SBM Bank (India) Limited

August 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II bonds	250.00	CARE A; Stable	Revised from CARE A+; Negative
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, 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, parameters considered to assess whether a bank will reach the PONV are similar to parameters considered to assess the rating of Tier-II instruments even under Basel II. CARE Ratings has rated Tier-II bonds under Basel III after factoring in the additional feature of PONV.

Rationale and key rating drivers

Revision in the long-term rating assigned to debt instruments of SBM Bank (India) Limited (SBIL) is primarily considering the weakening in its profitability which is expected to remain subdued in the near term and weakening of its asset quality parameters. Decline in profitability is due to increased operating costs, moderation of total income due to stagnation of advances and reduced fee-based income following regulatory restrictions imposed on the bank in Q4FY23 which although affected limited product lines had an overall impact on the business of the bank. Regulatory actions include stoppage of transactions under the Liberalised Remittance Scheme (LRS) based on supervisory concerns observed by the Reserve Bank of India (RBI) which has been lifted from Q1FY25. The corrective measures to strengthen the overall control and compliance environment led the bank in realigning its business model. This also has increased the operating cost and slowdown in business impacting its profitability.

Ratings continue to draw comfort from the ultimate parentage of SBM Holdings Limited (SBM Holdings), its demonstrated and expected support to SBIL being an important subsidiary for the SBM group, sharing the common brand name. The group has been supporting SBIL with frequent equity infusions, the latest being of ₹100 crore in Q4FY24 and ₹80 crore in Q1FY25 to support its capital adequacy requirements.

Ratings also consider the relatively higher concentration in advances and deposits despite the bank focusing on improving granularity, small size of operations and low seasoning of the loan book due to limited track record. Thus, SBM group's credit profile and its ability to support SBIL, 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: Factors that could lead to positive rating action/upgrade

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

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

Negative factors: Factors that could lead to negative rating action/downgrade

- Declining capitalisation level with cushion of less than 2.5% over the minimum regulatory requirement.
- Deteriorating credit profile of the SBM group or inability to provide funding support.
- Deteriorating asset quality with gross non-performing asset (NPA) ratio of over 4%.
- 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 SBM Holdings Limited, the ultimate holding company of the SBM group.

Outlook: Stable

The stable outlook is on the expectation that the increased capital will help bank grow its advances book and reduce its losses over FY25.

Detailed description of key rating drivers:

Key strengths

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

SBIL is a subsidiary of SBM (Bank) Holdings Limited and a step-down subsidiary of SBM Holdings Limited which is the ultimate holding company of the SBM group, listed on Mauritius Stock Exchange. Government of Mauritius and other government backed entities including pension funds remains the largest shareholder with 42% stake. SBM Group is present in Mauritius, Madagascar, and India and, most recently, Kenya. SBM Holdings Limited is the holding company of banking and financial activities of the SBM Group. It houses three intermediate investment arms of the group, namely SBM (Bank) Holdings Limited for banks, SBM (NBFC) Holdings Limited for non-banks and SBM (NFC) Holdings Limited which is into non-financial segment. SBM (Bank) Holdings Limited's subsidiaries includes SBIL and SBM Bank (Mauritius) Limited, is the second largest bank in Mauritius with assets of MUM 404 billion (~₹73,356 crore) as on June 2024.

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. The parent has shown support in the past by infusing ₹1,037 crore in the bank of which ₹100 crore was infused in November 2021, ₹100 crore in Q4FY24 and ₹80 crore in Q1FY25. SBM (Bank) Holdings Limited has provided undertaking to RBI to provide financial support to SBIL if it is unable to meet its liabilities. CARE Ratings expects SBIL to receive support in terms of capital, management, and governance from the parent when required.

SBIL also shares linkages with its parent in the form of shared name and has common chairman and one director on the board, Abdul Sattar (Chairman of SBM Holdings Limited), as the Chairman of SBIL and Raoul Gufflet (CEO of SBM Holdings Limited) as the Non-Executive director of SBIL. Furthermore, comfort is drawn from the undertaking provided by SBM Holdings Limited 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.

CARE Ratings has noted a leadership transition, with the appointment of Ashish Vijayakar, as new MD and CEO on February 2024.

Adequate capitalisation levels

SBIL's TNW stood over ₹700 crore as on June 30, 2024, which was higher than the minimum requirement of ₹500 crore per RBI's scheme for WOS. Supported by the regular equity infusion by the parent company with the latest being in Q4FY24 and Q1FY25, SBIL has maintained adequate capital levels in the last five years despite facing losses in FY24 and Q1FY25 and change in the risk weighted assets due to regulatory changes impacting certain business segments of the bank.

SBIL reported overall capital adequacy ratio (CAR) of 16.96% with Common Equity Tier-I (CET I) ratio of 12.53% as on June 30, 2024 (March 31, 2024; 16.90% and 12.30%, respectively), as compared to CAR of 16.16% and CET I Ratio of 11.46% as on March 31, 2023.

The bank expects to maintain minimum CET I/Tier I of 11.25% and CAR above 14.5% on an ongoing basis. With the profitability expected to be low in the medium term, the bank depends on external capital infusion or parent support to grow its advances book over the medium term and ability of the bank to raise capital continues to be a key rating sensitivity.

Key weaknesses

Weak profitability

The bank started operations in December 2018 and expanded into retail banking gradually over the last five years operating on a partnership model majorly with fintech companies, which helped the bank offer 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. Recent change in guidelines and observations by the regulator impacted certain business segments which required upgrade in its systems infrastructure and addition of manpower significantly increasing its operating expenses.

The bank's NIM improved marginally in FY24 supported by higher yields on advances as compared to increased cost of deposits despite marginal degrowth in advances and deposits. The bank's net interest income increased by 6% from ₹212 crore for FY23 to ₹225 crore for FY24. The bank's non-interest income decreased from ₹201 crore in FY23 to ₹187 crore FY24. The bank's total income for FY24 was ₹940 crore as compared to ₹867 crore for FY23. As the bank has been scaling up its operations and shifting the business to in-house, operating expenses of the bank increased significantly from ₹376 crore for FY23 to ₹429 crore for FY24. The bank has been investing in upgradation of its system infrastructure and addition of manpower.

The bank reported operating loss before provisions of ₹17 crore for FY24 as compared to pre-provision operating profit (PPOP) of ₹38 crore for FY23. The bank's credit cost increased marginally due to increase in slippages and stood at 0.24% in FY24 as against 0.19% in FY23. The bank reported net loss of ₹43 crore for FY24 as compared to profit after tax (PAT) of ₹21 crore for FY23 resulting in return on total assets (ROTA) of -0.45% (PY: 0.23%). Furthermore, in Q1FY25, the bank reported a net loss of ₹38 crore as against PAT of ₹1 crore for Q1FY24 and net loss of ₹21 crore for Q4FY24.

CARE Ratings expects SBIL's profitability to remain 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. However, SBIL is undertaking several initiatives to improve its income profile, which is expected to improve profitability in future. Therefore, growing advances book and fee income while maintaining stable asset quality and controlling operating cost would be crucial for the bank to achieve profitability on a sustainable basis.

Deteriorating asset quality parameters

Asset quality parameters have deteriorated in FY24 and Q1FY25 with GNPA and net NPA (NNPA) ratio of the bank increasing from 1.98% and 0.34%, respectively, as on March 31, 2023, to 2.76% and 0.58%, respectively, as on June 30, 2024. Increase in GNPA was considering higher slippages (₹90 crore for FY24 and ₹17 crore for Q1FY25 vs ₹36 crore for FY23) combined with stagnation of the bank's gross advances.

Wholesale corporate advances constitute 67%, whereas retail and MSME are relatively smaller at 21% and 12%, respectively as on June 30, 2024. Segment wise, GNPA increased in retail and MSME leading to increased slippages. The bank's PCR (excluding TWO) stood at 79% as on June 30, 2024. The loan book is concentrated as top 20

individual exposures consisted 29% of the total advances (22% of exposures) and 171% of the net worth as on June 30, 2024.
NNPA to net worth ratio stood at 3.36% as on June 30, 2024 (March 31, 2024: 3.72%) as compared to 2.33% as on March 31, 2023. Gross stressed assets and net stressed to net worth stood at 3.28% and 6.42% as on June 30, 2024, as compared to 2.54% and 6.15% as on March 31, 2023.

Limited geographical diversification with moderate scale of operations
The bank is operating through 17 branches in India spread across Mumbai, New Delhi, Chandigarh, Pune, Bengaluru, Chennai, Hyderabad, Ahmedabad, and Kolkata, including rural centres like Palghar and Abitghar. It is headquartered in Mumbai which constitutes ~24% of the total advances book, Delhi (28%), Chennai (14%), Hyderabad (11%), and Bengaluru (10%). The bank's scale of operations continues to be moderate in comparison to other mid-sized private sector banks in India as the bank commenced its operations as WOS in December 2018, thus resulting in limited track record and limited seasoning. Furthermore, due to the regulatory issue, advances book remained stagnant and stood at ₹4,783 crore as on June 2024. Wholesale corporate advances constitute 67%, whereas retail and MSME are relatively smaller at 21% and 12%, respectively as on June 30, 2024. The loan book is concentrated as top 20 individual exposures consisted 29% of the total advances (22% of exposures) and 171% of the net worth as on June 30, 2024. Corporate book's performance and the bank's strategy to increase granularity of advances by expanding into retail and MSME remains to be seen.

Concentration in deposits, although the mix has been improving
SBIL's advances and deposits degrew following the impact of regulatory actions and changes in regulations which made it difficult to work with fintech who sourced advances and deposits for the bank. Current account saving account (CASA) deposits of the bank have deteriorated in FY24 as compared to previous year with the entire banking industry and continues to remain low at 23.35% as on June 30, 2024 (27.96% as on March 31, 2023). Concentration in deposits represented by the top 20 depositors although is high at 24% as on June 30, 2024. Further, there is a high dependence on bulk deposits (greater than ₹2 crore) which comprise ~73% of total deposits as on June 30, 2024. The bank has been focusing on raising deposits from retail segment and therefore the proportion of term deposits from individuals has increased from 45% of term deposits as on March 31, 2023 to 53% as on June 30, 2024. Thus, the bank's ability to garner granular deposits remains a key monitorable in the medium term.

Liquidity: Adequate
The bank's asset liability maturity (ALM) statement as on June 30, 2024, had no cumulative negative mismatches up to three months and negative mismatches in other buckets upto one year. 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 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 147.72% in Q1FY25 as against the minimum regulatory requirement of 100%. The bank had surplus SLR of ₹1,619 crore (24.09% of net term and demand liabilities) as on June 30, 2024, composed of government securities, which can be sold to generate liquidity as on June 30, 2024.

Environment, social, and governance (ESG) risks
Not applicable

Applicable criteria
Policy on default recognition
Rating Outlook and Credit Watch
Financial Ratios - Financial Sector
Short Term Instruments
Bank
Rating Basel III - Hybrid Capital Instruments issued by Banks
Factoring Linkages Parent Sub JV Group

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Other bank

About SBM Holdings Limited

SBM Holdings Limited is the second largest listed entity on the Stock Exchange of Mauritius with a market capitalisation of MUR 12.4 billion as on August 2024. Government of Mauritius and other government backed entities including pension funds remains the largest shareholder with 42% stake. SBM Group is present in Mauritius, Madagascar, and India and, most recently, Kenya. SBM Holdings Limited is the holding company of banking and financial activities of the SBM Group (Mauritius). It houses three intermediate investment arms of the group, namely SBM (Bank) Holdings Limited for banks, SBM (NBFC) Holdings Limited for non-banking financial segment which holds stake in non-banking financial services entities including insurance broking, asset management, and factoring among others and SBM (NFC) Holdings Limited which is into non-financial segment.

SBM Bank (India) Limited

SBIL has been operating in India as a branch in Mumbai from 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 subsidiary of foreign bank per RBI WOS framework dated November 06, 2013. RBI sanctioned a scheme of amalgamation for the Indian branches of SBM Bank (Mauritius) Limited and SBM Bank (India) Limited, which was granted a license to carry out banking operations effective from 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 subsidiary route. SBIL is a step-down subsidiary of SBM Holdings Limited, a listed entity in the Mauritius Stock Exchange, promoted by the Government of Mauritius. The bank is operating across 17 branches in India.

Brief Financials (₹ crore)	FY23(A)	FY24(A)	Q1FY25(UA)
Total operating income	867	940	218
PAT	21	-43	-38
Total assets	10,098	8,919	8,614
Net NPA (%)	0.34	0.61	0.58
ROTA (%)	0.23	-0.45	-1.73

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

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

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments

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; Stable
Tier-II Bonds (Basel III)	INE07PX08027	24-01-2023	9.88%	24-01-2033	99.00	CARE A; Stable
Tier-II Bonds (Basel III)	Proposed	-	-	-	26.00	CARE A; Stable
Certificate of deposits	Proposed	-	-	Upto one year	500.00	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 2024-2025	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
1	Certificate Of Deposit	ST	500.00	CARE A1+	-	1)CARE A1+ (23-Oct-23)	1)CARE A1+ (26-Oct-22)	-
2	Bonds-Tier II Bonds	LT	250.00	CARE A; Stable	-	1)CARE A+; Negative (23-Oct-23)	1)CARE A+; Stable (26-Oct-22)	-

*LT= Long term; ST= Short term

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

Annexure-4: Complexity level of 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

Not applicable

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

Contact us

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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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