SBI Cards and Payment Services Limited

October 01, 2019

SBI Cards and Payment Services Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	3,000	3,000	[ICRA]AAA(Stable); reaffirmed
Non-convertible Debentures	-	1,000	[ICRA]AAA(Stable); assigned
Subordinated Debt Programme	1,590	1,590	[ICRA]AAA(Stable); reaffirmed
Long-term Short-term Bank Lines/ Commercial Paper Programme^	14,000	16,500	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Total	**18,590**	**22,090**	

**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. 16,500 crore*

Rationale

The ratings continue to factor in the strong parentage of SBI Cards and Payment Services Limited (SBICPSL) with majority shareholding held by India's largest public sector bank 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, operational, management 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 five-year average RoA and RoE of 4.4% and 30%, respectively, and adequate capitalisation with a capital to risk weighted assets ratio (CRAR) of 18.9% and a gearing of 4.1 times as on June 30, 2019. Further, ICRA notes that SBICPSL's asset quality indicators have remained under control, notwithstanding some moderation in the recent past. While the gross stage 3 percentage increased to 2.7% as on June 30, 2019 from 2.4% as on March 31, 2019, ICRA notes that the aforesaid adverse movement has been largely driven by one large slippage in the company's corporate portfolio, whereby the gross stage 3 percentage for the corporate portfolio increased to 28% in June 2019 from 0% in March 2019. Nevertheless, 98% of SBICPSL's receivables are accounted for by the retail portfolio, wherein the asset quality trajectory has remained favourable. The company's retail portfolio's 30+ dpd and 90+ dpd were estimated to be 5.1% and 2.0%, respectively, as on July 31, 2019 compared to four-year averages of 5.5% and 2.1%, respectively.

However, 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 only 1.6% of the portfolio being secured in nature as on June 30, 2019. 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 public sector bank – SBICPSL is a subsidiary of India's largest and oldest bank i.e. SBI (SBI held a 74% stake in SBICPSL as on June 30, 2019). 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, operational, management and capital support to the company. 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.

SBICPSL is in the process of coming out with an initial public offering (IPO), following which SBI's shareholding would decline from the current level. However, ICRA believes that SBI will continue to hold a majority stake in the company and support from the parent, including operational synergies will continue, going forward as well.

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 five-year average RoA and RoE of 4.4% and 30%, respectively. The company's credit cost has inched up on the transition to Ind-AS and 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. 3,930 crore as on June 30, 2019 and a CRAR of 18.9% against the regulatory requirement of 15% and gearing of 4.1 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, the company is expected to maintain a prudent capitalisation level, and ICRA believes that capital and liquidity support from SBI will be forthcoming, if required. Also, ICRA notes that SBICPSL intends to tap the capital markets in the current financial year via an IPO through an offer-for-sale by dilution of up to 14% of the issued and paid up capital and primary issuance of up to Rs. 1,000 crore. Earlier, in FY2019, the company had raised Rs. 470 crore from the existing shareholders, which augmented its capital position.

Stable asset quality in retail portfolio; despite deterioration in corporate portfolio in Q1 FY2020, overall asset quality metrics remain under control – SBICPSL's asset quality indicators have remained under control, notwithstanding some moderation in the recent past. While the gross stage 3 percentage increased to 2.7% as on June 30, 2018 from 2.4% as on March 31, 2019, the credit cost also stood high at 5.9% in Q1 FY2020 compared to the average of 4.4% during the last two years. ICRA notes that the aforesaid adverse movement was largely due to a large slippage in the company's corporate portfolio, whereby the gross stage 3 percentage for the corporate portfolio increased to 28% in June 2019 from 0% in March 2019. Nevertheless, 98% of SBICPSL's receivables are accounted for by the retail portfolio, wherein the asset quality trajectory has remained favourable. The company's retail portfolio's 30+ dpd and 90+ dpd are estimated to be 5.1% and 2.0%, respectively, as on July 31, 2019, compared to four-year averages of 5.5% and 2.1, respectively. 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, being concentrated only in the credit cards business. Also, the company's portfolio remains relatively risky as it is largely unsecured with only 1.6% of the portfolio being secured in nature as on June 30, 2019. 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 its assets, SBICPSL's asset-liability maturity (ALM) profile continues to be characterised by nil cumulative mismatches in the near-term buckets. As per the ALM profile as on June 30, 2019, even if there is 90% collection efficiency in the inflows, the liquidity profile stands comfortable, though some cumulative mismatches appear in certain near-term buckets. Nevertheless, the company typically maintains sufficient sanctioned and unutilised bank lines of over Rs. 2,000 crore to take care of such gaps, if any. SBICPSL also maintains liquid assets of over Rs. 500 crore in the form of cash and fixed deposits with banks. Its commercial paper borrowings are also backed by unutilised bank lines. The company's liquidity profile also benefits from easy access to funding sources 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

SBICPSL, incorporated in 1998, 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 over 8 million as of March 31, 2019. Apart from the corporate office in Gurgaon and the registered office in New Delhi, SBICPSL has 16 branches across India with 148 sourcing locations, 35,000 sales agents, 4 call centres and over 6,000 collection agents across 148 cities.

SBICPSL is a joint venture between SBI and CA Rover Holdings (an affiliate of Carlyle Asia Partners IV) holding 74% and 26%, respectively. While it 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.

Earlier, SBI's credit card business was operated through SBICPSL (front-end operations[1]) and SBI Cards and SBI Business Process and Management Services Pvt Ltd (SBIBPMSL; back-end operations[2]), wherein SBI and CA Rover Holdings held 74% and 26% stakes, respectively, in each of these entities. In June 2019, the National Company Law Tribunal (NCLT) approved the joint merger petition, which was filed by SBICPSL and SBIBPMSL. This merger is effective from April 1, 2018, and the new entity is now known by the former's name.

SBICPSL reported a profit after tax (PAT) of Rs. 865 crore on an asset base of Rs. 20,764 crore in FY2019 vis-à-vis PAT of Rs. 604 crore on an asset base of Rs. 16,107 crore in FY2018 (Ind-AS based restated financials for the merged entity). In Q1 FY2020, the company reported PAT of Rs. 346 crore compared to PAT of Rs. 170 crore in the corresponding period in the previous year. Its capital adequacy ratio was 18.9% as on June 30, 2019.

Key financial indicators (audited)

	FY2018	FY2019	Q1 FY2020
PAT	604	865	346
Net worth	2,357	3,588	3,930
Receivables	14,721	18,821	21,231
Total assets	16,107	20,764	23,432
Return on average assets (%)	4.4%	4.7%	6.3%
Return on average net worth (%)	31.7%	29.1%	36.8%
Gearing (times)	4.8	3.8	4.1
CRAR (%)	18.6%	20.1%	18.9%
Gross stage 3 (%)	2.8%	2.4%	2.7%
Net stage 3 (%)	0.9%	0.8%	0.8%
Net stage 3/Net worth (%)	5.7%	4.2%	4.1%

Source: SBICPSL's financial results, ICRA research

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

[1] Sales, marketing, and risk management

[2] Operations, customer service, collections, fraud control, IT; SBIBPMSL was a payment processing company with revenues from SBICPSL and it operated on a cost-plus model with SBICPSL

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
					Sep-19	Sep-18	Apr-18	Apr-17	Sep-16
1	Non-convertible Debentures	LT	3,000	2,135*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-convertible Debentures	LT	1,000	-	[ICRA]AAA (Stable)	-	-	-	-
3	Subordinated Debt Programme	LT	1,590	1,300*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Long-term Short-term Bank Lines/ Commercial Paper^	LT/ ST	16,500	12,433*	[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+

**As of June 30, 2019; 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. 16,500 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)
INE018E08128	NCD	17-Oct-18	9.50%	16-Oct-20	500	[ICRA]AAA(Stable)
INE018E08136	NCD	12-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)
INE018E08045	Subordinated debt	28-Sep-12	9.50%	28-Sep-19	50	[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)
NA	Commercial paper*	NA	NA	7-365 days	16,500*	[ICRA]AAA(Stable) /[ICRA]A1+
NA	Bank lines*	NA	NA	NA	16,500*	[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. 16,500 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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