

**SBM Bank (India) Limited (Revised)**

October 26, 2022

**Ratings**

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Tier II bonds (Basel III) #	250.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
<b>Total Long-term instruments</b>	<b>250.00</b> <b>(₹ Two hundred fifty crore only)</b>		
Certificate Of deposit (Proposed)	500.00	CARE A1+ (A One Plus)	Assigned
<b>Total Short-term instruments</b>	<b>500.00</b> <b>(₹ Five hundred crore only)</b>		

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.

**Detailed rationale and key rating drivers**

The ratings assigned to debt instruments of SBM Bank (India) Limited (SBIL) factor in the bank's adequate capitalisation levels, growth in scale of operations over the last three years, diversified income profile and improvement in asset quality parameters. The rating draws comfort from the parentage of SBM Holdings Limited (SBM Holdings) which the ultimate holding company of the Mauritius-based SBM group and listed on Stock Exchange of Mauritius.

SBM Holdings is the flagship holding company of the group and has various investment arms including its wholly-owned subsidiary SBM (Bank) Holdings Ltd. which holds 100% shareholding in SBIL and holds majority stake in SBM Bank (Mauritius) Ltd., Banque SBM Madagascar SA and SBM Africa Holdings Ltd which in turn holds shareholding in SBM (Kenya) Ltd. SBM Holdings' non-banking investment arm - SBM (NBFC) Holdings Ltd. holds stake in various non-banking financial services entities including insurance broking, asset management, factoring, etc.

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 and 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.

During FY22, SBM Holdings has infused equity capital of ₹100 crore which has enhanced the tangible net worth of SBIL to over ₹692 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 moderate profitability with high operating cost model adopted by the bank to grow its operations in the initial phase, relatively higher concentration in advances and deposits in spite of 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Rating sensitivities

### Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in credit profile of the SBM group
- Significant improvement in scale with improvement in operational parameters and adequate capitalisation

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

- 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 impacting profitability

## Detailed description of the key rating drivers

### Key rating strengths

#### ***Adequate capitalisation levels supported by capital infusion by the parent during FY22***

As per the RBI's scheme for WOS, the bank is required to have minimum net worth of ₹500 crore. The bank received equity infusion of ₹500 crore from the parent group as a part of initial capitalization. Furthermore, SBM Holdings infused equity capital of ₹100 crore in November 2022, which helped the bank's tangible net worth to increase to ₹692 crore as on March 31, 2022. SBM Holdings has infused aggregate capital of ₹857 crore till date and holds the entire shareholding in SBIL.

Supported by 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) and Tier I CAR stood at 17.28% and 16.06% as on March 31, 2022, as against 20.72% and 19.46% respectively as on March 31, 2021. The reduction in CAR was on account of significant growth of advances in FY22. To support its capitalization levels, the bank raised capital through Tier II Bonds aggregating to ₹125 crore in April 2022.

The total CAR and Tier I CAR stood at 16.68% and 13.23% respectively as on June 30, 2022. The bank plans to raise equity capital of ₹400 crore during FY23, by way of private placement wherein the shareholding of SBM Holdings would come down to 74%. Furthermore, the bank plans to raise Tier II capital of ₹125 crore which would help it to maintain capitalization levels and support growth. The bank expects to maintain CAR above 15% and CET I Ratio above 12% over the medium term.

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

SBIL is part of the SBM group with SBM Bank (Holdings) Ltd. Holding 99.99% of the bank. SBIL is a step-down subsidiary of SBM Holdings Ltd. (the erstwhile State Bank of Mauritius Ltd) which is the flagship holding company of the group, listed on Mauritius Stock Exchange and promoted by the Government of Mauritius (GOM) which is the largest shareholder in SBM Holdings through direct shareholding as well as shareholding through various GOM-backed entities. SBM Holdings Limited's operations are spread across countries like Kenya and Madagascar. Additionally, SBM Bank (Mauritius) Limited is the second-largest bank in Mauritius with assets of MUR 276,573 million (approximately ₹51,719 crore) as on December 31, 2021.

SBIL has been operating in India under branch model since 1994, with approval from RBI to operate as a wholly-owned subsidiary of foreign bank. As per RBI WOS framework dated November 06, 2013, the bank commenced operations on December 1, 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.

SBIL has an independent Board of Directors (Board) which looks after the operations of the bank which is headed by Sattar Hajee Abdoula (Chairman) and has two directors from the SBM group and six independent directors.

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.

***Improved asset quality parameters***

The bank was operating in branch model since 1994 and was engaged in wholesale lending and thus faced asset quality challenges in the past. The bank's Gross NPA ratio and Net NPA ratio stood at 22.17% and 8.81% respectively as on March 31, 2019. The bank wrote-offs NPAs aggregating to ₹57 crore, in FY20 and FY21 which helped it report Gross NPA ratio of 2.97 % and Net NPA ratio of 0.90% as on March 31, 2021 (PY: 8.59% and 2.90% as on March 31, 2020). With improvement in recoveries and lower slippages, GNPA and NNPA improved to 1.78% and 0.27% as on June 30, 2022. (GNPA and NNPA stood at 2.10% and 0.39% as on March 31, 2022). GNPA in Retail Segment stood at 2.25% and in corporate segment stood at 1.62% as on June 30, 2022

The bank restructured advances aggregating to ₹9 crore (0.2% of advances) as on March 31, 2022 under COVID-19 resolution framework 1.0 and 2.0. Gross stressed assets stood at 2.81% as on March 31, 2022 and 2.39% as on June 30, 2022 as against 3.82% as on March 31, 2021. The Bank has also disbursed Emergency Credit Line Guarantee Scheme (ECLGS) aggregating to ₹31.65 crore in March 2022 (i.e. 0.71% of gross advances).

***Scale-up of operations in last three years through partnership-led model***

The bank started operations in December 2018 and has expanded into retail lending gradually over the last four years and is currently operating on a partnership model majorly with fintech which helps 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 scales up its advances book. The focus of the bank on the advances side is towards granular retail advances and also focus on selective mid-sized and large corporates. SIBL's advances grew by 49% in FY22 and stood at ₹4,354 crore as on March 31, 2022 (PY: ₹2,917 crore) and further to ₹5,061 crore as on June 30, 2022. Advances represented a growth of 49% Y-o-Y, and the CAGR growth (March 2019 to March 2022) of SBM stood at 66%. As on June 30, 2022, wholesale advances constituted 69% of total advances which the bank plans to bring down to 60% by the end of FY23 and around 50% in the medium term.

**Key rating weaknesses*****Concentration in deposits; although the mix has been improving***

SBIL's deposits grew by 76% Y-o-Y in FY22 to ₹6,799 crore as on March 31, 2022 as against ₹3,855 crore as on March 31, 2021. The share of CASA improved during the year to 27% as on March 31, 2022, as against 21% as on March 31, 2021 largely supported by current account deposits. The concentration in deposits is represented by the top 20 depositors comprising around 34% of the total deposits as on March 31, 2022, and 31% as on June 30, 2022. Deposits greater than ₹2 crore comprise nearly 63% of term deposits as on March 31, 2022. The improvement in granularity of deposits remains a key monitorable.

***Moderate profitability profile with relatively high cost to income***

SBIL is following a transaction-led banking model through partnerships, thus the bank's fee-based income is high along with high operating cost due to fee sharing with the partners. As a result, the bank's cost to income ratio remains higher at 78% for FY22 (P.Y.: 84%) as compared to the private sector banks operating in India. Currently, the ratio of net interest income (NII) to non-interest income stood at 50:50. The non-interest income is majorly derived from commission income and gain on exchange transactions. As the bank scales up its advances book and gradually expands its branch network, the cost to income is expected to reduce to the range of ~65% over the medium term.

During FY21, the bank's profitability improved with further improvement in non-interest income, decline in operating expenses and relatively lower credit cost supported by various government policies, thus, SBIL reported Return on Total Assets (ROTA) of 0.52% in FY21.

During FY22, deposits grew by 76% as against advances growth of 49%, which in turn impacted the net interest margin of the bank, which reduced to 1.96% in FY22 from 2.18% in FY21, furthermore, Non-Interest Income (as a percentage of ATA) also reduced marginally to 1.81% from 2.05% in FY21 majorly on account of lower traction in income from foreign exchange transactions in Q3FY22. Further, credit cost also increased on account of impact of second wave of covid-19 induced pandemic in Q2FY22 however, with marginal improvement in operating cost during the year; the bank reported profit after tax (PAT) of ₹16 crore (PY: ₹19 crore). As part of the bank's strategy, bank is expected to expand further in retail lending with a focus on fee-based income with the help of partnership model.

In Q1FY23, the bank's NIM improved supported by improvement in yields non-interest income reported improvement supported by exchange income and improved fee income and further supported by lower credit cost. the bank reported ROTA of 0.57% in Q1FY23. Going forward, credit cost is expected to be contained within 1%, and as scale of operations improve, the management expects improvement in profitability levels with ROTA within a range of 0.6 to 1%.

### ***Limited geographical diversification with moderate scale of operations***

The bank is operating across 11 branches in India spread across Mumbai, New Delhi, Chandigarh, Pune, Bengaluru, Chennai, Hyderabad, and Ahmedabad, also including the rural centers like Ramachandrapuram, Palghar and Abitghar. SBIL is headquartered in Mumbai which represents around 41% of the advances book, followed by Delhi 29%, Chennai and Hyderabad (10-11% each), Bengaluru (5%). The bank has also expanded to Ahmedabad which comprises 2% of the advances book as on March 31, 2022.

The bank's advances represented growth of 49% and stood at ₹4,430 crore as on March 31, 2022 as against ₹2,980 crore as on March 31, 2021, however the scale of operations continues to be moderate in comparison to the peers in the industry.

### ***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: Adequate**

As per the ALM statement of the bank as on June 30, 2022, the bank had no cumulative negative mismatches up to six months but had cumulative negative mismatches in the six months to twelve months' time bucket on account of longer tenure of loans as compared to tenure of deposits. However, SBIL had excess SLR investments of ₹1,509 crore as on June 30, 2022, which also provides comfort. SBIL's liquidity coverage ratio remained comfortable at 142.48% as on June 30, 2022. against the minimum regulatory requirement of 100%. The bank reported net stable funding ration (NSFR) of 118.46% for the quarter ended June 30, 2022.

**Analytical approach:** Standalone approach with expected support from the parent SBM Holdings.

### **Applicable criteria**

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE Ratings' policy on Default Recognition](#)

[Financial ratios – Financial sector](#)

[CARE Ratings' rating methodology for banks](#)

[Rating Basel-III – Hybrid capital instruments issued by banks](#)

[Criteria for Short Term Instruments](#)

## About the bank

SBIL has been operating in India since 1994 as a branch in Mumbai 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 1, 2018. SBIL was the first banking institution to have been granted license by RBI to operate as a scheduled commercial bank - offering universal banking services through the wholly-owned subsidiary route. Simultaneous to the license award, the Scheme of Amalgamation, under Section 44A of the Banking Regulation, 1949 was sanctioned allowing for the amalgamation of the business of SBM Bank (Mauritius) Limited, India (branch operations of SBM Bank (Mauritius) Limited in India, operational since 1994) with the business of the newly formed Bank. SBIL is a step-down subsidiary of SBM Holdings Ltd., a listed entity in the Mauritius Stock Exchange, promoted by the Government of Mauritius. SBIL is led by Sidharth Rath (Managing Director and Chief Executive Officer; MD & CEO), and Sattar Hajee Abdoula (Chairman) (who is also Chairman of SBH Holdings) backed by an eminent Board. The bank is operating across 11 branches in India. The total advances of the bank stood at ₹4,430 crore as on March 31, 2022 and total deposits stood at ₹6,799 crore.

Brief Financials (₹ crore)	FY21(A)	FY22(A)	Q1FY23(P)
Total income	307	513	187
PAT	19	16	12
Total assets	4,716	8,062	9,084
Net NPA (%)	0.90	0.39	0.27
ROTA (%)	0.52	0.26	0.57

A: Audited; P: Provisional

Note: H1FY23 results are yet to be published by the company

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

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

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

**Complexity level of various instruments rated for this company:** Annexure-4

### 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	April 5, 2022	9.75%	April 5, 2032	125.00	CARE A+; Stable
Tier II Bonds (Basel III) (Proposed)	-	-	-	-	125.00	CARE A+; Stable
Certificate Of deposit (Proposed)	-	-	-	-	500.00	CARE A1+

**Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Certificate Of deposit	ST	500.00	CARE A1+				
2	Bonds-Tier II bonds	LT	250.00	CARE A+; Stable				

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities :**

Name of the Instrument	Detailed Explanation
<b>A. Non-financial covenants</b>	
Tier-II Bonds (Basel III)	Optional call date: Bank shall have the right (but not the obligation) to exercise the Call Option in respect of the Bond at the end of 5 years from the Deemed Date of Allotment ("Call Option") or any anniversary date thereafter with prior approval of RBI, subject to "Tax call"/ "Regulatory Call"

**Annexure-4: Complexity level of various instruments rated for this company**

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

**Annexure-5: Bank lender details for this company: NA**

**Note on complexity levels of the rated instruments:** CARE Ratings Limited (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](mailto:care@careedge.in) for any clarifications.

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