March 01, 2024 (Revised)

SBM Bank (India) Ltd: Long-term rating downgraded/short-term rating reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel III Tier II Bond Programme	250.00	250.00	[ICRA]A (Stable); downgraded from [ICRA]A+ and outlook revised to Stable from Negative
Certificates of Deposit	500.00	500.00	[ICRA]A1+; reaffirmed
Total	**750.00**	**750.00**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the long-term rating of SBM Bank (India) Ltd factors in the further weakening of its profitability metrics due to the persisting pressure on fee income and the decline in its advances, which is likely to continue in the near term. This follows the regulatory actions in Q4 FY2023, including restrictions on the liberalised remittance scheme (LRS), actions/observations linked to businesses with fintech partnerships/segments, provisioning on the remaining collections from tax collected at source (TCS) on the LRS, and provisioning linked to the operating income as instructed by the regulator. These actions were expected to impact the bank's business adversely and ICRA had accordingly placed the rating on a Negative outlook in July 2023. While SBM Bank (India) Ltd reported a loss in 9M FY2024, its ability to scale up its advances, revive fee income and control operating expenses will remain critical for improving its profitability.

With thin capital buffers and the expectation of muted profitability, the parent infused capital of Rs. 100 crore in Q4 FY2024 and plans to infuse a further Rs. 80 crore in FY2025. The ratings continue to factor in the parentage in the form of SBM Holdings Limited, the ultimate holding company of SBM Bank (Mauritius) Limited (rated Baa3 (stable)/P-3/BCA ba1 by Moody's) and SBM Bank (India) Ltd. While overdue loans increased in 9M FY2024, the same remains manageable at present. However, the subdued operating profitability limits the bank's ability to absorb an increase in the credit costs if the asset quality weakens further.

The Stable outlook factors in ICRA's expectation that the capital infusion will help the bank improve its capital buffers, arrest the decline in its loan book and deposit base, resume fresh credit growth and turn profitable by the end of FY2025.

Key rating drivers and their description

Credit strengths

Part of SBM Group (Mauritius) – ICRA continues to factor in the parentage of SBM Bank (India) Ltd and its position as a step-down wholly-owned subsidiary (WOS) of SBM Holdings Limited, the ultimate holding company of SBM Bank (Mauritius) Limited. SBM Holdings Limited's shareholders include the Government of Mauritius, which, along with other state-owned entities including state-owned pension funds, remains the largest shareholder with a 42% stake. Additionally, SBM Bank (Mauritius) Limited is the second largest bank in Mauritius with assets of $6.27 billion as on September 30, 2023. The parent's continued strong commitment towards supporting the Indian operations serves as a credit positive. Strong operational linkages with the Group, in terms of ownership and the shared name, as well as its overall importance in advancing the Group's growth plans in the region provide further comfort.

The parent has demonstrated support through a capital infusion of Rs. 100 crore in Q4 FY2024 and it plans to infuse Rs. 80 crore in FY2025. SBM (Bank) Holdings Limited had earlier infused capital of ~Rs. 380 crore (including ~Rs. 180 crore infused in Indian branches for transitioning to the subsidiary model in FY2019) during FY2019-FY2023. ICRA factors in the strong likelihood of continued support from the parent to the Indian entity, if required. Moreover, SBM Bank (Holdings) Limited has given an in-principle undertaking to provide necessary financial support to the Indian entity to meet any liability it is unable to meet. This remains in line with the Reserve Bank of India's (RBI) framework for the WOS of foreign banks in India.

Asset quality metrics remain manageable despite slight uptick – In the past few years, controlled slippages as well as the rapid scaling-up of the book led to gross non-performing advances (GNPA) and net NPA (NNPA) of 1.98% and 0.34%, respectively, as on March 31, 2023 (2.10% and 0.39%, respectively, as on March 31, 2022) while the provision coverage ratio (PCR), excluding write-offs, was satisfactory at 82.98% as on March 31, 2023 (81.62% as on March 31, 2022). However, the relative decline in the book, coupled with higher slippages in 9M FY2024, led to a slight uptick in the headline metrics with GNPA/NNPA at 2.36% and 0.47% respectively as on December 31, 2023. The bank's overall monitorable book, comprising of overdues (special mention account (SMA) 1 and SMA 2), grew to 0.60% of standard advances as on December 31, 2023 from 0.14% as on March 31, 2023. The asset quality indicators remain manageable at present; however, the bank's subdued operating profitability level limits its ability to absorb a further increase in slippages.

Loan book concentration remains high with the top 20 exposures accounting for 17% of the total exposures and 173% of the net worth as on September 30, 2023. It increased from 16.09% and 167%, respectively, as on March 31, 2023, and 20% and 170%, respectively, as on March 31, 2022.

Credit challenges

Operating profitability and return metrics to remain modest – The bank's loan book declined to Rs. 4,374 crore as on December 31, 2023, from Rs. 4,836 crore as on March 31, 2023. This was partially due to its efforts to shore up its liquidity amid the declining deposit base and to recoup the capital buffers. This shall continue to exert pressure on the net interest income unless SBM Bank (India) Ltd is able to scale up its loan book. Further, the pressure on fee income growth, coupled with increasing operating expenses, has impacted its operating profitability adversely. This stems from the significant reduction in its partnership/co-branded credit card business following the regulatory actions, as stated above. Moreover, regulators' direction to create extra provisions with respect to the non-recovery of the TCS on the LRS transaction impacted its profitability. Elevated operating expenses, along with the slight uptick in credit costs, led to the bank reporting a net loss of Rs. 22 crore in 9M FY2024, translating into a return on average assets of -0.32%. The bank's ability to contain to grow its loan book and revive fee income growth would remain imperative for improving its profitability.

Continued dependence on capital support as loss-absorption cushions narrow – The bank's overall risk-weighted density increased in FY2023 due to the higher risk weight of some of its business segments. Although the decline in its overall asset base helped it witness a marginal increase in its capitalisation ratios in 9M FY2024, the same remain significantly below the FY2022 level. While the parent infused capital in Q4 FY2024, SBM Bank (India) Ltd.'s near-to-medium-term dependency on fresh capital raises or parent support is likely to continue given the expectation of losses in the near term.

Decline in deposits – SBM Bank (India) Ltd's deposit base declined by 12.6% to Rs. 6,395 crore as on December 31, 2023, from Rs. 7,319 crore as on March 31, 2023. This was largely due to the uncertainty and regulatory actions on the bank in January 2023, following which its deposit base as well as loan book declined. These developments, along with the gradual shift from fintech segments, impacted deposit traction. As some of the business/fintech arrangements helped shore up the bank's current account deposits earlier, the gradual shift from this led to a decline in its current account deposit level to Rs. 815 crore as on December 31, 2023, from Rs. 1,114 crore as on March 31, 2023. SBM Bank (India) Ltd.'s saving deposit base declined to Rs. 867 crore as on December 31, 2023, from Rs. 932 crore as on March 31, 2023. The ability to retain customers will remain a key driver of the deposit base. Despite the limited growth, the cost of interest-bearing funds remained elevated at 6.60% in 9M FY2024 (5.60% in FY2023), increasing further as the deposit base was repriced. The ability to revive the deposit base will be a key driver of SBM Bank (India) Ltd.'s ability to grow its loan book and improve its profitability.

Furthermore, the overall deposit concentration level, as reflected by the share of the top 20 depositors, remained high at 21% of the total deposits as on December 31, 2023 (22% as on March 31, 2023 and 34% as on March 31, 2022) although it is comparatively lower than past levels.

Liquidity position: Adequate

SBM Bank (India) Ltd continued to maintain its statutory liquidity ratio (SLR) at ~36-45% of net demand and time liabilities (NDTL) on the fortnightly reporting dates between June 2023 and December 2023, which was ~18-27% above the regulatory minimum of 18%. As a result, its liquidity coverage ratio stood at 142% as on January 15, 2024, well above the regulatory requirement of 100%. Despite the high level of surplus Government securities, which can be sold to generate liquidity, SBM Bank (India) Ltd has negative cumulative mismatches in the less than 1-year bucket because of the relatively longer tenor of its loans in relation to deposits as per the structural liquidity statement (SLS). Going forward, its ability to maintain a high rollover rate of deposits and improve the granularity of its deposit base will remain a key factor for sustaining liquidity.

Rating sensitivities

Positive factors – A sustained improvement in the profitability levels and an increase in the capital cushions will be positive factors. An improvement in the credit profile of the SBM Group (Mauritius) will also be a positive factor.

Negative factors – Capital cushion below 2% of the Tier I regulatory requirement (9.5%) and continued weakness in the earnings profile will be negative factors. Further, a deterioration in the credit profile of the SBM Group (Mauritius) or lack of adequate funding support to maintain the capital and liquidity cushions, if required, will be negative factors.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Banks and Financial Institutions Rating Approach - Implicit parent or group support
Parent/Group support	**Group Company: SBM Holdings Limited** ICRA expects SBM Bank (India) Ltd's parent, SBM Holdings Limited, which is also the holding company of SBM Bank (Mauritius) Limited, to be willing to extend financial support to the bank, if required, given the high strategic importance it holds for SBM Holdings Limited for meeting its diversification objectives and for driving growth in the region. SBM Holdings Limited and SBM Bank (India) Ltd share a common name, which, in ICRA's opinion, would persuade the parent to provide financial support to the bank to protect its reputation from the consequences of a group entity's distress.
Consolidation/ Standalone	Standalone

About the company

The SBM Group (Mauritius) commenced banking operations in India in 1994 with four branches (Mumbai, Chennai, Hyderabad and Ramachandrapuram), which operated as branches of SBM Bank (Mauritius) Limited. In December 2018, the RBI sanctioned a Scheme of Amalgamation for the Indian branches of SBM Bank (Mauritius) Limited and SBM Bank (India) Ltd, which was granted a licence to carry out banking operations under the WOS mode. The scheme became effective from December 1, 2018. Following this, all the Indian branches started functioning as branches of SBM Bank (India) Ltd. As on June

30, 2021, the bank had eight branches in India against four at the time of its conversion to a WOS. It currently has 16 branches across India.

SBM Bank (India) Ltd reported a net loss of Rs. 22 crore in 9M FY2024 (net profit of Rs. 21 crore in FY2023) on a total asset base of Rs. 8,171 crore as on December 31, 2023 (Rs. 10,125 crore as on March 31, 2023). The capital-to-risk weighted assets ratio (CRAR) stood at 16.63% as on December 31, 2023 (16.16% as on March 31, 2023; 17.28% as on March 31, 2022). The asset quality metrics increased marginally with the GNPA and NNPA at 2.36% and 0.47% respectively as on December 31, 2023 (1.98% and 0.34%, respectively, as on March 31, 2023; 2.10% and 0.39%, respectively, as on March 31, 2022).

SBM Bank (Mauritius) Limited

Established in 1973, it is the second-largest domestic bank in Mauritius. It provides retail, corporate, small and medium-sized enterprise and cross-border banking as well as other services, including bancassurance, financial market services such as structured treasury and money market instruments, and custodial services. In 2014, the Group restructured its operations and segregated its banking operations from its non-banking operations. SBM Holdings Limited was established as the new holding company for the operating companies and is the entity listed on the Stock Exchange of Mauritius.

For calendar year (CY) 2022, SBM Bank (Mauritius) Limited reported a net profit of $79.9 million on total assets of $6.08 billion as on December 31, 2022 compared to a net profit of $50.1 million in CY2021 on total assets of $6.26 billion as on December 31, 2021. It reported a Tier I capital of 15.32% as on December 31, 2022 compared to 17.33% as on December 31, 2021.

SBM Holdings Limited

SBM Holdings Limited is the holding company of all the banking and financial activities of the SBM Group (Mauritius). It houses two intermediate investment arms of the Group, namely SBM (Bank) Holdings Limited for banks and SBM (NFC) Holdings Limited for non-banks, which together operate banking and non-banking entities across Africa and India. Furthermore, the Government of Mauritius (rated Baa2 (negative) by Moody's) is the largest shareholder in SBM Holdings Limited.

SBM Holdings Limited is the ultimate holding company of SBM Bank (India) Ltd and SBM Bank (Mauritius) Limited. On a consolidated basis, it reported a net profit of $91.3 million in 9M CY2023 on total assets of $8.18 billion as on September 30, 2023 compared to a net profit of $82.3 million in CY2022 on total asset base of $8.18 billion as on December 31, 2022, ($41.60 million in CY2021 on total assets of $8.12 billion as on December 31, 2021).

Key financial indicators (standalone)

SBM Bank (India) Ltd	FY2022	FY2023	9M FY2024
Total operating income^	232	407	293
Profit after tax	16	21	-22
Total assets	8,085	10,125	8,171
Return on average total assets	0.25%	0.23%	-0.32%
Common equity tier-I (CET-I) ratio	16.06%	11.46%	11.72%
CRAR	17.28%	16.16%	16.63%
Gross NPA	2.10%	1.98%	2.36%
Net NPA	0.39%	0.34%	0.47%

Source: SBM Bank (India) Ltd & ICRA Research; Amount in Rs. crore
^Total operating income includes net interest income and non-interest income
All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument		Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
					Mar 1, 2024	Jul-20-2023	Jul-28-2022	Sep-17-2021	Jun-03-2021	May-26-2020
1	Basel III Tier II Bonds	Long term	250	224	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
2	Certificates of Deposit Programme	Short term	500	Nil	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: ICRA Research

Complexity level of the rated instrument

Instrument	Complexity Indicator
Basel III Tier II Bonds	Highly Complex
Certificates of Deposit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instruments credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Certificates of Deposit**	Yet to be placed	NA	7-365 days	500.00	[ICRA]A1+
INE07PX08019	**Basel III Tier II Bonds**	Apr-05-2022	9.75%	Apr-05-2032^	125.00	[ICRA]A (Stable)
INE07PX08027	**Basel III Tier II Bonds**	Jan-24-2023	9.88%	Jan-24-2033*	99.00	[ICRA]A (Stable)
NA	**Basel III Tier II Bonds**	Yet to be placed	NA	-	26.00	[ICRA]A (Stable)

*^Call option available on April 5, 2027; *Call option available on January 24, 2028*

Source: SBM Bank (India) Ltd

Annexure II: List of entities considered for consolidated analysis – Not applicable

Corrigendum

Rationale dated March 1, 2024, has been revised as detailed below:

- The amount outstanding for the ISIN INE07PX08019 in Annexure-1 (Pg. 6) has been revised to Rs. 125 crore and the unallocated amount has been changed to Rs. 26 crore. Previously, inadvertently Rs. 150 crore was captured as the outstanding amount, which included the greenshoe of Rs. 25 crore and unallocated amount was inadvertently captured as Rs. 1 crore.
- Similarly, the amount outstanding for Basel III Tier II Bonds in the section "Rating History for past three years "(Pg. 5) reflects the amount outstanding as Rs. 224 crore instead of Rs. 249 crore.

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