August 09, 2024

Small Industries Development Bank of India: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bonds programme	37,265	37,265	[ICRA]AAA (Stable); reaffirmed
Long-term bonds programme	750	-	[ICRA]AAA (Stable); reaffirmed & withdrawn
Total	**38,015**	**37,265**	

**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%), public sector banks (PSBs), insurance companies and other FIs as on March 31, 2024. To enhance the entity'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 FY2025 is yet to be finalised while it stood at Rs. 65,638 crore for FY2024, which is available at a concessional interest rate. RMSE funds accounted for 41% of SIDBI's total borrowings as on March 31, 2024, supporting its competitive cost of funds.

As a part of its indirect lending operations and refinancing activities, SIDBI takes exposure to scheduled commercial banks (SCBs), private entities other than banks, and non-banking financial companies (NBFCs). Some of the counterparties, especially in the direct lending segment, 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 those 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, 2024.

Given the sharp growth in its loan book, primarily driven by higher refinancing requirements due to tighter liquidity conditions in the banking system, SIDBI's leverage[2] rose to 16.50 times as on March 31, 2024 (14.36 times as on March 31, 2023; 9.22 times as on March 31, 2022) but remained within the permissible regulatory level. The leverage is expected to increase further as market borrowings will be needed to cater to the high demand for refinance exposure. Moreover, with the applicability of the Basel III framework for All India Financial Institutions (AIFIs), SIDBI has headroom to scale up its loan book without incremental equity capital, though this would lead to a further increase in the leverage.

With the growth in the loan book, SIDBI's capital-to-risk weighted assets ratio (CRAR) declined to 15.94% as on March 31, 2024 (19.29% as on March 31, 2023), though it is supported by the lower risk weights for the refinance book. With the transition to Basel III, the CRAR is expected to remain above the regulatory requirement of 9%. SIDBI has a superior liquidity profile with positive asset-liability gaps in the short as well as long term, supported by the matching tenure of the assets (refinancing loan book) and the liabilities (RMSE funds). The liquidity profile is further supported by standby lines from banks, including the

[1] MSE fund is created out of deposits from SCBs/Urban Cooperative Banks against their shortfall in priority sector lending (PSL) targets.
[2] Leverage = From April 1, 2024, under Basel III, the leverage ratio is calculated as Capital measure (Tier I capital)/Exposure measure (on-balance sheet exposure, off-balance sheet exposure after applying the conversion factors and the derivative exposure), which is specified at 4% (approximately 24 times of Tier I capital) by Reserve Bank of India (RBI). Prior to April 1, 2024, it was measured as Total debt/Net owned funds; As per RBI regulations, AIFIs were to maintain a leverage (Debt/Net owned funds or NOF) of 10 times, though SIDBI had received approval for a higher leverage of 18 times till March 31, 2024.

pending drawdown against the allocated RMSE fund. Given the cap on the lending margins for the RMSE refinancing business, the earnings profile and internal capital generation are likely to remain range bound.

The Stable outlook on the rating reflects ICRA's expectation 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.

ICRA has withdrawn the rating assigned to the Rs. 750.00-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 AIFI, which was established in 1990 under an Act of Parliament (SIDBI Act, 1989). 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'.

Tier I capital bonds held by the GoI, amounting to Rs. 1,423 crore, were converted into equity share capital in FY2022, resulting in an increase in the GoI's stake to 20.85% as on March 31, 2022 from 15.40%. Besides this, State Bank of India {SBI; [ICRA]AAA (Stable)}, which has the second highest shareholding in SIDBI, had a stake of 15.65%, while the share of Life Insurance Corporation of India (LIC) stood at 13.33% as on March 31, 2024. 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. Hence, in the absence of a single dominant shareholder or promoter, future capital raising, if any, will remain dependent on the ability and willingness of all the shareholders to contribute capital in a timely manner. However, given the regulatory dispensation on the leverage in the past and the higher leverage threshold under the Basel III framework, 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 keep the leverage under control, given the anticipated growth.

Strong asset quality indicators – SIDBI's refinance portfolio accounted for 80% of the total net advances as on March 31, 2024 (84% as on March 31, 2023). Although SIDBI has witnessed slippages in its direct lending portfolio, the fresh NPA generation rate stood low at 0.04% in FY2024 (0.05% in FY2023), given the significant share of the refinance segment, which consists of banks and high-rated NBFCs. The gross NPA (GNPA) and NNPA ratios also remained limited at 0.02% and 0.00%, respectively, as on March 31, 2024. 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 (6.35% as on March 31, 2024).

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 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 remained at Rs. 1.93 lakh crore, comprising 41% of the overall borrowings as on March 31, 2024. 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.

While the MSE refinance allocation for FY2025 is yet to be received, given the expected growth in advances, SIDBI could receive a higher allocation compared to Rs. 65,638 crore in FY2024 and Rs. 65,000 crore in FY2023. The entity also had an undrawn allocation of Rs. 3,835 crore as on March 31, 2024 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 and hence its profitability. Given the tight liquidity in the banking system and the expectation of continued growth in FY2025, the Rural Infrastructure Development Fund (RIDF) allocation is expected to remain a significant source of funding for the entity.

Credit challenges

Relatively concentrated exposure in indirect lending segment – SIDBI's lending is concentrated towards SCBs (80% as on March 31, 2024) followed by NBFCs (~12%) and private sector entities (6%). Given the dominant share of refinancing towards banks, the concentration of the top 20 borrowers in the total exposure remained high at ~77% as on March 31, 2024 (~83% as on March 31, 2023). 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 refinance business and the high share of MSE funds in overall liabilities, the earnings profile, in terms of the return on assets (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 cost support the RoA and return on equity (RoE), which were adequate at 0.87% and 12.69%, respectively, in FY2024. SIDBI increased the standard asset provisions in FY2024 to Rs. 3,327 crore (0.7% of the loan book) as on March 31, 2024 from Rs. 1,758 crore (0.5% of the loan book) as on March 31, 2023, which is in addition to the floating provisions of Rs. 496 crore. Moreover, the contribution of Rs. 500 crore towards the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) led to a moderation in the profitability in FY2024. 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.

Elevated leverage; capital required for growth – As tight liquidity conditions remained prevalent in FY2024, refinancing requirements/demand stayed strong, supporting SIDBI's strong book growth in FY2024. As a result, the overall leverage (Debt/Net owned funds or NOF) increased to 16.50 times as on March 31, 2024 from 14.36 times as on March 31, 2023 (9.22 times as on March 31, 2022). To support the increasing refinancing requirements, SIDBI had received the Reserve Bank of India's (RBI) approval to borrow up to 18 times of its NOF until March 31, 2024. With the applicability of Basel III from April 1, 2024, the leverage limit increased to approximately 24 times of the Tier I capital. ICRA expects that refinance demand could remain strong in FY2025, which could push up the leverage metric further. Despite the high leverage, the capital position is adequate, given the limited credit risk and strong counterparties on the asset side. Nonetheless, ICRA expects SIDBI to raise equity capital to support growth. Its exposure to various banks attracts a low-risk weight of 20%, resulting in strong capital adequacy levels with a CRAR of 15.94% as on March 31, 2024, although the same moderated from 19.29% (entirely Tier I) as on March 31, 2023 due to strong growth.

Liquidity position: Superior

As a large part of SIDBI's loan book comprises refinance with a three-year tenure, which is largely funded through RMSE refinance deposits and long-term borrowings with similar maturity, the overall asset and 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, 2024. It also had Rs. 26,904 crore of investments in Government securities, supporting the liquidity profile as on March 31, 2024. Moreover, undrawn MSE refinance allocations can be called on 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 Rating Approach – Implicit Parent or Group Support Rating Approach – Consolidation ICRA's Policy on Withdrawal of Credit Ratings
Parent/Group support	ICRA expects SIDBI to remain strategically important to the GoI 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 its consolidation approach, ICRA has factored in the capital requirement of SIDBI's subsidiaries. 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) is an AIFI, constituted under an Act of Parliament (SIDBI Act, 1989), for the promotion and development of the MSME sector in India. SIDBI is jointly owned by the GoI (largest shareholder with a stake of 20.85% as on March 31, 2024), 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 entity'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 shall be 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 one from the officials of the state financial corporations, 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	FY2023	FY2024
Total operating income^	6,079	8,973
Profit after tax	3,344	4,026
Total assets (Rs. lakh crore)	4.02	5.22
Return on average total assets		
Tier I	18.81%	15.37%
CRAR	19.29%	15.94%
Gross NPA	0.01%	0.02%
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.	Name of Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years					
		Type	Rated Amount (Rs. crore)	Date & Rating in FY2025	FY2024		FY2023		FY2022	
				Aug 09, 2024	Date	Rating	Date	Rating	Date	Rating
1	Long-term bonds programme	Long term	37,265.00*	[ICRA]AAA (Stable)	Aug 11, 2023	[ICRA]AAA (Stable)	Aug 17, 2022	[ICRA]AAA (Stable)	Mar 17, 2022	[ICRA]AAA (Stable)
					-	-	-	-	Feb 22, 2022	[ICRA]AAA (Stable)
					-	-	-	-	Jan 10, 2022	[ICRA]AAA (Stable)
2	Long-term bonds programme	Long term	750.00	[ICRA]AAA (Stable); withdrawn	Aug 11, 2023	[ICRA]AAA (Stable)	Aug 17, 2022	[ICRA]AAA (Stable)	Mar 17, 2022	[ICRA]AAA (Stable)
					-	-	-	-	Feb 22, 2022	[ICRA]AAA (Stable)
					-	-	-	-	Jan 10, 2022	[ICRA]AAA (Stable)

*Source: ICRA Research; *Balance yet to be placed – Rs. 1,210.00 crore as on July 29, 2024*

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
INE556F08JQ4	**Long-term bonds**	Aug-18-2020	4.90%	Aug-18-2023	500.00*	[ICRA]AAA (Stable); withdrawn
INE556F08JR2	**Long-term bonds**	Dec-17-2020	4.58%	Dec-18-2023	250.00*	[ICRA]AAA (Stable); withdrawn
INE556F08JV4	**Long-term bonds**	Mar-02-2022	5.57%	Mar-03-2025	2,500.00	[ICRA]AAA (Stable)
INE556F08JW2	**Long-term bonds**	Mar-16-2022	5.40%	Mar-17-2025	1,525.00	[ICRA]AAA (Stable)
INE556F08JX0	**Long-term bonds**	Mar-28-2022	5.70%	Mar-28-2025	1,625.00	[ICRA]AAA (Stable)
INE556F08JY8	**Long-term bonds**	May-31-2022	7.15%	Jun-2-2025	2,500.00	[ICRA]AAA (Stable)
INE556F08JZ5	**Long-term bonds**	Jul-18-2022	7.15%	Jul-21-2025	3,000.00	[ICRA]AAA (Stable)
INE556F08KA6	**Long-term bonds**	Jul-28-2022	7.25%	Jul-31-2025	3,905.00	[ICRA]AAA (Stable)
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; * Redeemed upon maturity, hence withdrawn*

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

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches