February 19, 2025

BOBCARD Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Subordinated debt programme	50.00	50.00	[ICRA]AAA (Stable); reaffirmed
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating derives significant strength from BOBCARD Limited's (BOBCARD) parentage. BOBCARD is a wholly-owned subsidiary (WOS) of Bank of Baroda (BOB; rated [ICRA]AAA (Stable) for Tier II bonds and [ICRA]AA+ (Stable) for Tier I bonds), which is India's second largest public sector bank (PSB) and the fourth largest bank in the Indian financial system in terms of total business (advances and deposits). As the credit card business is one of the bank's key product offerings to its customers, BOBCARD remains strategically important for the bank. This is also reflected in BOB's track record of providing branding, management, capital and funding support to the company and its stated intent of continuing to do so in future, as and when required.

The rating also factors in the company's adequate capitalisation (supported by regular capital infusions by the parent) and liquidity profile. With BOB's increased focus on expanding the credit card business, BOBCARD has seen robust growth in its credit card base over the last two fiscals, notwithstanding some moderation in 9M FY2025, given the industry headwinds. In line with the industry trend, the company has also witnessed a moderation in its asset quality with gross non-performing advances (GNPAs) + write-offs[1], as a percentage of the gross loan book, increasing to 6.8% as on December 31, 2024 from 5.1% as on September 30, 2024 (9.6% as on March 31, 2024). Given the unsecured nature of the business and the stress in the operating environment, BOBCARD's asset quality indicators are expected to remain volatile. Its ability to control fresh slippages, and hence credit costs, would be imperative for improving its profitability indicators from the currently modest levels.

BOBCARD's borrowing and gearing levels rise in tandem with the growth in credit card receivables. Its leverage (Debt/Net owned funds; NOF) stood at 4.6 times as on September 30, 2024 (4.1 times as on March 31, 2024). Although BOBCARD will continue to grow, regular capital infusions by the parent would keep the leverage in check. Dependency on capital support from the parent is likely to continue over the near to medium term.

The Stable outlook reflects ICRA's expectation that BOB will continue to maintain a majority stake in BOBCARD and also extend managerial and funding support to the company, as and when needed, given its strategic importance to the bank.

Key rating drivers and their description

Credit strengths

Strong parentage – BOBCARD is wholly owned by BOB and holds its credit card business, which is one of the key product offerings for the bank's customers. It is, hence, a strategically important entity for BOB. This is also reflected in the bank's track record of providing branding, management, capital and funding support to the company. BOB is represented by members on

[1] *Write-off excluding FD/BG received from partners against write-offs*

BOBCARD’s board apart from two independent directors and the company’s underwriting policies are approved by the board. BOB has renewed its focus on the card segment. It intends to grow this segment profitably by tapping its huge customer base and has inducted professional management to grow the business.

Given its modest internal accruals in relation to its growth plans, BOBCARD may need to raise equity capital at regular intervals. In this regard, BOB has demonstrated its support through regular capital infusions of late, including Rs. 300 crore in 9M FY2025, which follows the Rs. 700-crore capital infusion in FY2023. In addition to the credit card business, BOBCARD manages the BOB’s merchant acquiring business. This is managed on a cost-plus basis, requiring minimal capital for operations in relation to its overall asset base, and its contribution to the overall revenues remains negligible.

Adequate capitalisation and liquidity – BOBCARD’s credit card receivables base grew sharply over the last few years and was largely funded through bank borrowings and commercial paper (CP). As a result, the total borrowings increased to Rs. 5,205 crore as on December 31, 2024 from Rs. 3,794 crore as on March 31, 2024. The capital adequacy ratio (CRAR) stood at 18.2% as on September 30, 2024 with the Tier I at 15.1% (18.3% and 15.0%, respectively, as on March 31, 2024). The reported capital adequacy moderated due to the enhanced risk weights mandated by the regulator in Q3 FY2024, the impact of which was somewhat mitigated by the capital infusion in the current fiscal. As for liquidity, in addition to the positive gaps in the asset-liability maturity profile arising out of the short-term nature of the assets, the company maintains sufficient undrawn bank limits for CP maturities and for funding the expected growth in card receivables. The liquidity profile is also supported by the financial flexibility enjoyed by virtue of its parentage.

Credit challenges

Market share remains marginal; asset quality continues to be highly vulnerable – Although credit card receivables account for more than 85% of BOBCARD’s assets and despite being in business for over two decades, its market share in credit cards remains marginal at 2.7% in terms of cards in force and 1.6% in terms of credit card spends as on December 31, 2024 (2.5% and 1.4%, respectively, in FY2024). As the credit card segment remains relatively risky and losses upon default are high, the company could face significant volatility in earnings as well as asset quality indicators. Given the lower slippages in proportion to advances, along with write-offs, GNPAs + write-offs stood at 6.8% as on December 31, 2024 compared to 9.6% as on March 31, 2024. BOBCARD’s ability to control slippages and report an improvement in the asset quality remains monitorable.

Modest earnings profile – With the growing card base, gross receivables increased to Rs. 5,570 crore as on September 30, 2024. Operating profitability, however, remained under pressure due to the higher cost-to-income ratio. Operating expenses (primarily employee cost and BO costs) have also been witnessing an upward trend due to the scaling up of operations and the increasing share of the open market sourcing of cards. Although these costs remain low compared to peers, these are likely to grow for co-branding partners to push the product in the market. Elevated credit costs kept the company’s profitability modest in 9M FY2025.

ICRA notes that the modest net profitability leads to the absence of buffers to absorb any asset-side shocks. Going forward, the low share of interest-earning assets, in relation to the industry average, in receivables (EMI + Revolvers) coupled with the lower spend per card could lead to further weakening in the operating income. The company's ability to scale up the credit card receivables portfolio with a higher share of income-earning assets while keeping acquisition and credit costs in check will remain key for improving the earnings profile.

Liquidity position: Adequate

Around 50% of BOBCARD’s portfolio comprises transactors that mature over 1-2 months, leading to positive asset-liability gaps across all maturity buckets as on September 30, 2024. The company has debt obligations of Rs. 3,911 crore over the next six months against expected advance collections of Rs. 4,802 crore along with cash balances and investments of Rs. 603 crore and unutilised bank lines of Rs. 937 crore as on September 30, 2024. The company’s liquidity profile benefits from adequate access to funding and good financial flexibility by virtue of its parentage.

Rating sensitivities

Positive factors – Not applicable

Negative factors – ICRA could downgrade the rating in case there is a dilution in BOBCARD's strategic importance to BOB. Further, any change in the outlook or a downgrade in BOB's credit rating will lead to a similar action on BOBCARD's rating.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	[Non-banking Financial Companies (NBFCs)]
Parent/Group support	**Parent company: Bank of Baroda (BOB)** The rating factors in the parentage in the form of BOB and its stated intent to provide requisite management, capital and funding support to BOBCARD as and when required. BOB and BOBCARD share a common name, which, in ICRA's opinion, would persuade BOB to provide financial support to the company to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

BOBCARD Limited, incorporated in 1994 and a wholly-owned subsidiary of Bank of Baroda (BOB), is a non-deposit taking non-banking financial company registered with the Reserve Bank of India. BOB infused Rs. 300 crore into the company in 9M FY2025, which had a credit card base of 29.4 lakh as on December 31, 2024. The corporate as well as registered offices are in Mumbai. BOBCARD operates through its regional offices spread across the country.

Key financial indicators (audited)

BOBCARD Limited	FY2023	FY2024	9M FY2025
Total income	866	1,304	1,288
PAT	1.5	90.4	39.4
Total managed assets	3,819	5,456	7,159
Return on avg. managed assets	0.1%	1.9%	0.8%
Reported gearing (times)	2.2	3.5	3.6
Gross NPA/Gross advances	5.1%	3.7%	3.4%
CRAR	30.6%	18.3%	17.7%

Source: Company, ICRA Research

All ratios as per ICRA's calculations; Amount in Rs. crore

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 19, 2025	Date	Rating	Date	Rating	Date	Rating
Subordinated debt programme	Long term	50.00	[ICRA]AAA (Stable)	Feb-20-24	[ICRA]AAA (Stable)	Feb-21-23	[ICRA]AAA (Stable)	Feb-22-22	[ICRA]AAA (Stable)

Complexity level of the rated instruments

Instrument	Complexity indicator
Subordinated debt programme	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 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

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
INE027208011	**Subordinated debt**	Mar 9, 2021	7.65%	Mar 7, 2031	50.00	[ICRA]AAA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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ABOUT ICRA LIMITED

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