

September 17, 2021

SBM Bank (India) Ltd: Rating reaffirmed; [ICRA]A+ (Stable) assigned to Bond Programme

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	[ICRA]A+ (Stable); Assigned
Certificate of Deposits	500.00	500.00	[ICRA]A1+; Reaffirmed
Total	500.00	750.00	

*Instrument details are provided in Annexure-1

Rationale

The rating assignment considers SBM Bank (India) Ltd's satisfactory performance with a steady scale of operations, which has supported its operating profitability. Additionally, on the asset quality front, most of the stressed legacy exposures have been largely provided for with net non-performing advances (NPAs) of 0.92% as on June 30, 2021. However, the special mention account (SMA)¹-1 and 2 books stood at 0.19% of the total standard advances as on June 30, 2021. The restructuring of accounts was limited at 0.10% of the loan book as on June 30, 2021. The bank remains in the expansion phase, leading to higher operational costs, thereby weighing on its overall profitability. Furthermore, despite the improvement in the granularity of the asset and liability profile, it remains concentrated given the scale of operations. The bank's ability to build a low-cost and granular liability base while reducing its cost of funds will remain critical for its ability to scale up its assets and absorb the increase in overheads to further improve its profitability.

The rating continues to draw comfort from the parentage in the form of SBM Holdings Limited, the ultimate holding company of SBM Bank (Mauritius) Limited (rated Baa3 (negative)/P-3/BCA ba2 by Moody's) and SBM Bank (India) Limited. SBM Holdings Limited is the holding company for all the banking and financial activities of the Group. 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 Baa3 (negative) by Moody's) is the largest shareholder in SBM Holdings Limited.

ICRA draws comfort from the operational linkages of SBM Bank (India) Limited with the Group and its position as a 100% step-down subsidiary of SBM Holdings Limited. The recent downgrade in the sovereign rating of Mauritius by Moody's to Baa3 (negative) from Baa2 (stable) has also translated into a negative outlook on the ratings of SBM Bank (Mauritius) Limited. ICRA will continue to closely monitor the credit profile and the impact of international developments on both SBM Holdings Limited and SBM Bank (Mauritius) Limited as these could also be the rating drivers of SBM Bank (India) Limited in the near to medium term. As per the Reserve Bank of India's (RBI) framework for the wholly-owned subsidiaries (WOS) of foreign banks in India, SBM (Bank) Holdings Limited has undertaken to provide necessary financial support to SBM Bank (India) Limited if it is unable to meet any of its liabilities as well as ensure that SBM Bank (India) Limited maintains a minimum net worth at the regulatory requirement of Rs. 500 crore.

¹ A special mention account (SMA) is an account exhibiting signs of incipient stress, resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the RBI guidelines; SMA 1 accounts are overdue by 31-60 days and SMA 2 accounts are overdue by 61-90 days

Key rating drivers and their description

Credit strengths

Parentage-driven rating – ICRA continues to draw comfort from the parentage of SBM Bank (India) Limited and its position as a step-down 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. Additionally, SBM Bank (Mauritius) Limited is the second largest bank in Mauritius with assets of USD 5.9 billion as on December 31, 2020. SBM Holdings Limited's operations are spread across countries like Kenya and Madagascar. The parent company's continued strong commitment towards supporting the Indian operations serves as a credit positive. Strong operational linkages with the Group in terms of ownership, a shared name and its overall importance in advancing the growth plans of the Group in the region provide further comfort.

In the past, the parent had portrayed support through capital infusions as the Indian branches transitioned to the subsidiary model with SBM (Bank) Holdings Limited infusing capital of ~Rs. 100 crore during FY2019-2020 for provisions on legacy stressed assets while maintaining the capital above the regulatory requirements. 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 'in-principle approval' to provide the necessary financial support to the Indian entity to meet any liability that SBM Bank (India) Limited is unable to meet. This remains in line with the RBI's framework for the WOS of foreign banks in India.

Adequate capitalisation, though weak internal accruals may lead to growth capital requirements – SBM Bank (India) Limited's net worth² stood at Rs. 617 crore as on June 30, 2021 (Rs. 599 crore as on March 31, 2021 and Rs. 519 crore as on November 28, 2018 at the time of conversion into a bank) against the regulatory requirement of Rs. 500 crore. The expansion in the capital cushion above the regulatory requirement was mainly on the back of a Rs. 52-crore infusion in FY2020 and a marginal improvement in internal capital accretion. The increased scale of the funded and non-funded business has resulted in higher income even though the scaling up of the business continues to drive a higher cost-to-income ratio.

SBM Bank (India) Limited's return on assets (RoA) improved to 1.34% of the average assets in Q1 FY2022 (0.52% in FY2021). This was partially supported by the recoveries against the NPAs, cyber fraud losses witnessed by the erstwhile Indian branches in FY2019 and gains on the bond portfolio amid declining yields. The capital ratios remained adequate with the CRAR at 17.84% as on June 30, 2021. Moving ahead, as the bank scales up its operations, the cost-to income ratio is likely to remain high, resulting in modest internal accruals. Accordingly, it may need to raise capital to scale up the business and to provide for unexpected asset quality shocks.

Credit challenges

Despite improvement in granularity, asset and liability base remains concentrated – SBM Bank (India) Limited's deposits and advances grew by ~11% and 3% on a sequential basis to Rs. 4,276 crore and Rs. 3,010 crore, respectively, as on June 30, 2021. The share of current and savings accounts (CASA) improved marginally to 22.8% as on June 30, 2021 (21.3% as on March 31, 2021) on the back of the uptick in CA deposits, but the same remains concentrated. Furthermore, the overall deposit concentration levels remain high with the share of the top 20 depositors remaining at 38% of the total deposits as on March 31, 2021 (43% as on March 31, 2020). The bank has foreign currency non-resident (FCNR) deposits, which accounted for ~18% of the term deposits as on June 30, 2021, though the same has declined from 40% over the last few fiscals. Given the competitive domestic cost of funding, these will not be rolled over in FY2022.

The bank disbursed ~Rs. 500 crore of fresh loans in Q1 FY2022, though higher repayments during the quarter kept the uptick in advances restricted to ~Rs. 100 crore as on June 30, 2021. The loan book concentration remains very high and the asset quality and profitability could remain susceptible to slippages of any large exposure. The top 20 exposures accounted for ~28%

² Includes revaluation reserve

of the total exposures and ~173% of the bank's net worth as on March 31, 2021 compared to ~50% and ~145%, respectively, as on March 31, 2020. Though the concentration has reduced, it remains very high and the asset quality and profitability could remain susceptible to slippages of any large exposure.

Operating profitability and return metrics to remain modest as bank scales up its operations – With the muted credit growth and excess liquidity, the net interest margin (NIM) as a percentage of the average total assets (ATA) declined to 2.01% in Q1 FY2022 (2.17% in FY2021). The net interest income (NII) stood at Rs. 27 crore for the quarter (Rs. 78 crore in FY2021). The fee income stood at 1.4% of average assets in Q1 FY2022 (1.08% in FY2021 excluding cyber fraud recoveries) and has been a driving factor in the overall increase in the bank's total operating income. However, as SBM Bank (India) Limited continues to scale up, the operating cost remains high at Rs. 36 crore or 2.7% of average assets (3.5% in FY2021), resulting in muted core operating profitability, which remained low at 0.83% of ATA in Q1 FY2022 (0.68% in FY2021). As the bank is in expansion mode, continued investments in branch and technology infrastructure are likely to remain a drag on its overall profitability. With limited fresh gross slippages in Q1 FY2022 of Rs. 2 crore (0.05% of standard advances), credit costs remained muted.

As a part of its strategy to improve the scale and profitability, SBM (Bank) India Limited is working towards offering various transaction-related businesses to improve the float of low-cost CASA deposits. To offer these services, the bank has tied up with third-party service providers. Further, on the asset side, while the focus is on relatively smaller-ticket loan exposures to mid-sized corporates, the bank continued to focus on relatively larger corporates because of the Covid-19-induced stress on mid-sized corporates. It also intends to conduct co-lending with its Group entities for large corporates and loan syndication activities for small and medium corporates, which will support diversified loan book growth. To improve its franchise and liability base, SBM (Bank) India Limited will position itself as a premium bank and expand its footprint in India by expanding its branches while outsourcing the associated infrastructure.

Asset quality remains monitorable, given recent scale-up of the loan book and limited cushion in operating profits – The GNPA and NNPA stood steady at 2.92% and 0.92%, respectively, as on June 30, 2021 (2.97% and 0.90%, respectively, as on March 31, 2021) driven by limited slippages while the provision coverage ratio (PCR) excluding write-offs remained satisfactory at 69.1% as on June 30, 2021 (70.3% as on March 31, 2021). The SMA 1 and SMA 2 balances stood at 0.19% of the standard advances as on June 30, 2021 (0.15% as on March 31, 2021). The bank has also provided loans under the Emergency Credit Line Guarantee Scheme (ECLGS) to customers which had SMA-2 status in the past; hence, the repayment behaviour of these accounts remains a monitorable. The restructuring book remained minuscule at 0.10% of the standard advances as on March 31, 2021 and SBM (Bank) India Limited does not expect any restructuring in FY2022. Given the limited operating profitability and the concentrated loan book, any slippage from the corporate borrowers could drive the credit provisions, which could put pressure on the bank's net profitability.

Liquidity position: Adequate

Supported by a high statutory liquidity ratio (SLR) of ~39% of the net demand and time liabilities (NDTL) as on June 30, 2021, which was above the regulatory requirement of 18%, the liquidity coverage ratio (LCR) remained comfortable at ~125% in Q1 FY2022. Despite a high level of surplus Government securities, which can be sold to generate liquidity, SBM (Bank) India Limited has negative cumulative mismatches in the less than 1-year bucket because of the relatively longer tenor of its loans as per the structural liquidity statement (SLS) as on June 30, 2021. While the bank has sizeable near-term liquid assets, high depositor concentration leads to high reliance on deposit rollovers to maintain liquidity. SBM (Bank) India Limited's overall liquidity position also remains supported by its access to borrowing from the parent (~50% of Tier I capital) and inter-bank lines of USD 270 million from domestic banks.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating on an improvement in the credit profile of the SBM Group.

Negative factors – ICRA could downgrade the ratings if the Tier I capital cushion declines to less than 2% over the regulatory levels (9.5%). Further, a deterioration in the credit profile of the SBM Group or lack of adequate funding support to help SBM Bank (India) Limited maintain its capital and liquidity cushions, if required, will be negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating Methodology for Banks Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Group Company: SBM Holdings Limited ICRA expects SBM Bank (India) Limited'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 that the bank holds for SBM Holdings Limited for meeting its diversification objectives and for driving growth in the region. Both SBM Holdings Limited and SBM Bank (India) Limited share a common name, which, in ICRA's opinion, would persuade SBM Holdings Limited 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

SBM Bank (India) Limited: The SBM Group commenced banking operations in India in 1994 with four branches in Mumbai, Chennai, Hyderabad and Ramachandrapuram, which operated as branches of SBM Bank (Mauritius) Limited. In December 2018, the RBI sanctioned a Scheme of Amalgamation of the Indian branches of SBM Bank (Mauritius) Limited and SBM Bank (India) Limited, which was granted a licence to carry out banking operations under the wholly-owned subsidiary (WOS) mode. The scheme came into effect from December 1, 2018. Following this, all the Indian branches started functioning as branches of SBM Bank (India) Limited. As on June 30, 2021, the bank had eight branches in India against four at the time of its conversion to a WOS.

The bank reported a net profit of Rs. 18 crore in Q1 FY2022 on a total asset base of Rs. 5,312 crore as on June 30, 2021. The CRAR stood at 17.8% as on June 30, 2021 (20.7% as on March 31, 2021). The asset quality improved marginally with the GNPA and NNPA at 2.92% and 0.92%, respectively, as on June 30, 2021 (2.97% and 0.90%, respectively, as on March 31, 2021).

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) 2020, SBM Bank (Mauritius) Limited reported a net profit of USD 37.8 million on total assets of USD 0.59 billion as on December 31, 2020 compared to a net profit of USD 14.3 million in CY2019 on total assets of USD 0.60 billion as on December 31, 2019. It reported a Tier I capital of 15.9% as on December 31, 2020 compared to 14.65% as on December 31, 2019.

SBM Holding Limited: SBM Holdings Limited is the ultimate holding company of SBM Bank (India) Limited and SBM Bank (Mauritius) Limited. On a consolidated basis, SBM Holdings Limited reported a net profit of USD 26.2 million on total assets of USD 0.75 billion as on December 31, 2020 compared to a net profit of USD 0.9 million in CY2019 on total assets of USD 0.74 billion as on December 31, 2019.

Key financial indicators (standalone)

SBM Bank (India) Limited	FY2020	FY2021	Q1 FY2022
Months	12	12	3*
Net interest income	48	78	27
Operating profit (excl trading gain)	26	25	11
Profit after tax	2	19	18
Loan book	1,266	2,917	3,010
Total assets	2,474	4,739	5,312
% Net interest margin / Average total assets	2.37%	2.17%	2.01%
% Return on average assets	0.09%	0.52%	1.34%
% Return on net worth	0.33%	3.11%	11.55%
% Tier I	31.48%	19.46%	16.80%
% CRAR	32.44%	20.72%	17.84%
% Gross NPA	8.59%	2.97%	2.92%
% Net NPA	2.90%	0.90%	0.92%
% PCR (excl TWO)	68.18%	70.33%	69.09%
% Solvency (Net NPA/Tier I capital)	6.61%	4.60%	NA

Source: SBM Bank (India) Limited & ICRA Research; Amount in Rs. crore

All ratios as per ICRA calculations;

*Return for Q1 FY2022 is annualised

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Rating	FY2022	FY2021	FY2020
					Sep-17-2021	Jun-03-2021	May-26-2020	Apr-30-2019
1	Basel III Tier II Bonds	Long Term	250.00	-	[ICRA]A+ (Stable)	-	-	-
2	Certificate of Deposit Programme	Short Term	500.00	-	[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
Certificate 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: 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
INE07PX16178	Certificate of Deposit	Jun-03-2021	4.80%	Nov-30-2021	25.00*	[ICRA] A1+
INE07PX16194	Certificate of Deposit	Jun-25-2021	4.30%	Dec-24-2021	25.00*	[ICRA] A1+
INE07PX16186	Certificate of Deposit	Jun-25-2021	4.30%	Dec-30-2021	25.00*	[ICRA] A1+
INE07PX16202	Certificate of Deposit	Jul-08-2021	4.30%	Jan-07-2022	25.00*	[ICRA] A1+
INE07PX16228	Certificate of Deposit	Aug-13-2021	4.30%	Feb-14-2022	25.00*	[ICRA] A1+
INE07PX16210	Certificate of Deposit	Aug-13-2021	4.30%	Feb-09-2022	25.00*	[ICRA] A1+
INE07PX16236	Certificate of Deposit	Aug-17-2021	3.95%	Nov-15-2021	25.00*	[ICRA] A1+
INE07PX16244	Certificate of Deposit	Aug-18-2021	4.30%	Feb-11-2022	25.00*	[ICRA] A1+
NA	Certificate of Deposit	Yet to be placed	-	7-365 days	300.00	[ICRA] A1+
NA	Basel III Tier II Bonds	Yet to be placed	-	-	250.00	[ICRA]A+ (Stable)

* As on August 31, 2021

Source: SBM Bank (India) Limited

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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