SBM Bank (India) Limited

October 23, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II bonds#	250.00	CARE A+; Negative	Reaffirmed; Outlook revised from Stable
Certificate of deposit	500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

#Tier-II bonds under Basel III are characterised by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations, and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier-I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

In CARE Ratings Limited's (CARE Ratings') opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess the rating of Tier-II instruments even under Basel II. CARE Ratings has rated the Tier-II bonds under Basel III after factoring in the additional feature of PONV.

Rationale and key rating drivers

The revision in the outlook on the ratings assigned to the debt instruments of SBM Bank (India) Limited (SBIL) factors in the expected pressure on profitability with impact on fee-based income following the recent changes in regulations and regulatory actions. These have led to the bank moving away from partnership-led business model, and reduction in core capital cushion.

The ratings factor in the SBIL's stable asset quality parameters, growth in the scale of operations over the last few years, adequate overall capitalisation levels supported by infusion of Tier-II capital; though there has been decline in core capitalisation levels and fairly diversified income profile. The ratings continue to draw comfort from the parentage of SBM Holdings Limited (SBM Holdings) which is the ultimate holding company of Mauritius-based SBM group and listed on Stock Exchange of Mauritius. SBIL is the step-down subsidiary of SBM Holdings, which has three investment arms- SBM (Bank) Holding Limited, SBM (NBFC) Holdings Limited, and SBM (NFC) Holdings Limited, through which it holds 100% shareholding in the banking and non-banking entities across Africa and India. Government of Mauritius (GOM) is the largest shareholder through various GOM-backed entities in SBM Holdings. SBIL was the first universal bank to commence operations in India under the wholly-owned subsidiary (WOS) route of operations of foreign banks in India. Also, as a part of licensing, SBM Holdings has provided undertaking to RBI to provide financial support to SBIL, if it is unable to meet any of its liabilities.

The ratings also derive comfort from the equity infusions carried out by the parent in the past. In November 2021, SBM Holdings had infused equity capital of ₹100 crore which enhanced the bank's tangible net worth (TNW) to around ₹700 crore against the minimum required net worth of ₹500 crore as per the RBI's requirement for having WOS of foreign bank.

The ratings are constrained due to impact of regulatory actions in terms of stoppage of transactions under the Liberalised Remittance Scheme (LRS) based on supervisory concerns observed by RBI, an increase in the provision from 0.5% to 1% of total operating income (TOI) due to the delay in the implementation of Income Recognition and Asset Classification (IRAC) norms, and revised KYC guidelines, on the earnings profile, leading the bank to move away from the partnership-led business model, which had seen scale up over the last few years. However, the bank is working on compliance with the regulatory requirements and continues to engage with the regulator in resolving the restrictions. The ratings are also constrained by the high operating cost incurred by the bank to grow its operations in the initial phase, as well as deterioration in the core capitalisation levels. The ratings also take into account the relatively higher concentration in advances and deposits despite the bank focusing on improving the granularity, small size of operations, low seasoning of the loan book due to limited track record and significant proportion of non-interest income which is prone to volatility due to global market scenario and regulatory actions.

The ratings are further constrained on account of reduced growth in the total business of the bank during FY23 and in Q1FY24 vis-à-vis previous years. The total deposits of the bank have increased 8% y-o-y as on March 31,

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

2023, with a significant reduction in the current deposits, impacted due to the revised RBI guidelines on the bank's business with Fintech, which drove the current account deposits of the bank in the past two years and the advances of the bank have grown only by 11% vis-à-vis an industry growth of 15% during FY23, although the reduced growth during FY23 was a conscious call taken by management to maintain liquidity as there was a risk of decrease in the term deposit book. As on June 30, 2023, the advances and deposits of the bank have further declined by 4% and 8%, respectively, on q-o-q basis.

The bank's Managing Director and Chief Executive Officer (MD & CEO) resigned on October 12, 2023, and the bank is in the process of appointing new MD & CEO post approval from RBI.

Thus, the credit profile of the SBM group and its ability to support SBIL, the bank's ability to scale up its operations by building a low-cost deposit base and reduction in operating costs to improve profitability in the medium term are key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in credit profile of the SBM group.
- Significant improvement in scale comparable with peer mid-sized private sector banks in India along with improvement in profitability, operational parameters adequate capitalisation and stable asset quality parameters.

Negative factors

- Decline in capitalisation level with cushion of less than 2.5% over the minimum regulatory requirement.
- Deterioration in credit profile of the SBM group or inability to provide funding support.
- Deterioration in asset quality with gross non-performing asset (NPA) ratio of over 2%.
- Continued weakening of the earnings profile and profitability.
- Inability to raise equity capital as planned to support the business growth.

Analytical approach:

Standalone approach with expected support from the parent, SBM Holdings.

Outlook: Negative

The negative outlook is on account of the expected pressure on profitability due to impact of regulatory action and guidelines on certain business segments impacting the earnings profile, increase in operating expenses, and decline in core capitalisation levels.

Detailed description of the key rating drivers:

Key strengths

Benefits derived from being part of the SBM Group and expected support

SBIL is a step-down subsidiary of SBM Holdings which is the holding company of the SBM group, listed on Mauritius Stock Exchange. GOM is the largest shareholder in SBM Holdings through direct ownership of shares as well as ownership through several GOM-backed businesses. SBM Holdings is the ultimate holding company of SBM (Bank) Holdings Limited which is around 100% parent of SBIL and SBM Bank (Mauritius) Limited, the second-largest bank in Mauritius with assets of MUM 26907 crore (approximately ₹50,585 crore) as of December 2022. SBM Holdings is also the parent of SBM (NBFC) Holdings Limited and SBM (NFC) Holdings Limited, and the group's operations are spread across countries like Kenya and Madagascar.

SBIL has been operating in India under the branch model since 1994 and commenced operations under WOS model from December 01, 2018. The bank has been present in India for over 20 years and has received continuous support from the parent in terms of capital. During the last three years, SBM Bank (Holdings) has infused ₹857 crore of which ₹100 crore has been infused in November 2021 demonstrating parent support. CARE Ratings expects SBIL to receive support in terms of capital, management, and governance from the parent as and when required.

SBIL also shares the linkages with its parent in the form of shared name and has common chairman and two directors on the board, viz., Sattar Hajee Abdoula (Chairman of SBM Holdings), as the Chairman of SBIL; Raoul Gufflet (group CEO) as the Non-Executive director of SBIL; and Sharon Ramdenee (Independent director in on the board of SBM Holdings) as independent director on the board of SBIL. Furthermore, comfort is drawn from the undertaking provided by SBM Holdings to support SBIL in meeting its debt obligations in case SBIL is unable to repay as a requirement for obtaining WOS license by the bank.

Stable asset quality parameters

Post the bank started functioning as a WOS, the asset quality parameters have remained stable as compared to when the bank was operating in branch model (since 1994) and was engaged in wholesale lending wherein it faced asset quality challenges. The GNPA and net NPA (NNPA) ratio of the bank has come down from as high as 22.17% and 8.81%, respectively, as on March 31, 2019, to 1.98% and 0.35%, respectively, as on June 30, 2023. The reduction in the GNPA was on account of higher write-offs and recovery done by the bank.
The bank reported GNPA ratio and NNPA ratio of 1.98% and 0.34%, respectively, as on March 31, 2023, as compared with 2.10% and 0.39%, respectively, as on March 31, 2022. The reduction in the GNPA was due to the write-offs and recovery of ₹32 crore during FY23. As on June 30, 2023, the bank's NNPA to net worth ratio stood at 2.29% (March 31, 2022: 2.48%). The bank's slippage ratio stood at 0.83% for FY23 as compared with 1.01% for FY22. The bank's restructured advances book under COVID-19 resolution framework 1.0 and 2.0 aggregated to ₹9 crore (0.2% of gross advances) as on March 31, 2023, The bank's Emergency Credit Line Guarantee Scheme (ECLGS) book aggregated to ₹49.68 crore as on June 30, 2023 (i.e. 1.06% of gross advances).

The net stressed assets (NNPA+ standard restructured assets + net security receipts) of the bank as a percentage of net worth stood at 3.54% as on March 31, 2023 (3.49% as on June 30, 2023) as against 3.99% as on March 31, 2022. The ratio has fallen from 7.78% as on March 31, 2021, as the bank increased provisioning of SRs to 100% during FY22. The bank's overall provision coverage ratio (PCR) on NPAs stood at 82.48% as on June 30, 2023 (March 31, 2022: 81.62%).

A major proportion of advances as on June 30, 2023, constituted corporate lending (49% of advances) and the bank has been lending to better rated corporates. CARE Ratings notes that the ability of the bank to increase its advances book while maintaining the asset quality and keep resultant low credit cost would be critical for the bank's profitability and would be a key rating sensitivity.

Adequate capitalisation levels with reduction in the core capital buffer

SBIL's TNW stood over ₹700 crore as on March 31, 2023, which was higher than the minimum requirement of ₹500 crore as per the RBI's scheme for WOS. The bank received equity infusion of ₹500 crore from the parent group as a part of initial capitalisation. Furthermore, SBM Holdings infused equity capital of ₹100 crore in November 2021, which improved the bank's TNW. SBM Holdings has infused aggregate capital of ₹857 crore till date and holds the entire shareholding in SBIL though SBM (Bank) Holdings Limited. Supported by the regular equity infusion by the parent company, SBM Bank has maintained adequate capital levels over the past four years.
SBIL reported overall capital adequacy ratio (CAR) of 16.16% with Common Equity Tier-I (CET I) ratio of 11.46% as on March 31, 2023, as compared with CAR of 17.28% and CET I Ratio of 16.06% as on March 31, 2022. While the overall capitalisation level was supported by the bank raising capital through issue of Tier-II Bonds aggregating to ₹224 crore during FY23, the 460 bps decline in core capitalisation level was due to increase in the risk weighted assets due to regulatory changes impacting certain business segments of the bank. Further, with impact on income, higher operating costs and higher liquidity maintained leading to muted profitability, the internal accrual was impacted, and it is expected to remain lower in the near term.
The bank expects to maintain CAR above 15% and CARE Ratings expects the bank to maintain adequate cushion in core capitalisation. With the internal accrual being low, the bank would be dependent on external capital infusion or parent support to grow its advances book over the medium term and the ability of the bank to raise capital continues to be a key rating sensitivity.

Key weaknesses

Moderate earnings profile and impact on profitability

The bank started operations in December 2018 and expanded into retail lending gradually over the last five years operating on a partnership model majorly with fintech companies, which helped the bank offer various transaction-related banking products and generate deposit float including low-cost current account savings account (CASA) deposits and garner fee-based income while it scaled up its advances book. The recent change in guidelines as well as observations by the regulator impacted certain business segments including credit cards in partnerships with various fintech companies and LRS and required SBIL to gradually move away from partnership based to in-house business. The imposition of ban on the LRS transactions by RBI and RBI's revised KYC guidelines impacted the non-interest income of the bank along with the deposits. The bank witnessed a decline in deposits for a short period, resulting in the bank maintaining higher liquidity, which was a drag on profitability.

The bank's net interest income increased by 70% from ₹125 crore for FY22 to ₹212 crore for FY23 which helped the bank maintain its net interest margin (NIM) at 2.34% for FY23 (FY22: 1.96%). The bank's non-interest income increased from ₹113 crore in FY22 to ₹201 crore FY23 largely supported by the profit from the exchange transactions. The bank's total income for FY23 was ₹867 crore as compared with ₹511 crore for FY22. As the bank has been scaling up its operations and shifting the business to in-house, the operating expenses of the bank increased significantly from ₹186 crore for FY22 to ₹376 crore for FY23. The bank's employee count has increased from 365 in FY22 to 619 in FY23.

In addition, the bank's profitability was impacted during FY23, as it made interest payments & provisioning on Tax collected at source on LRS and provisioning of 1% on TOI due to delay in implementation of IRAC norms on NPA automation. Further during the year, the bank had also incurred one-time expenditures including Information Technology (IT) expenses for implementation of NPA automation system, and in-house credit card management system. The bank reported pre-provision operating profit (PPOP) of ₹38 crore for FY23 as compared to PPOP of ₹53 crore for FY22. The bank's credit cost stood at 0.19% in FY23 as against 0.57% in FY22. The bank reported profit after tax (PAT) of ₹21 crore for FY23 as compared with PAT of ₹16 crore for FY22 resulting in return on total assets (ROTA) of 0.23% (P.Y.: 0.26%). Furthermore, in Q1FY24, the bank reported a PAT of ₹0.7 crore as against losses in Q4FY23, as during Q4FY23, the bank had done incremental provisioning on IRAC, TCS on LRS transaction along with incurring certain one-time expenditure.

CARE Ratings expects SBIL's profitability to be subdued over the medium term as its operating profitability would continue to see pressure, as the bank continues to incur operating expenses and maintain higher liquidity. Furthermore, maintaining stable credit costs would be crucial for the bank's overall profitability.

Limited geographical diversification with moderate scale of operations

The bank is operating through 12 branches in India spread across Mumbai, New Delhi, Chandigarh, Pune, Bengaluru, Chennai, Hyderabad, Ahmedabad, and Kolkata, including the rural centres like Ramachandrapuram, Palghar and Abitghar. It is headquartered in Mumbai which constitutes around 30% of the total advances book, followed by Delhi (26%), Hyderabad (14%), Chennai (10%), and Bengaluru (8%). The scale of operations of the bank continues to be moderate in comparison to the other mid-sized private sector banks in India as the bank commenced its operations as WOS in December 2018. The bank's net advances stood at ₹4,836 crore as on March 31, 2023, as against ₹4,354 crore as on March 31, 2022.

Concentration in deposits, although the mix has been improving

SBIL's deposits grew by 8% Y-o-Y as on March 31, 2023, to ₹7,318 crore from ₹6,799 crore as on March 31, 2022. The current account saving account (CASA) deposits of the bank although have improved since inception, remain low at 27.96% as on March 31, 2023 (24.9% as on June 30, 2023). The concentration in deposits represented by the top 20 depositors although have improved to 21% as on June 30, 2023, from 34% of the total deposits as on March 31, 2022, is still high. Further the percentage of the bulk deposits (greater than ₹2 crore) comprise nearly 58% of term deposits as on March 31, 2023 (55% as on June 30, 2023). Thus, the bank's ability to generate deposits and increase the granularity of deposits remains a key monitorable in the medium term.

Moderate track record with unseasoned portfolio

The bank commenced operations as WOS in December 2018, thus the bank has a limited track record of four years, and limited seasoning. Thus, performance of the corporate book and the strategy of the bank to increase granularity of the advances by expanding into retail and MSME remains to be seen.

Liquidity: Strong

The bank's asset liability mismatch had no cumulative negative mismatches up to 3m. There were cumulative negative mismatches in 3m to 6m as the average tenure of deposits is lower than the average tenure of advances. The bank manages the short-term mismatches and maintains excess SLR and also has access to market liquidity which provides comfort. The bank's average liquidity coverage ratio stood at 148.62% in Q1FY24 as against the minimum regulatory requirement of 100% (average liquidity coverage ratio for FY23 being 142%). The excess SLR of the bank stood at 22.33% as on June 30, 2023, of net term and demand liabilities.

Environment, social, and governance (ESG) risks

Not applicable

Applicable criteria

Policy on default recognition
Rating Outlook and Credit Watch
Policy on Withdrawal of Ratings
Financial Ratios - Financial Sector
Short Term Instruments
Bank
Rating Basel III - Hybrid Capital Instruments issued by Banks

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Banks	Other Bank

SBIL has been operating in India as a branch in Mumbai since 1994 as a part of SBM Bank (Mauritius) Limited India operations under the branch model. SBIL was incorporated on March 30, 2017, with the purpose to operate as a wholly-owned subsidiary of foreign bank as per RBI WOS framework dated November 06, 2013, and the bank commenced operations on December 01, 2018. SBIL was the first banking institution to have been granted a license by RBI to operate as a scheduled commercial bank - offering universal banking services through the wholly-owned subsidiary route. SBIL is a step-down subsidiary of SBM Holdings Ltd., a listed entity in the Mauritius Stock Exchange, promoted by the Government of Mauritius. The bank is operating across 12 branches in India.

Brief Financials (₹ crore)	FY21(A)	FY22(A)	FY23(A)	Q1FY24(UA)
Total operating income	307	511	867	239
Non-interest income	74	113	201	50
PAT	19	16	21	1
Cost to income (%)	84	78	91	92
Overall gearing	6.99	10.29	12.66	11.70
Gross NPA (%)	2.97	2.10	1.98	1.98
ROTA (%)	0.52	0.26	0.23	0.03

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Tier-II Bonds (Basel III)	INE07PX08019	05-04-2022	9.75%	05-04-2032	125.00	CARE A+; Negative
Tier-II Bonds (Basel III)	INE07PX08027	24-01-2023	9.88%	24-01-2033	99.00	CARE A+; Negative
Tier-II Bonds (Basel III)	Proposed	-	-	-	26.00	CARE A+; Negative
Certificate of deposits	INE07PX16350	19-06-2023	7.90%	22-12-2023	40.00	CARE A1+
Certificate of deposits	INE07PX16368	19-06-2023	7.90%	27-12-2023	35.00	CARE A1+
Certificate of deposits	INE07PX16368	19-06-2023	7.90%	27-12-2023	15.00	CARE A1+
Certificate of deposits	INE07PX16376	19-06-2023	7.90%	21-12-2023	30.00	CARE A1+
Certificate of deposits	INE07PX16350	19-06-2023	7.90%	22-12-2023	25.00	CARE A1+
Certificate of deposits	INE07PX16376	20-06-2023	7.90%	21-12-2023	50.00	CARE A1+
Certificate of deposits	INE07PX16368	20-06-2023	7.90%	27-12-2023	25.00	CARE A1+
Certificate of deposits	Proposed	-	-	-	280.00	CARE A1+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type *	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Certificate Of deposit	ST	500.00	CARE A1+	-	1)CARE A1+ (26-Oct-22)	-	-
2	Bonds-Tier-II bonds	LT	250.00	CARE A+; Negative	-	1)CARE A+; Stable (26-Oct-22)	-	-

*LT= Long term; ST= Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Tier-II bonds	Complex
2	Certificate of deposit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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