November 27, 2024

SBI Global Factors Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt programme	200	200	[ICRA]AAA (Stable); reaffirmed
Long-term/Short-term fund-based/Non-fund based bank lines^	2,452	5,050	[ICRA]AAA (Stable)/[ICRA]A1+ Reaffirmed/assigned
Commercial paper programme	750	750	[ICRA]A1+; reaffirmed
Total	3,402	6,000	

Instrument details are provided in Annexure I

Rationale

The ratings consider SBI Global Factors Limited's (SBIGF) strong parentage as it is a wholly-owned subsidiary of State Bank of India (SBI; rated [ICRA]AAA (Stable) for Basel III Tier II bonds). The ratings take into account the management support from SBI and the shared brand name, which strengthens ICRA's expectation that SBIGF is likely to receive timely and adequate financial support from the bank. Further, as it is a subsidiary of SBI, the company enjoys strong financial flexibility with access to diverse sources of funds at competitive rates. The ratings also factor in SBIGF's comfortable capitalisation with a net worth of Rs. 477 crore and a gearing of 3.3 times as on September 30, 2024. While the gearing is likely to rise with the increase in the scale of operations, ICRA expects the capitalisation to remain comfortable in the medium term.

ICRA, however, takes note of SBIGF's modest scale of operations with funds in use (FIU) of Rs. 2,102 crore as on September 30, 2024 (Rs. 1,837 crore as on March 31, 2024, and Rs. 1,278 crore as on March 31, 2023), given the high competition in the factoring business. The gross stage 3 stood at 1.6% as on September 30, 2024. The company's profitability has been supported by recoveries from written-off accounts with an annualised return on assets of 2.4% in H1 FY2025 (2.8% in FY2024). Given the intense competition from larger banks, SBIGF's ability to maintain its funding costs will be a key driver of its ability to grow its FIU, while its ability to maintain the asset quality will be the main factor for a sustained improvement in its profitability.

The Stable outlook reflects ICRA's expectation of continued benefit from the company's parentage, including capital support if required, financial flexibility as it is a subsidiary of SBI and operational synergies with the parent.

Key rating drivers and their description

Credit strengths

Strong parentage – SBIGF is a wholly-owned subsidiary of SBI. It receives considerable management support from the bank. SBIGF's Managing Director (MD) and Chief Executive Officer (CEO) was also at SBI earlier. Further, its Chairman is the MD – Corporate Banking & Subsidiaries of SBI. Additionally, some of the heads of SBIGF's branches are appointed through deputation from SBI. As it is a subsidiary of SBI, the company enjoys financial flexibility with access to diverse sources of funds at competitive rates. It also has access to sizeable unutilised bank lines from its parent to meet any liquidity requirements. Given the shared brand name, ICRA expects the company to receive capital/liquidity support from the parent, if required.

Comfortable capitalisation – The company's capitalisation remained comfortable with a capital-to-risk weighted assets ratio (CRAR) of 25.6% (Tier I – 21.1%) and a gearing of 3.3 times as on September 30, 2024. Given the strong growth plans, ICRA expects the gearing to increase in the medium term, though it is likely to remain comfortable. Further, capital support from the parent is expected to be forthcoming if required.

The company reported a return on managed assets (RoMA) and a return on equity (RoE) of 2.4% and 10.5%, respectively, in H1 FY2025 (2.8% and 10.3%, respectively, in FY2024 and 2.4% and 8.0%, respectively, in FY2023). Given the limited scale of operations, the operating expenses remain elevated. Profitability is, however, supported by the reversal in credit costs with the recoveries from the written-off accounts. Given the expectation of limited incremental recoveries from the written-off pool and intense competition from larger banks, SBIGF's ability to maintain its funding costs will be a key driver of its ability to grow its FIU while its ability to maintain the asset quality will be the main factor for a sustained improvement in its profitability.

Credit challenges

Moderate scale of operations; exposure to unsecured loans – The company's scale of operations remains moderate with FIU of Rs. 2,102 crore as on September 30, 2024 (Rs. 1,278 crore as on March 31, 2023). Despite the strong growth, the scale of operations remains moderate, given the competition in the factoring industry from banks. The core factoring business, which includes domestic factoring, export factoring and the Trade Receivables Electronic Discounting System (TReDS), accounted for 68.7% of the FIU as on March 31, 2024. Letter of credit discounting, reverse factoring and investment in gold loan pools accounted for 0.8%, 2.6% and 24.6%, respectively, of the FIU as on September 30, 2024.

The company's asset quality had been impacted by the legacy accounts, which were sanctioned by Global Trade Finance (GTF) before SBIGF came into existence. Following the merger of GTF and SBI Factors in FY2011, the credit policy and client selection process were revamped. As a result, fresh slippages from the newer originations have been limited. Supported by write-offs and recoveries over the years, the company's gross stage 3 declined to 1.6% on September 30, 2024 from 12.4% as on March 31, 2021. Further, the stage 3 assets are adequately provided for with net stage 3 of 0.1% of total assets as on September 30, 2024. Going forward, losses upon default can be high as the exposures taken by the company are typically unsecured. Hence, its ability to maintain strong asset quality on a consistent basis is key for profitability.

Liquidity position: Adequate

As on September 30, 2024, SBIGF held Rs. 7.2 crore of cash and liquid investments along with Rs. 1,862 crore of unutilised bank lines against total debt repayment of Rs. 1,492 crore until March 31, 2025. The liquidity is further supported by the high churn in the loan portfolio. The company had no cumulative mismatches up to three years as per the Statement of Structural Liquidity (SLS) as on September 30, 2024.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The ratings could be revised if there is a deterioration in the credit risk profile of the parent or a significant change in the shareholding or linkages with the parent. A material deterioration in the asset quality, affecting the company's capitalisation, could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs)
Parent/Group support	The ratings factor in the high likelihood of financial support from SBI to SBIGF, driven by reputational and strategic considerations.
Consolidation/Standalone	The ratings are based on the company's standalone financial statements.

About the company

SBIGF was incorporated in 2010 following the merger of SBI Factors & Commercial Services Pvt. Ltd. with Global Trade Finance Ltd. Prior to September 5, 2022, SBI held an 86.18% stake in SBIGF while the balance was held by Small Industries Development Bank of India (SIDBI), Bank of Maharashtra (BoM) and Union Bank of India (UBI). On September 5, 2022, SBI acquired the entire stake from the other shareholders via a share purchase agreement and SBIGF is now a wholly-owned subsidiary of SBI.

Headquartered in Mumbai with 10 branches across India, SBIGF provides export and domestic factoring services with a focus on small and medium-sized enterprises (SMEs). It is licensed by the Reserve Bank of India to undertake export (with and without recourse) and import factoring. SBIGF is a member of Factors Chain International (FCI), an umbrella organisation for global factoring companies.

Key financial indicators (audited)

SBI Global Factors Limited	FY2023	FY2024	H1 FY2025
Total income	113	142	102
PAT	31	44	24
Total managed assets	1,278	1,885	2,149
Return on managed assets	2.4%	2.8%	2.4%
Managed gearing (times)	2.1	3.0	3.3
Gross stage 3	2.7%	2.4%	1.6%
CRAR	34.4%	26.7%	25.6%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Nov 27, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Subordinated debt programme	Long term	200	[ICRA]AAA (Stable)	22-May-24	[ICRA]AAA (Stable)	22-Mar-24	[ICRA]AAA (Stable)	27-Jun-22	[ICRA]AAA (Stable)	30-Jun-21	[ICRA]AAA (Stable)
								29-Mar-23	[ICRA]AAA (Stable)		
Long-term/Short-term fund-based/Non-fund based bank lines	Long term/ Short term	5,050	[ICRA]AAA (Stable)/ [ICRA]A1+	22-May-24	[ICRA]AAA (Stable)/ [ICRA]A1+	22-Mar-24	[ICRA]AAA (Stable)/ [ICRA]A1+	27-Jun-22	[ICRA]AAA (Stable)/ [ICRA]A1+	30-Jun-21	[ICRA]AAA (Stable)/ [ICRA]A1+
								29-Mar-23	[ICRA]AAA (Stable)/ [ICRA]A1+		
Commercial paper programme	Short term	750	[ICRA]A1+	22-May-24	[ICRA]A1+	22-Mar-24	[ICRA]A1+	27-Jun-22	[ICRA]A1+	30-Jun-21	[ICRA]A1+
								29-Mar-23	[ICRA]A1+		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt programme	Very Simple
Commercial paper programme	Very Simple
Long-term/Short-term fund-based/Non-fund based bank lines	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 instrument's 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 as on September 30, 2024

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE912E08AE7	**Subordinated debt programme**	Jul 28, 2021	7.28%	Jul 28, 2031	100.0	[ICRA]AAA (Stable)
Not yet placed	**Subordinated debt programme**	-	-	-	100.0	[ICRA]AAA (Stable)
Not applicable	**Long-term/Short-term fund-based/Non-fund based bank lines – Others**	-	-	-	5,050.0	[ICRA]AAA (Stable)/[ICRA]A1+
Not yet placed	**Commercial paper programme**	-	-	7-365 days	750.0	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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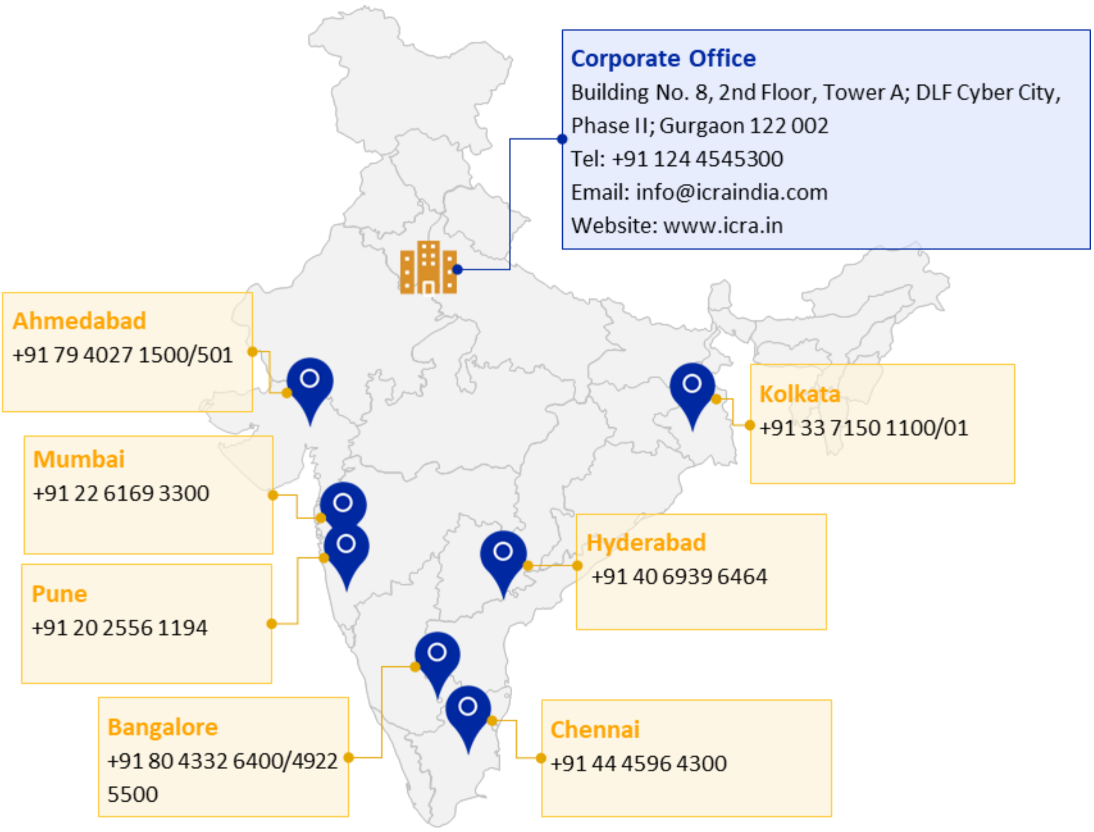

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