

May 16, 2019

SBI Global Factors Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	159.80	159.80	[ICRA]AAA (Stable); Reaffirmed
Long-term bank lines	1,000.00	1,000.00	[ICRA]AAA (Stable); Reaffirmed
Short-term bank lines	1,000.00	1,000.00	[ICRA]A1+; Reaffirmed
Short-term debt programme	2,000.00	2,000.00	[ICRA]A1+; Reaffirmed
Total	4,159.80	4,159.80	

*Instrument details are provided in Annexure-1

Rationale

SBIGFL's ratings are largely supported by its strong parentage in the form of State Bank of India (SBI; rated [ICRA]AAA(Stable)/[ICRA]A1+), which has a stake of 86.18% in the company. SBI provides the company with financial, managerial and operational support in the form of a shared brand name as well as deputation of its senior management personnel to SBIGFL's management and board. The ratings also factor in SBIGFL's comfortable capitalisation and liquidity profile and its improving profitability indicators.

ICRA, however, takes note of SBIGFL's adequately provisioned but legacy on-balance sheet NPAs, expansion into non-factoring lending activities, and modest scale of operations with increasing competition in the sector. SBIGFL reported a marginal net profit of Rs. 4.48 crore in 9M FY2019 against a net loss of Rs. 3.24 crore in FY2018.

Outlook: Stable

ICRA believes SBIGFL will continue to benefit from its strong parentage, adequate capitalisation level and comfortable liquidity profile. The outlook may be revised to Negative if there is a sharp deterioration in the company's asset quality or a material change in its ownership structure or the credit profile of its parent, SBI.

Key rating drivers

Credit strengths

Strong parentage – SBIGFL is a subsidiary of SBI, which had a stake of 86.18% in the company as on December 31, 2018. The company shares the brand name of the parent and receives considerable management support from SBI. A Chief General Manager/General Manager of SBI is appointed as the Managing Director and Chief Executive Officer of SBIGFL while the Managing Director, Corporate and Global Banking, SBI is the Chairman of SBIGFL. The heads of 7 of SBIGFL's 10 branches are appointed through deputation from SBI. The company is of strategic importance to the parent as it operates in ticket sizes which are underpenetrated by the bank and require specialised systems and back-end operations to reach them. SBIGFL also enjoys sizeable unutilised bank lines from its parent to meet any liquidity shortfalls.

Adequate capitalisation levels – The company's capitalisation remained comfortable with a CRAR of 30.97% (Tier I: 24.03%) as on December 31, 2018. Capital concerns are further alleviated considering SBI's 86.18% in the company.

SBIGFL's gearing was comfortable at 2.28 times as on December 31, 2018. ICRA notes the vulnerable exposure¹ of Rs. 74.88 crore as of December 31, 2018. In the event of a complete write-off of the exposure, the Tier I ratio would be impacted by 525 bps.

Strong funding flexibility and liquidity – As a subsidiary of SBI, the company has access to diverse sources of funds, which is reflected by its borrowing profile, which comprises debentures (20%), commercial papers (37%) and bank loans (43%). SBIGFL has no asset-liability mismatches (ALM) in the short term and no cumulative mismatches in the long term. Additionally, the company had significant sanctioned but unutilised bank lines to meet any short-term fund requirement.

Credit challenges

Weak asset quality indicators; however, adequately provisioned – The stress in SBIGFL's portfolio continues on account of slow recoveries from delinquent accounts and fresh slippages in 9M FY2019. The company had a large amount of NPAs due to the poor quality of its legacy accounts. The account limits, in respect of more than 90% of the NPAs, were sanctioned by Global Trade Finance Ltd (GTF) even before the company came into existence. Following the merger of GTF with SBI Factors & Commercial Services Pvt. Ltd in FY2011, the company's credit policy and client selection processes were revamped, thereby improving the quality of new clients. Consequently, fresh slippages have been continuously reducing over the last few years with only Rs. 15-crore slippages in 9M FY2019 compared to Rs. 34 crore in FY2018 and Rs. 41 crore in FY2017.

Venturing into non-core factoring activities – SBIGFL entered into a securitisation arrangement with Muthoot Fincorp in February 2019 for a pool of gold loans. It also sold a part of its TReDs book to SBI in the secondary market. SBI purchased this book from SBIGFL to achieve its priority sector target of lending to SMEs. SBIGFL does not have prior experience or expertise in the securitisation transaction segment. A mitigant to the transaction would be the strong credentials of the originator/servicer and the underlying collateral. The risk in respect of the pool securitised with SBI will be mitigated as it will be completely transferred to SBI. This will help diversify SBIGFL's revenue sources in the form of interest margins, management/servicing fees, etc.

Low profit indicators despite improvement in 9M FY2019 – SBIGFL reported a net loss in three of the last five fiscals with a median RoE of -1.01% during this period. The primary reason for the losses was the credit provisions required for the slippages. In 9M FY2019, SBIGFL reported a net profit of Rs. 4.48 crore compared to a loss of Rs. 3.24 crore in FY2018. The improvement was on account of declining operating expenses as the company recorded lower administrative and legal expenses. The entity was able to maintain its NII around Rs. 45 crore as compared to Rs. 46 crore in FY2017 due to increasing volume of the factoring business on the TReDS platform. The company's RoE was 1.85% in 9M FY2019 compared to -1.01% in FY2018.

Liquidity position

The company's liquidity profile remains comfortable, supported by a healthy resource profile, a well-matched ALM profile and adequate undrawn bank lines. As on January 31, 2019, SBIGFL had a liquidity cushion of around Rs. 750 crore of unutilised bank lines. The liquidity profile remains adequate in relation to the near-term debt maturities (borrowings of Rs. 720.89 crore to mature in Q4 FY2019). ICRA does not foresee any liquidity risk in the near term, given the

¹ Vulnerable exposure: Non-investment grade exposures with amount outstanding of more than 90% of the sanctioned limit

company's healthy liquidity profile and short average tenure of the book (four months). The liquidity profile is also supported by the strong financial flexibility enjoyed by SBIGFL on account of its strong parentage.

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	ICRA expects SBI to provide financial, managerial and operational support, when required, given the shared brand name and SBI's ownership of ~86%
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

SBI Global Factors Limited (SBIGFL) was incorporated in 2010 following the merger of SBI Factors & Commercial Services Pvt. Ltd with Global Trade Finance Ltd. SBI currently holds 86.18% of the equity in SBIGFL, with the rest being held by SIDBI (6.53%), Bank of Maharashtra (4.34%) and Union Bank of India (2.95%). Headquartered in Mumbai with 10 branches across India, SBIGFL provides export and domestic factoring services with a focus on SMEs. The company is also licensed by the Reserve Bank of India to undertake export (with and without recourse) and import factoring. SBIGFL is a member of Factors Chain International (FCI), an umbrella organisation for worldwide factoring companies.

Key financial indicators

In Rs. crore	FY2016	FY2017	FY2018	9MFY2019
Net interest income	42.41	46.05	45.54	33.56
Operating income	43.77	47.46	47.62	34.77
Profit before tax	2.53	3.25	2.08	8.00
Profit after tax	0.86	1.01	(3.24)	4.48
Total portfolio (Funds in use)	1,008	1,061	1,277	1213
Net worth	322.82	323.82	320.58	325.06
Total assets	1,156.35	1,179.40	1,407.64	1,327.88
% Tier 1	28.55%	27.42%	22%	24.03%
% CRAR	43.09%	40.15%	29.56%	29.15%
Gearing	1.69	1.80	2.53	2.28
% Net profit/average total assets (annualised)	0.08%	0.09%	-0.25%	0.44%
% Return on net worth (annualised)	0.27%	0.31%	-1.01%	1.85%
% Gross NPAs	29.45%	26.67%	21.44%	21.18%
% Net NPAs	4.01%	3.43%	2.14%	1.73%
Net NPA/Net worth	9.21%	8.54%	6.86%	5.22%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No.	Instrument	Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	May 2019	FY2018 February 2018	FY2017 January 2017	FY2016 March 2016
1	Subordinated Debt Programme	Long Term	159.80	150.00	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
2	Long-term Bank Lines	Long Term	1,000.00	-	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
3	Short-term Bank Lines	Short Term	1,000.00	310*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Short-term Debt Programme	Short Term	2,000.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*As on May 14, 2019

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

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE912E08AD9	Subordinated Debt Programme	17.08.2010	8.75%	25.08.2020	50.00	[ICRA]AAA (stable)
INE912E08AC1	Subordinated Debt Programme	29.07.2011	9.22%	29.07.2021	100.00	[ICRA]AAA (stable)
-	Subordinated Debt Programme*	-	-	-	9.80	[ICRA]AAA (Stable)
-	Long-term Bank Lines	-	-	-	1,000.00	[ICRA]AAA (stable)
-	Short-term Bank Lines	-	-	-	1,000.00	[ICRA]A1+
-	Short-term Debt Programme	-	-	7-365 days	2,000.00	[ICRA]A1+

*Proposed; Source: Company

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