March 28, 2024

SBI Cards and Payment Services Limited: [ICRA]AAA (Stable) assigned; ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	8,705	8,705	[ICRA]AAA (Stable); reaffirmed
Non-convertible debentures	-	2,000	[ICRA]AAA (Stable); assigned
Non-convertible debentures	1,050	0	[ICRA]AAA (Stable); reaffirmed and withdrawn
Subordinated debt	1,800	1,800	[ICRA]AAA (Stable); reaffirmed
Subordinated debt	-	2,000	[ICRA]AAA (Stable); assigned
Subordinated debt	200	0	[ICRA]AAA (Stable); reaffirmed and withdrawn
Long-term short-term bank lines/ Commercial paper programme^	34,000	34,000	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Term loan	5,000	8,300	[ICRA]AAA (Stable); reaffirmed/ assigned for enhanced amount
Total	**50,755**	**56,805**	

**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 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 maintain a majority stake in SBICPSL and support from the parent will continue, going forward as well.

The ratings also factor in SBICPSL's strong liquidity position, adequate capitalisation for the current scale of operations (net worth of Rs. 11,653 crore and a gearing of 3.3 times as on December 31, 2023), 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 profitability has moderated in the current fiscal owing to elevated credit costs and lower net interest margins (NIMs). While the reported gross stage 3% remained under control (2.6% as on December 31, 2023 compared with 2.4% as on March 31, 2023), write-offs increased in 9M FY2024, leading to elevated credit costs (net credit cost in relation to average total assets of 5.1% in 9M FY2024 vis-à-vis 3.8% in FY2023). Given the increased risk weight for banks lending to non-banking financial companies (NBFC), SBICPSL's cost of funds witnessed an uptick in the current fiscal, leading to some margin pressure.

On the capitalisation front, the reported capital adequacy moderated to 18.4% as on December 31, 2023 (but remained higher than the regulatory requirement of 15%) from 23.8% as on March 31, 2023, following the increase in risk weights by the Reserve Bank of Inda (RBI) for unsecured loans in Q3 FY2024. Nevertheless, SBICPSL enjoys adequate capital buffers to absorb asset-side shocks, if any, going forward. 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 Stable outlook reflects ICRA's expectation that SBICPSL will maintain a strong position in the domestic credit card industry and grow the business profitably, with branding support from the parent, which should continue to augur well for its credit profile. ICRA believes that SBI will continue to hold a majority stake in SBICPSL and will provide support, going forward as well.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 1,050-crore non-convertible debentures and Rs. 200-crore subordinated debt as these have been fully redeemed with no amount outstanding against the same. The rating was withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings (click here for the policy).

Key rating drivers and their description

Credit strengths

Strong parentage with majority stake held by SBI – SBICPSL is a subsidiary of SBI (68.64% stake as on December 31, 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 the company. 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 (81%) of the funding base as on December 31, 2023, followed by debentures (19%). This augurs well for its borrowing and liquidity profile.

Good profitability, notwithstanding recent moderation – Driven by the high lending spreads and the sizeable interchange and fee-based income, SBICPSL has consistently reported good 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 fresh slippages and the increased cost of funds due to the RBI regulation regarding an increase in the risk weight on NBFC lending by banks, the RoA and RoE moderated to 4.5% and 21.8%, respectively, in 9M FY2024 from 5.5% and 25.7%, respectively, in FY2023. The cost of funds is expected to remain elevated over the near to medium term, leading to a further moderation in the NIM. Moreover, given the stress related to the higher slippages and increased write-offs, credit costs will remain elevated in FY2025. Overall, the pressure on NIMs and elevated credit costs could keep the overall profitability under pressure in FY2025. Nevertheless, SBICPSL's core profitability is expected to be sufficient for ensuring buffers to absorb asset-side shocks, if any, going forward.

Adequate capitalisation – ICRA notes that SBICPSL remains adequately capitalised for the current scale of operations, with a net worth of Rs. 11,653 crore and a gearing of 3.3 times as on December 31, 2023. However, the CRAR declined to 18.4% as on December 31, 2023 (though it was above the regulatory requirement of 15%) from 23.8% as on March 31, 2023, following the regulatory changes for risk weights for unsecured loans. Further, the Company has enough space available in TIER- II capital to increase capital adequacy. 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 2.6% as on December 31, 2023 compared with 2.4% as on March 31, 2023 (2.2% as on March 31, 2022) due to higher fresh slippages in 9M FY2024. However, the net credit cost, in relation to ATA, increased sharply to 5.1% in 9M FY2024 from 3.8% in FY2023 (5.1% in FY2022) due to higher write-offs. The asset quality stress could continue in FY2025, keeping the credit costs elevated above 5-6% of ATA. However, ICRA notes that the company has tightened its underwriting practices and portfolio management models and the recent vintages are performing better. 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 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 significant. Further, the company's exposure remains concentrated towards individuals in the form of unsecured credit card exposures. Thus, while lending institutions can generally be exposed to environmental risks indirectly through their portfolio of assets, SBICPSL's exposure to environmentally sensitive segments remains low. 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 vulnerability for lending institutions as material lapses could be detrimental to their reputation and invite regulatory censure. SBICPSL has not faced such lapses over the years, which highlights its sensitivity to such risks. Also, the disclosures made by the company 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. 8,005 crore as on December 31, 2023). The company's liquidity profile also benefits from easy access to funding from its parent, i.e. SBI. Against the debt repayments of Rs. 29,673 crore in the next one year, advance inflows at Rs. 41,650 crore are expected as per the asset-liability statement as on December 31, 2023. The liquidity is also supported by the cash and bank balance of Rs. 2,395 crore as on December 31, 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 Company ICRA's Policy on Withdrawal
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 the company 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 68.64% subsidiary (as on December 31, 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 1.85 crore as on December 31, 2023.

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. 35,743 crore in FY2022. It reported a PAT of Rs. 1,745 crore in 9M FY2024 on an asset base of Rs. 57,262 crore as on December 31, 2023. As on December 31, 2023, the capital adequacy ratio was 18.4% (23.1% as on March 31, 2023, 23.8% as on March 31, 2022) with a net worth of Rs. 11,653 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	9M FY2024/Dec-23*
Total assets	28,690	35,743	46,906	57,262
Total income	9,254	10,689	13,701	12,643
Profit after tax	985	1,616	2,258	1,745
Gearing (times)	2.9	3.0	3.2	3.3
CRAR	22.4%	23.8%	23.1%	18.4%
PAT/AMA	3.6%	5.0%	5.5%	4.5%
Gross stage 3	5.0%	2.2%	2.4%	2.6%

*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 Mar 28, 2024 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Mar 28, 2024	Aug 18, 2023	Apr 05, 2022 Aug 22, 2022 Mar 22, 2023	Dec 31, 2021 May 21, 2021	Jul 16, 2020 Jan 05, 2021
1	Non-convertible debenture	LT	8,705	5,765	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-convertible debenture	LT	2,000	-	[ICRA]AAA (Stable)	-	-	-	-
3	Non-convertible debenture	LT	1,050	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Subordinated debt	LT	1,800	1,125	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	Subordinated debt	LT	2,000	750	[ICRA]AAA (Stable)	-	-	-	-
6	Subordinated debt	LT	200	-	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
7	LT/ST bank lines/CP^^	LT/ST	34,000	34,000	[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+
8	Term loan	LT	8,300	4,700	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[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	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 March 28, 2024)

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)
INE018E08227	NCD	Dec-22-2020	6.00%	Dec-22-2025	450	[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)
INE018E08219	NCD	Aug-17-2020	5.75%	Nov-17-2023	500	[ICRA]AAA (Stable); withdrawn
INE018E08235	NCD	Feb-23-2021	5.90%	Feb-23-2024	550	[ICRA]AAA (Stable); withdrawn
Yet to be placed	NCD	NA	NA	NA	4,940	[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)
INE018E08342	Sub-debt	Jan-24-2024	8.33%	Jan-24-2034	525	[ICRA]AAA (Stable)
INE018E08078	Sub-debt	Oct-17-2016	8.10%	Oct-17-2023	200	[ICRA]AAA (Stable); withdrawn
INE018E08359	Sub-debt	Feb-28-2024	8.29%	Feb-28-2034	750	[ICRA]AAA (Stable)
Yet to be placed	Sub-debt	NA	NA	NA	1,925	[ICRA]AAA (Stable)
Yet to be placed	Commercial paper^	NA	NA	7-365 days	34,000	[ICRA]A1+
NA	Bank lines^	NA	NA	NA	20,000	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	750	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	3,000	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	3,800	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,050	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,600	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	2,500	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Bank lines^	NA	NA	NA	1,300	[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	May-24-2023	NA	May-22-2026	475	[ICRA]AAA (Stable)
NA	Term loan	Sep-25-2023	NA	Dec-24-2026	500	[ICRA]AAA (Stable)
NA	Term loan	Dec-30-2023	NA	Mar-18-2027	500	[ICRA]AAA (Stable)
NA	Term loan	Jul-22-2022	NA	Apr-21-2027	500	[ICRA]AAA (Stable)
NA	Term loan	Mar-29-2023	NA	Mar-27-2026	250	[ICRA]AAA (Stable)
NA	Term loan	May-24-2023	NA	May-22-2026	250	[ICRA]AAA (Stable)
Proposed	Term loan	NA	NA	NA	3,600	[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

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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.

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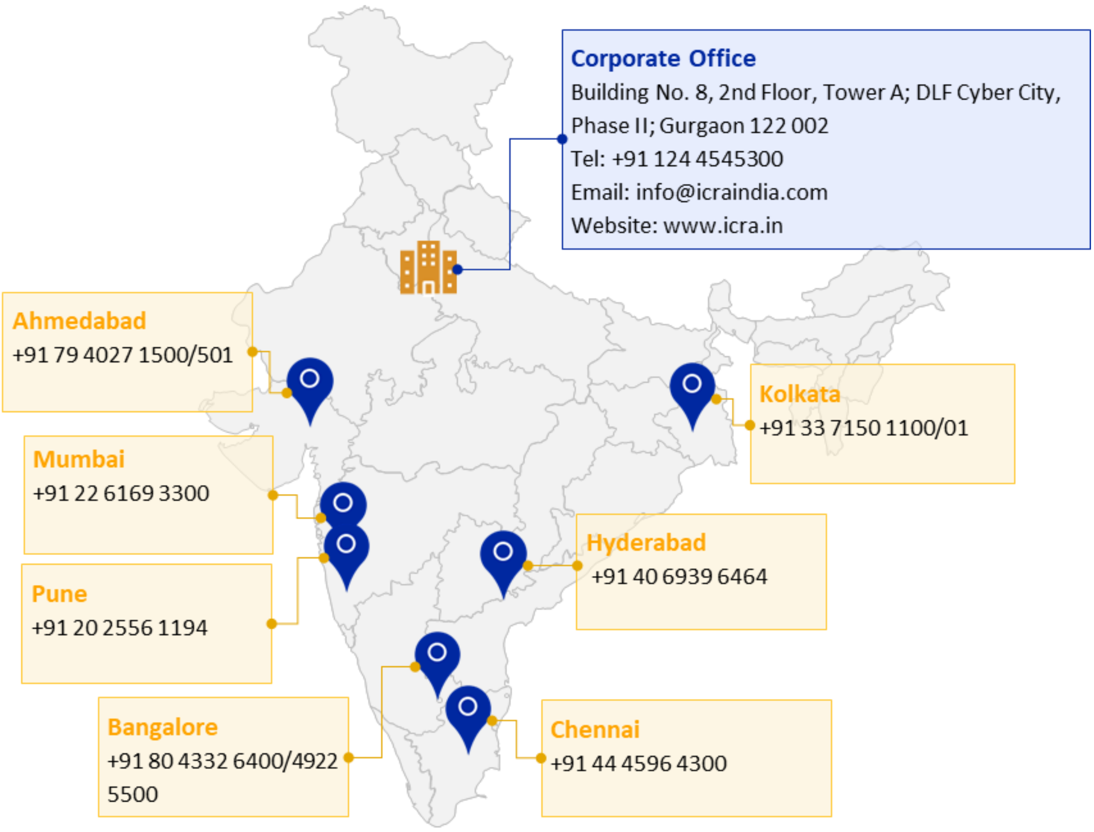

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