. Also, the disclosures made by SBICPSL outline the key policies, processes, and investments that it has made to mitigate the occurrence of such instances. SBICPSL has forayed into digital customer onboarding and is making investments to enhance its digital interface with its customers.

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 all buckets. Further, it maintains sizeable liquidity backup in the form of sanctioned and unutilised bank lines (Rs. 4,190 crore sanctioned but unutilised bank lines as on June 30, 2023). The company's liquidity profile also benefits from easy access to funding from its parent, i.e. SBI. Against debt repayments of of Rs. 23,347 crore in the next one year, SBICPSL has expected advance inflows of Rs. 37,080 crore as per the asset-liability statement as on June 30, 2023. The liquidity is also supported by the cash and bank balance of Rs. 1,228 crore as on June 30, 2023 and the good financial flexibility enjoyed by the company by virtue of its parentage.

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 SBI's credit profile. 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 Policy on Withdrawal of Credit Ratings
Parent/Group support	Parent/Group Company: State Bank of India 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 68.9%-subsidiary (as on June 30, 2023) of State Bank of India (SBI), is a non-deposit taking systemically important non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). It is the second largest credit card provider in the country, with a card base of 1.7 crore as on June 30, 2023.

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%) and CA Rover Holdings (remaining 26%) 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. 2,258 crore on an asset base of Rs. 46,906 crore in FY2023 vis-à-vis a PAT of Rs. 1,616 crore on an asset base of Rs. 35,745 crore in FY2022. In Q1 FY2024, SBICPSL reported a PAT of Rs. 593 crore on an asset base of Rs. 49,374 crore as on June 30, 2023. As on December 31, 2022, the capital adequacy ratio was 23.3% (23.8% as on March 31, 2022) with a net worth of Rs. 9,459 crore (Rs. 7,753 crore as on March 31, 2022). As on June 30, 2023, the capital adequacy ratio was 22.9% (23.1% as on March 31, 2023, 23.8% as on March 31, 2022) with a net worth of Rs. 10,424 crore (Rs. 9,830 crore as on March 31, 2023, Rs. 7,753 crore as on March 31, 2022).

Key financial indicators (audited)

	FY2021/Mar-21	FY2022/Mar-22	FY2023/Mar-23	Q1 FY2024/Jun-23*
Total income	9,254	10,689	13,700	3,930
Profit after tax	985	1,616	2,258	593
Net worth	6,302	7,753	9,830	10,424
Loan book	25,114	31,281	40,722	43,271
Total assets	28,690	35,745	46,906	49,374
Return on assets	3.6%	5.0%	5.5%	4.9%
Return on net worth	16.9%	23.0%	25.7%	23.4%
Gross gearing (times)	2.9	3.0	3.2	3.2
Gross stage 3	1,254	693	958	1,043
Net stage 3	278	241	349	378
Gross stage 3 %	5.0%	2.2%	2.4%	2.4%
Net stage 3 %	1.1%	0.8%	0.9%	0.9%
Solvency (Net stage 3/Net worth)	4.4%	3.1%	3.5%	3.6%
CRAR	24.8%	23.8%	23.1%	22.9%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Limited financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 18, 2023 (Rs. crore)	Date & Rating in FY2024 Aug 18, 2023	Date & Rating in FY2023 Apr 05, 2022 Aug 22, 2022 Mar 22, 2023	Date & Rating in FY2022 Dec 31, 2021 May 21, 2021	Date & Rating in FY2021 Jul 16, 2020 Jan 05, 2021
1	Non-convertible debenture	LT	7,255	6,815	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-convertible debenture	LT	2,500	-	[ICRA]AAA (Stable)	-	-	-
3	Non-convertible debenture	LT	400	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Subordinated debt	LT	1,000	800	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	Subordinated debt	LT	1,000	-	[ICRA]AAA (Stable)	-	-	-
6	Subordinated debt	LT	500	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
7	LT/ST bank lines/CP^^	LT/ST	34,000	25,000	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
8	Term loan	LT	5,000	4,200	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-
9	Long-term fund-based other	LT	-	-	-	[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. 34,000 crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture	Very Simple
Subordinated debt	Very Simple
LT/ST bank lines	Simple
Term loan	Simple
Long-term fund based – Other	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: Click Here

Annexure I: Instrument details (as on August 18, 2023)

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE018E08193	NCD	Feb-26-2020	7.40%	Feb-25-2025	300	[ICRA]AAA (Stable)
INE018E08219	NCD	Aug-17-2020	5.75%	Nov-17-2023	500	[ICRA]AAA (Stable)
INE018E08227	NCD	Dec-22-2020	6.00%	Dec-22-2025	450	[ICRA]AAA (Stable)
INE018E08235	NCD	Feb-23-2021	5.90%	Feb-23-2024	550	[ICRA]AAA (Stable)
INE018E08243	NCD	May-10-2021	5.70%	May-10-2024	455	[ICRA]AAA (Stable)
INE018E08250	NCD	Jun-14-2021	5.55%	Jun-14-2024	500	[ICRA]AAA (Stable)
INE018E08268	NCD	Aug-17-2021	5.70%	Aug-16-2024	500	[ICRA]AAA (Stable)
INE018E08276	NCD	Nov-15-2021	5.75%	Nov-14-2024	500	[ICRA]AAA (Stable)
INE018E08284	NCD	Dec-24-2021	5.82%	Dec-24-2024	650	[ICRA]AAA (Stable)
INE018E08292	NCD	Jun-03-2022	7.51%	Jun-03-2025	750	[ICRA]AAA (Stable)
INE018E08318	NCD	Sep-15-2022	7.39%	Sep-15-2025	500	[ICRA]AAA (Stable)
INE018E08326	NCD	Nov-14-2022	7.90%	Nov-14-2025	350	[ICRA]AAA (Stable)
INE018E08334	NCD	May-17-2023	7.85%	May-17-2028	810	[ICRA]AAA (Stable)
INE018E08201	NCD	Jun-29-2020	6.85%	Jun-29-2023	400	[ICRA]AAA(Stable); withdrawn
Yet to be placed	NCD	NA	NA	NA	2,940	[ICRA]AAA (Stable)
INE018E08078	Sub-debt	Oct-17-2016	8.10%	Oct-17-2023	200	[ICRA]AAA (Stable)
INE018E08144	Sub-debt	Jan-29-2019	9.55%	Jan-29-2029	250	[ICRA]AAA (Stable)
INE018E08169	Sub-debt	Jun-12-2019	8.99%	Jun-12-2029	100	[ICRA]AAA (Stable)
INE018E08300	Sub-debt	Jun-30-2022	8.25%	Jun-30-2032	250	[ICRA]AAA (Stable)
INE018E08086	Sub-debt	Jul-17-2017	8.30%	May-17-2023	500	[ICRA]AAA(Stable); withdrawn
Yet to be placed	Sub-debt	NA	NA	NA	1,200	[ICRA]AAA (Stable)
Yet to be placed	Commercial paper^	NA	NA	7-365 days	34,000	[ICRA]A1+
NA	Bank lines^	NA	NA	NA	16,250	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	750	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	2,300	[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	1,100	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,500	[ICRA]AAA (Stable)/[ICRA]A1+
Yet to be placed	Bank lines^	NA	NA	NA	9,000	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Term loan	Mar-28-2022	NA	Jun-28-2025	500	[ICRA]AAA (Stable)
NA	Term loan	Jan-20-2023	NA	Jan-20-2026	500	[ICRA]AAA (Stable)
NA	Term loan	Mar-23-2023	NA	May-21-2026	500	[ICRA]AAA (Stable)
NA	Term loan	Apr-27-2023	NA	Jul-03-2026	475	[ICRA]AAA (Stable)
NA	Term loan	May-04-2023	NA	Jul-28-2026	250	[ICRA]AAA (Stable)
NA	Term loan	Jun-28-2023	NA	Sep-28-2026	475	[ICRA]AAA (Stable)
NA	Term loan	May-24-2023	NA	May-22-2026	250	[ICRA]AAA (Stable)
NA	Term loan	Mar-29-2023	NA	Mar-27-2026	250	[ICRA]AAA (Stable)
NA	Term loan	Jul-22-2022	NA	Apr-21-2027	500	[ICRA]AAA (Stable)
NA	Term loan	Feb-06-2023	NA	Feb-04-2028	500	[ICRA]AAA (Stable)
Proposed	Term loan	NA	NA	NA	800	[ICRA]AAA (Stable)

Source: Company; ICRA Research; ^CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 34,000 crore

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

Corrigendum:

Analytical Approach (pg-3): Updated the link for withdrawal policy

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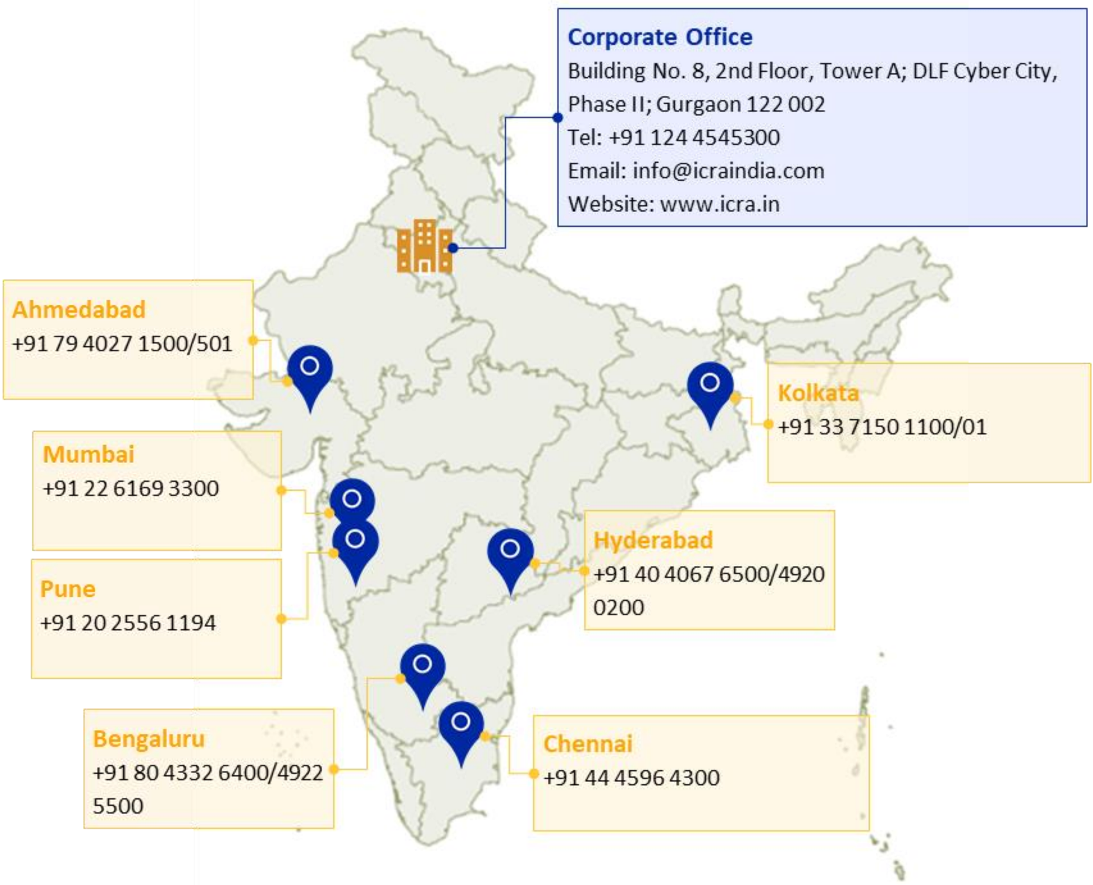

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