

Rating Rationale

September 12, 2019 | Mumbai

SBI Cards and Payment Services Limited

'CRISIL AAA/Stable' assigned to NCD

Rating Action

Total Bank Loan Facilities Rated	Rs.16500 Crore
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)

Rs.1000 Crore Non Convertible Debentures	CRISIL AAA/Stable (Assigned)
Non-Convertible Debentures Aggregating Rs.3000 Crore	CRISIL AAA/Stable (Reaffirmed)
Lower Tier II Bonds Aggregating Rs.1500.2 Crore	CRISIL AAA/Stable (Reaffirmed)
Rs.174.8 Crore Lower Tier II Bonds	CRISIL AAA/Stable (Withdrawn)
Rs.16500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has assigned its '**CRISIL AAA/Stable**' rating to the Rs 1000 crore non-convertible debentures (NCD) of SBI Cards and Payment Services Limited (SBI Cards) and reaffirmed its ratings on the existing debt instruments and bank facilities at 'CRISIL AAA/Stable/CRISIL A1+'.

CRISIL's ratings SBI Cards continue to reflect CRISIL's belief that SBI Cards will continue to receive strong support from its majority shareholder, State Bank of India (SBI; rated 'CRISIL AAA/CRISIL AA+¹/FAAA²/Stable/CRISIL A1+'), on an ongoing basis as well as in the event of distress. Ownership pattern and shared brand imply a strong moral obligation on SBI to continue supporting SBI Cards in meeting debt obligation in a timely manner.

SBI Cards' standalone credit risk profile is supported by its improving market position. The company is the second largest player in the credit card industry, with around 83 lakh cards in circulation and market share of around 17.6% as of March 31, 2019. Profitability is also above average, with return on assets of 4.8% during fiscal 2019. However, given the unsecured and inherently risky nature of the business, the company remains susceptible to asset quality challenges.

In June 2019, NCLT approved the joint merger petition which was filed by SBI Cards and SBI Business Process and Management Services Pvt Ltd (SBI BPMSL). The new entity will now be known by the former's name. SBI Cards and SBI BPMSL have been the front end and back end entities for SBI's credit cards business wherein SBI and Carlyle held 74% and 26% stake respectively in each of these entities. This merger is effective from April 1, 2018.

SBI Cards intends to tap capital markets via IPO through Offer for Sale by dilution of up to 14% of the issued and paid up capital and another primary issuance of up to Rs. 1,000 crores. Post the IPO, SBI will continue to hold majority stake and provide funding and managerial support both on an ongoing basis and in the event of distress.

Analytical Approach

For arriving at the ratings, CRISIL has considered the standalone business and financial risk profiles of SBI Cards and notched up the ratings to those of its parent, SBI. This is because of the strategic importance of SBI Cards to SBI as well as the majority ownership and brand sharing, which enhance the moral obligation to support the entity.

Key Rating Drivers & Detailed Description

Strengths

*** Strong support from majority parent**

The credit card business is integral to a bank's product offerings for retail customers. SBI Cards houses the entire credit card business for SBI and is, therefore, strategically important to parent. The company receives strong financial, branding, and managerial support from SBI on an ongoing basis. Also, parent has infused its share of equity capital in SBI Cards as and when needed. The company benefits from the strong franchise of SBI and commands a premium in co-branded cards. Senior employees from SBI have been deputed at senior positions in SBI Cards and are involved in its strategic decision making as well as monitoring the operations on a regular basis. SBI will continue to hold majority stake over the medium term and will continue to provide strong support to SBI Cards both on an ongoing basis and in the event of distress.

***Improving market position**

The company has grown higher than industry average during the past few years and increased its market share in terms of total cards in force to 17.6% as of March 31, 2019 from around 13.2% at the end of fiscal 2013. Hence, SBI Cards has become the second-largest player in the credit card industry in terms of cards in force and had around Rs 17,909 crore in net card receivables, as of March 31, 2019 and Rs 20,457 crores as on June 30, 2019. The company is expected to continue to benefit from its strong distribution network and SBI's large clientele, and further improve its market share over the medium term.

***Above-average profitability**

SBI Cards has maintained its return on assets at above 4% for more than past 5 years, supported by healthy interest as well as fee income. Cost of funds has also been maintained at a competitive level, supported by regular funding from SBI. Expenses on sales promotion and advertising have, however, gone up in the past few years because of intensifying competition.

Weaknesses

***Asset quality susceptible to unsecured nature of business**

SBI Cards is involved in a business that is unsecured in nature. This makes the portfolio inherently risky. The company faced asset quality challenges in the middle of the previous decade. In fiscal 2009, SBI Cards revamped its entire business model and wrote off all its historical delinquencies. The company also tightened its risk management practices over the years and has maintained strong portfolio quality since then. Ability to maintain strong risk management practices, however, remains critical to sustaining asset quality at current levels, especially with sizable increase in cards in force following contiguous years of high growth.

Liquidity: Superior

Given the shorter tenure of assets, SBI Cards' asset-liability management (ALM) profile has cumulative positive mismatches in all the buckets of up to one year as on March 31, 2019. As of June 30, 2019, company had Rs 11,087 crore of scheduled repayments over the next 3 months against expected collections of Rs 13,417 crore over the same period. Moreover, company had Rs 534 crore of liquid assets in the form of cash and FD with banks. The company's commercial paper borrowings are also backed by unutilized bank lines.

Outlook: Stable

CRISIL believes SBI Cards will continue to benefit from parent's strong financial, branding, and managerial support, and will continue to improve its market share while maintaining profitability over the medium term. A revision in the rating or rating outlook on the debt instruments of SBI may result in a corresponding revision in the rating or rating outlook on the debt instruments of SBI Cards. Furthermore, the outlook may be revised to 'Negative' in case of reduction in support to SBI Cards from SBI, significant increase in gearing, or considerable weakening in asset quality or profitability.

Rating Sensitivity Factors

Downward Factor

*Any significant reduction in support to SBI Cards or any downward rating action on SBI may result in a corresponding rating action on SBI Cards; and/or

* Deterioration in asset quality (with credit cost crossing 10%) leading to significant increase in provisioning cost on a continuous basis.

About the Company

SBI Cards is the second-largest player in the credit card business with about 83 lakh cards in force out of a total market size of over 471 lakh cards, enjoying a healthy market share of 17.6% as of March 31, 2019. As per IND AS, net profit was Rs 865 crore on a total income of Rs 7286 crore during fiscal 2019, against a net profit of Rs 604 crore on a total income of Rs 5370 crore in the previous fiscal. Return on assets stood at 4.8% in fiscal 2019. Gross stage 3 assets stood at 2.4% at the end of fiscal 2019 compared to 2.8% at the end of previous fiscal, however, credit cost witnessed some spike in fiscal 2019.

¹The ratings pertain to Tier-I bonds (under Basel III)

²The rating pertains only to State Bank of Indore's (SBoI's) fixed deposit programme, rated by CRISIL, which has been transferred to SBI following the merger of SBoI with SBI.

Key Financial Indicators (As per IND AS)

As On/For The Period Ended March 31	Unit	2019	2018
Total assets	Rs cr	20146	15583
Total income	Rs cr	7286	5370
Profit after tax	Rs cr	865	604
Gross stage 3 assets	%	2.4	2.8
Gearing	Times	3.8	4.8
Return on assets	%	4.8	4.6*

*Base for Fiscal 2017 is as per I-GAAP.

Note: Above financials are for the merged entity (SBI Cards and SBI BPMSL).

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon rate (%)	Maturity Date	Issue size (Rs.Cr)	Rating Assigned with Outlook
INE018E08045	Lower Tier II Bonds	28-Sep-12	9.50%	28-Sep-19	50	CRISIL AAA/Stable
INE018E08052	Lower Tier II Bonds	26-Nov-14	9.00%	26-Nov-21	100	CRISIL AAA/Stable
INE018E08060	Lower Tier II Bonds	25-Feb-16	9.65%	25-Apr-22	100	CRISIL AAA/Stable
INE018E08078	Lower Tier II Bonds	17-Oct-16	8.10%	17-Oct-23	200	CRISIL AAA/Stable
INE018E08086	Lower Tier II Bonds	17-Jul-17	8.30%	17-May-23	500	CRISIL AAA/Stable
INE018E08144	Lower Tier II Bonds	29-Jan-19	9.55%	29-Jan-29	250	CRISIL AAA/Stable
INE018E08169	Lower Tier II Bonds	12-Jun-19	8.99%	12-Jun-29	100	CRISIL AAA/Stable
INE018E08094	Non-Convertible Debentures	09-Aug-17	7.55%	07-Aug-20	500	CRISIL AAA/Stable
INE018E08102	Non-Convertible Debentures	18-Jan-18	8.10%	10-May-21	110	CRISIL AAA/Stable
INE018E08110	Non-Convertible Debentures	18-May-18	8.90%	18-Nov-21	400	CRISIL AAA/Stable
INE018E08136	Non-Convertible Debentures	18-Dec-18	9.15%	17-Jun-22	450	CRISIL AAA/Stable
INE018E08151	Non-Convertible Debentures	13-May-19	8.55%	12-Aug-22	175	CRISIL AAA/Stable
INE018E08128	Non-Convertible Debentures	17-Oct-18	9.50%	16-Oct-20	500	CRISIL AAA/Stable
NA	Lower Tier II Bonds*	NA	NA	NA	200.2	CRISIL AAA/Stable
NA	Non-Convertible Debentures*	NA	NA	NA	1865	CRISIL AAA/Stable
NA	Commercial Paper	NA	NA	7 to 365 Days	16500	CRISIL A1+
NA	Long Term Bank Facility**	NA	NA	NA	14000	CRISIL AAA/Stable
NA	Proposed Long Term Bank Facility**	NA	NA	NA	2500	CRISIL AAA/Stable

*Yet to be issued

**Cash credit/working capital demand loan

Annexure - Rating History for last 3 Years

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	16500.00	CRISIL A1+	12-07-19	CRISIL A1+	05-07-18	CRISIL A1+	18-10-17	CRISIL A1+		--	--
						16-04-18	CRISIL A1+					
Lower Tier II Bonds	LT	1300.00 12-09-19	CRISIL AAA/Stable	12-07-19	CRISIL AAA/Stable	05-07-18	CRISIL AAA/Stable	18-10-17	CRISIL AAA/Stable	04-10-16	CRISIL AAA/Stable	CRISIL AAA/Stable
						16-04-18	CRISIL AAA/Stable	12-05-17	CRISIL AAA/Stable	15-03-16	CRISIL AAA/Stable	
Non Convertible Debentures	LT	2135.00 12-09-19	CRISIL AAA/Stable	12-07-19	CRISIL AAA/Stable	05-07-18	CRISIL AAA/Stable	18-10-17	CRISIL AAA/Stable		--	--
						16-04-18	CRISIL AAA/Stable	12-05-17	CRISIL AAA/Stable			
Short Term Debt (Including Commercial Paper)	ST							12-05-17	CRISIL A1+	04-10-16	CRISIL A1+	CRISIL A1+
										15-03-16	CRISIL A1+	
Fund-based Bank Facilities	LT/ST	16500.00	CRISIL AAA/Stable	12-07-19	CRISIL AAA/Stable	05-07-18	CRISIL AAA/Stable	18-10-17	CRISIL AAA/Stable	04-10-16	CRISIL AAA/Stable	CRISIL AAA/Stable
						16-04-18	CRISIL AAA/Stable	12-05-17	CRISIL AAA/Stable	15-03-16	CRISIL AAA/Stable	

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Long Term Bank Facility**	14000	CRISIL AAA/Stable	Long Term Bank Facility**	14000	CRISIL AAA/Stable
Proposed Long Term Bank Loan Facility**	2500	CRISIL AAA/Stable	Proposed Long Term Bank Loan Facility**	2500	CRISIL AAA/Stable
Total	16500	--	Total	16500	--

**Cash credit/working capital demand loan

Links to related criteria

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Finance Companies](#)

[CRISILs Criteria for rating short term debt](#)

[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)

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