July 16, 2020

SBI Cards and Payment Services Limited: Ratings reaffirmed and withdrawn for matured instruments

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	4,100	4,100	[ICRA]AAA(Stable); reaffirmed
Non-convertible Debentures	400	-	[ICRA]AAA(Stable); reaffirmed and withdrawn
Subordinated Debt Programme	1,700	1,700	[ICRA]AAA(Stable); reaffirmed
Subordinated Debt Programme	140	-	[ICRA]AAA(Stable); reaffirmed and withdrawn
Long-term Short-term Bank Lines/ Commercial Paper Programme^	19,000	19,000	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Total	**25,340**	**24,800**	

**Instrument details are provided in Annexure-1; ^ CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 19,000 crore*

Rationale

The ratings continue to factor in the strong parentage of SBI Cards and Payment Services Limited (SBICPSL) with the majority shareholding 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 for the bank's customers, SBICPSL is strategically important for SBI. This is also reflected in the bank's track record of providing branding 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 also continue to factor in SBICPSL's track record of strong profitability with a three-year average RoA and RoE of 4.9% and 29%, respectively, and adequate capitalisation with a capital to risk weighted assets ratio (CRAR) of 22.4% as on March 31, 2020. Further, while ICRA believes that the asset quality, especially in select segments, could weaken considering the likely impact of the Covid-19 pandemic, it is noted that SBICPSL's asset quality indicators have remained under control despite some moderation in Q1 FY2020. The gross stage 3 percentage reverted to 2.0% in March 2020 after increasing to 2.7% as on June 30, 2019 from 2.4% as on March 31, 2019. The adverse movement in Q1 FY2020 was mainly due to a large slippage in the company's corporate portfolio. Nevertheless, 98% of SBICPSL's receivables are accounted for by the retail portfolio, wherein the asset quality trajectory has remained favourable.

While reaffirming the ratings, ICRA continues to take cognisance of SBICPSL's monoline nature of operations. The company's portfolio remains relatively risky as it is largely unsecured with less than 2% of the portfolio being secured in nature. In this regard, SBICPSL's ability to maintain the asset quality indicators through economic cycles remains a key rating monitorable, though its track record of range-bound asset quality metrics over several years provides comfort.

Key rating drivers and their description

Credit strengths

Strong parentage with majority shareholding held by India's largest PSB – SBICPSL is a subsidiary of India's largest and oldest bank i.e. SBI (SBI held a 69.51% stake in SBICPSL as on March 31, 2020). The company hosts the credit card business of the parent. As the credit card business is a key product offering for the bank's customers, SBICPSL is strategically important for SBI. This is also reflected in the bank's track record of providing branding and capital 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. Also, SBI continues to be the largest lender to SBICPSL with a track record of enhancements in the working capital lines, whenever required. This augurs well for the borrowing and liquidity profile of the company.

Track record of strong profitability – Driven by high lending spreads and sizeable interchange and fee-based income, SBICPSL has consistently reported strong profitability, as reflected by the three-year average RoA and RoE of 4.9% and 29%, respectively. The company's credit cost inched up in FY2020 due to the Covid-19 related provisioning. The operating expenses (primarily acquisition and marketing costs) have also been witnessing an upward trend, reflecting high competition and the company's focus on gaining market share. However, the growing interchange/fee-based income has been supporting the profitability, thereby keeping it range-bound at a strong level.

Adequate capitalisation – The company remains adequately capitalised with a net worth of Rs. 5,341 crore as on March 31, 2020 and a CRAR of 22.4% against the regulatory requirement of 15%, and a gearing of 3.3 times. In ICRA's opinion, a prudent capitalisation level is one of the key risk mitigants and a monitorable, given the monoline nature of 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.

Track record of stable asset quality in retail portfolio though weakening in the near term cannot be ruled out – While ICRA believes that the asset quality, especially in select segments, could weaken considering the likely impact of the pandemic, it is noted that SBICPSL's asset quality indicators have remained under control despite some moderation in Q1 FY2020. The gross stage 3 percentage reverted to 2.0% in March 2020 after increasing to 2.7% as on June 30, 2019 from 2.4% as on March 31, 2019. The adverse movement in Q1 FY2020 was mainly due to a large slippage in the company's corporate portfolio. Nevertheless, 98% of SBICPSL's receivables are accounted for by the retail portfolio, wherein the asset quality trajectory has remained favourable. ICRA notes that SBICPSL's management had earlier undertaken measures like revising the screening policy to exclude higher delinquency segments, proactive blocking, reduction in credit lines, focussed collection activities, etc. This resulted in the stabilisation of delinquencies, following the modest uptick in delinquencies in 2018 due to the incremental portfolio originated in 2017.

Credit challenges

Monoline nature of operations with presence in relatively risky target segment – Due to the nature of its business, SBICPSL's product diversification remains low and is concentrated only in the credit cards business. Also, the company's portfolio remains relatively risky as it is largely unsecured with less than 2% of the portfolio being secured in nature. In this regard, SBICPSL's ability to maintain the asset quality indicators through economic cycles remains a key rating monitorable, though the track record of range-bound asset quality metrics over several years provides comfort.

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 the near-and-medium-term buckets. Further, the company typically maintains sizeable liquidity backup in the form of sanctioned and unutilised bank lines (its CP borrowings are also carved out of bank lines). Moreover, while the extension of a moratorium to its customers has resulted in a modest decline in collections in recent months, ICRA notes that the company has sufficient unutilised bank lines (about Rs. 5,800 crore as on May 31, 2020) to take care of debt servicing and key operating expenses for the next 3 to 4 months. The company's liquidity profile also benefits from easy access to funding from its parent i.e. SBI.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – 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 the credit profile of SBI.

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	Parent/Group Company: State Bank of India (SBI) ICRA expects SBI to be willing to extend financial support to SBICPSL, if needed, given the importance that the credit card business holds 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 69.51%-subsidiary of SBI, is a non-deposit taking systemically important non-banking finance company registered with the Reserve Bank of India. It is the second largest credit card provider in the country, with a card base of about 10.5 million as of March 31, 2020. Apart from the corporate office in Gurgaon and the registered office in New Delhi, SBICPSL has 19 branches with 140+ sourcing locations, 39,000+ sales agents, 4 call centres and over 6,000 collection agents across 140+ cities in India.

While SBICPSL was incorporated in 1998 as a joint venture between SBI and GE Capital Corporation, GE Capital Mauritius Overseas Investment sold its 40% stake in the company to SBI (14%) and CA Rover Holdings (26%) on December 15, 2017. Subsequently, SBICPSL got listed on stock exchanges in Q4 FY2020, whereby SBI's shareholding declined to 69.51% on March 31, 2020 from 74% as on March 31, 2019.

SBICPSL reported a profit after tax (PAT) of Rs. 1,245 crore on an asset base of Rs. 26,632 crore in FY2020 vis-à-vis PAT of Rs. 865 crore on an asset base of Rs. 20,764 crore in FY2019. As on March 31, 2020, its reported capital adequacy ratio was 22.4% (20.1% as on March 31, 2019) with a net worth of Rs. 5,341 crore (Rs. 3,588 crore as on March 31, 2019).

Key financial indicators (audited)

	FY2018	FY2019	FY2020
PAT	604	865	1,245
Total Equity*	2,357	3,588	5,341
Receivables	14,570	18,526	24,141
Total assets	16,107	20,764	26,632
Return on average assets (%)^	4.6%	4.8%	5.5%
Return on average net worth (%)^	31%	28%	27%
Gearing (times)	4.8	3.8	3.3
CRAR (%)	18.6%	20.1%	22.4%
Gross stage 3 (%)	2.8%	2.4%	2.0%
Net stage 3 (%)	0.9%	0.8%	0.7%
Net stage 3/Net worth (%)	5.7%	4.2%	3.0%

*Source: SBICPSL's financial results, ICRA research; ^unadjusted – on reported basis; *capital reserve (on account of amalgamation) of (Rs. 71.5 crore) has been adjusted; Note: Amounts in Rs. crore; All figures and ratios are as per ICRA's calculations/adjustments*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument		Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018
					Jul 16, 2020	Feb 18, 2020	Oct 01, 2019	Sep 21, 2018	Apr 18, 2018	Apr 06, 2017
1	NCD	LT	4,100	3,145*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	NCD	LT	400	-	Rating Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Sub-debt	LT	1,700	1,250*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Sub-debt	LT	140	-	Rating Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	LT/ST Bank Lines	LT/ ST	19,000	~10,256^	[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+	[ICRA]AAA (Stable)/ [ICRA]A1+
6	CP^^	ST	19,000	~2,542^	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

**As of June 30, 2020; ^ As of March 31, 2020; Note: 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. 19,000 crore*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE018E08094	NCD	8-Sep-17	7.55%	7-Aug-20	500	[ICRA]AAA(Stable)
INE018E08102	NCD	18-Jan-18	8.10%	10-May-21	110	[ICRA]AAA(Stable)
INE018E08110	NCD	18-May-18	8.90%	18-Nov-21	400	[ICRA]AAA(Stable) Withdrawn
INE018E08128	NCD	17-Oct-18	9.50%	16-Oct-20	500	[ICRA]AAA(Stable)
INE018E08136	NCD	18-Dec-18	9.15%	17-Jun-22	450	[ICRA]AAA(Stable)
INE018E08151	NCD	13-May-19	8.55%	12-Aug-22	175	[ICRA]AAA(Stable)
INE018E08177	NCD	14-Nov-19	7.60%	14-Feb-23	410	[ICRA]AAA(Stable)
INE018E08185	NCD	16-Dec-19	7.50%	9-Mar-23	300	[ICRA]AAA(Stable)
INE018E08193	NCD	26-Feb-20	7.40%	25-Feb-25	300	[ICRA]AAA(Stable)
INE018E08201	NCD	29-Jun-20	6.85%	29-Jun-23	400	[ICRA]AAA(Stable)
INE018E08052	Subordinated debt	26-Nov-14	9.00%	26-Nov-21	100	[ICRA]AAA(Stable)
INE018E08060	Subordinated debt	25-Feb-16	9.65%	25-Apr-22	100	[ICRA]AAA(Stable)
INE018E08078	Subordinated debt	17-Oct-16	8.10%	17-Oct-23	200	[ICRA]AAA(Stable)
INE018E08086	Subordinated debt	17-Jul-17	8.30%	17-May-23	500	[ICRA]AAA(Stable)
INE018E08144	Subordinated debt	29-Jan-19	9.55%	29-Jan-29	250	[ICRA]AAA(Stable)
INE018E08169	Subordinated debt	12-Jun-19	8.99%	12-Jun-29	100	[ICRA]AAA(Stable)
INE018E08029	Subordinated debt	22-Jan-08	9.55%	22-Jan-18	40	[ICRA]AAA(Stable) Withdrawn
INE018E08037	Subordinated debt	28-Mar-12	9.85%	28-Mar-19	50	[ICRA]AAA(Stable) Withdrawn
INE018E08045	Subordinated debt	28-Sep-12	9.50%	28-Sep-19	50	[ICRA]AAA(Stable) Withdrawn
NA	Commercial paper*	NA	NA	7-365 days	19,000	[ICRA]A1+
NA	Bank lines*	NA	NA	NA	19,000	[ICRA]AAA(Stable) /[ICRA]A1+

*Source: SBICPSL; * CP borrowings are carved out of working capital lines; Total outstanding against the CP programme and bank lines should not exceed Rs. 19,000 crore*

Annexure-2: List of entities considered for consolidation: 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.

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.

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