

February 20, 2024

BOBCARD Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	50.00	50.00	[ICRA]AAA (Stable); reaffirmed
Total	50.00	50.00	

*Instrument details are provided in Annexure I

Rationale

The rating continues to factor in the strong parentage of BOBCARD Limited (BOBCARD), which is a wholly-owned subsidiary (WOS) of Bank of Baroda (BOB; rated [ICRA]AAA (Stable) for Tier II bonds and [ICRA]AA+ for Tier I bonds). BOB is India's second largest public sector bank (PSB) and the fourth largest bank in the Indian financial system in terms of total business (advances and deposits). As the credit card business is one of the key product offerings for its customers, BOB has stated that BOBCARD remains strategically important. This is also reflected in the track record of providing branding, management and funding support to the company and BOB's stated intent of continuing to do so in future, as and when required. Moreover, BOB has continued to support BOBCARD's growth with capital infusions, including Rs. 700 crore in FY2023 (Rs. 100 crore in FY2022).

With BOB's increased focus on expanding the credit card business, BOBCARD's credit card base grew over the last two years despite some moderation in the pace in 9M FY2024. The overall asset quality levels have remained relatively weak due to the customer profile, with the self-employed segment accounting for a comparatively higher share of the exposure vis-à-vis some peers. Nevertheless, with the waning impact of the Covid-19 pandemic, the overall stress and the reported credit cost declined significantly in 9M FY2024. Credit costs stood at 3.2% (estimated; annualised) in 9M FY2024 compared to 6% in FY2023 (2.9% in H1 FY2024). This helped the company report an improvement in its profitability in 9M FY2024, even though the operating costs remained elevated. BOBCARD's ability to sustain/improve the profitability while achieving meaningful portfolio growth remains a key monitorable.

BOBCARD's borrowing and gearing (debt/net owned funds) have risen in tandem with the growth in credit card receivables. The gearing stood at 3.92 times as on December 31, 2023 (3.49 times as on September 30, 2023 and 2.21 times as on March 31, 2023). Given its growth plans, BOBCARD will require regular capital infusions to keep the leverage in check.

The Stable outlook on the rating reflects ICRA's expectation that BOB will continue to hold majority ownership and will continue to extend managerial and funding support to BOBCARD in the future, as and when needed, given its importance to the bank. Any dilution in the above stance or a downgrade in BOB's own ratings will be a negative for BOBCARD's rating.

Key rating drivers and their description

Credit strengths

Strong parentage – BOBCARD is wholly owned by BOB, which has stated that the credit card business is one of the key product offerings for its customers. Thus, BOBCARD is a strategically important entity for BOB. This is also reflected in the bank's track record of providing branding, management and funding support to the company. BOB is represented by members on BOBCARD's board, including the Managing Director (MD) and the Deputy MD, apart from two independent directors. Moreover, the company's underwriting policies are approved by the board. BOB has renewed its focus on the card segment and intends to grow the same profitably by tapping its huge customer base and has inducted professional management to grow the business.

Given its growth plans and the weak internal accruals, BOBCARD may need to raise equity capital in the near future. BOB has demonstrated its support through regular capital infusions lately, including Rs. 700 crore in FY2023, which followed the Rs. 100-crore capital infusion in FY2022. While BOB is likely to support BOBCARD for its equity capital requirements, BOB/BOBCARD may explore the induction of a strategic investor, which will lead to a dilution in BOB's stake (currently 100%) in the company. However, BOB has stated that it will continue to maintain majority equity stake in the company.

Adequate capitalisation and liquidity – BOBCARD's credit card receivables base grew sharply over the last few years and was largely funded through bank borrowings and commercial paper (CP). As a result, the total borrowings increased to Rs. 3,425 crore as on December 31, 2023 (Rs. 2,175 crore as on March 31, 2023). With the increase in risk weights mandated by the regulator for credit card receivables in Q3 FY2024, the capital adequacy ratio (capital-to-risk weighted assets ratio; CRAR) declined to 18.9% as on December 31, 2023 (Tier I at 15.4%) from 25.27% (Tier I: 21.01%) as on September 30, 2023. However, the company is likely to receive capital support from BOB in Q4 FY2024 to mitigate the impact of the regulatory change and to fund its growth plans. Moreover, it maintains sufficient undrawn bank limits for CP maturities and for funding the expected growth in card receivables.

Credit challenges

Market share remains marginal; asset quality continues to be highly vulnerable – Even though the company has been in business for over two decades, its market share in credit cards in force remained marginal at 2.3% as on December 31, 2023 and 1.5% for credit card spends in 9M FY2024 (2.3% as on March 31, 2023 and 2.5% in FY2023, respectively).

As the credit card segment remains relatively risky and losses upon default are high in this segment, BOBCARD could face high volatility in earnings as well as leverage. Gross slippages stood at Rs. 279 crore in 9M FY2024 (13% of opening standard receivables) compared to Rs. 211 crore in FY2023 (18% of opening standard receivables). Given the reduction in the slippage rate and the recoveries and write-offs, the gross non-performing advances (NPAs) declined to 4.73% as on December 31, 2023 from 5.4% as on March 31, 2023 (7.6% on March 31, 2022). The company's ability to witness further improvement in the asset quality remains a monitorable.

Modest earnings profile – With the growing card base, the gross credit card receivables increased to Rs. 4,629 crore as on December 31, 2023. ICRA notes that BOBCARD has a lower share of interest-earning assets in the receivables (EMI + Revolvers) compared with peers. This, coupled with lower card spends and operating expenses to scale up the operations, translates into modest profitability. With the scale-up of the loan book, the company's operating profit increased to Rs. 153 crore in 9M FY2024 (Rs. 151 crore in FY2023; Rs. 95 crore in FY2022). This, along with the improvement in the credit costs due to the reduction in the expected credit loss (ECL) on the portfolio, helped the company report better profitability in 9M FY2024.

Liquidity position: Adequate

Around 53% of the company's portfolio comprises transactors, which mature over 1-2 months, translating into positive asset-liability gaps across all maturity buckets as on December 31, 2023. Moreover, it had a cash balance of Rs. 109 crore and undrawn lines of Rs. 644 crore as on December 31, 2023, against which it had CP repayments of Rs. 425 crore in the next three months. BOBCARD's bank borrowings include overdrafts and working capital demand loans with no term loans in the overall borrowings.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A material change in the expected level of support from the parent or a material deterioration in the credit risk profile of the parent could warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Financial Companies (NBFCs)
Parent/Group support	<p>Parent company: Bank of Baroda (BOB)</p> <p>The rating factors in the parentage in the form of BOB and its stated intent to provide requisite management and funding support to BOBCARD as and when required. BOB and BOBCARD share a common name, which, in ICRA's opinion, would persuade BOB to provide financial support to BOBCARD to protect its reputation from the consequences of a group entity's distress.</p>
Consolidation/Standalone	Standalone

About the company

BOBCARD Limited, incorporated in 1994 and a wholly-owned subsidiary of Bank of Baroda (BOB), is a non-deposit taking non-banking financial company registered with the Reserve Bank of India. BOB infused Rs. 700 crore into the company in FY2023, which had a credit card base of 22.4 lakh as of December 31, 2023. The corporate as well as registered offices are in Mumbai. The company operates through its regional offices spread across the country.

Key financial indicators (audited)

BOCARD Limited	FY2022	FY2023	9M FY2024^
Total income	500	882	930
PAT	-10.4	1.5	53.5
Total managed assets	1,519	3,463	4,756^
Return on avg. managed assets	-0.85%	0.06%	1.74%^
Reported gearing (debt/net owned fund; times)	3.93	2.21	3.92
Gross stage 3	7.55%	5.09%	4.73%
CRAR	17.86%	30.54%	18.88%

Source: Company, ICRA Research; ^Certain figures in the balance sheet are estimated, basis the reported disclosures
All ratios as per ICRA's calculations; Amount in Rs. crore

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Feb 20, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 20, 2024	Feb 21, 2023	Feb 22, 2022	Feb 22, 2021
1 Subordinated debt programme	Long term	50.00	50.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt programme	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 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
INE027208011	Subordinated debt	Mar 9, 2021	7.65%	Mar 7, 2031	50.00	[ICRA]AAA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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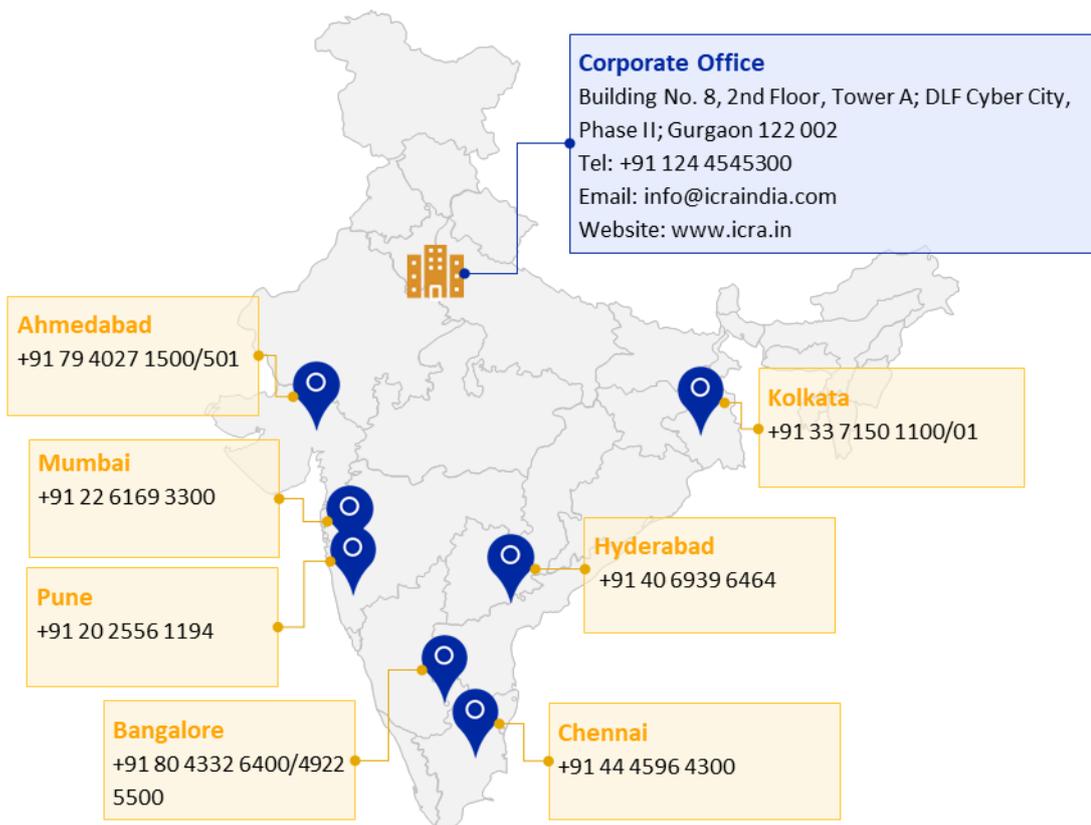
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