

RL/SIDBILT/309893/NCD/0123/50574/138691294

January 11, 2023

Mr. Ajit Nath Jha

General Manager

Small Industries Development Bank of India

SIDBI, C-11, Z Block, 4th Floor,

Near Bank of Baroda, Bandra Kurla Complex,

Bandra (E)

Mumbai - 400 051



Dear Mr. Ajit Nath Jha,

Re: CRISIL Rating on the Rs. 35000 Crore Non Convertible Debentures of Small Industries Development Bank of India

We refer to your request for a rating for the captioned Debt instrument.

CRISIL Ratings has, after due consideration, assigned a CRISIL AAA/Stable (pronounced as CRISIL triple A rating with Stable outlook) rating to the captioned Debt instrument. Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.

Further, in view of your decision to accept the CRISIL Ratings, we request you to apprise us of the instrument details (in the enclosed format) as soon as it has been placed. In the event of your company not making the issue within a period of 180 days from the above date, or in the event of any change in the size or structure of your proposed issue, a fresh letter of revalidation from CRISIL Ratings will be necessary.

As per our Rating Agreement, CRISIL Ratings would disseminate the rating along with outlook through its publications and other media, and keep the rating along with outlook under surveillance for the life of the instrument. CRISIL Ratings reserves the right to withdraw, or revise the rating / outlook assigned to the captioned instrument at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL Ratings believes may have an impact on the rating. Please visit www.crisilratings.com and search with the name of the rated entity to access the latest rating/s.

As per SEBI circular (reference number: CIR/IMD/DF/17/2013; dated October 22, 2013) on centralized database for corporate bonds/debentures, you are required to provide international securities identification number (ISIN; along with the reference number and the date of the rating letter) of all bond/debenture issuances made against this rating letter to us. The circular also requires you to share this information with us within 2 days after the allotment of the ISIN. We request you to mail us all the necessary and relevant information at debtissue@crisil.com. This will enable CRISIL Ratings to verify and confirm to the depositories, including NSDL and CDSL, the ISIN details of debt rated by us, as required by SEBI. Feel free to contact us at debtissue@crisil.com for any clarification you may need.

Should you require any clarification, please feel free to get in touch with us.

With warm regards,

Yours sincerely,

Aesha Maru

Associate Director - CRISIL Ratings

Nivedita Shib

Associate Director - CRISIL Ratings



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CRISIL Ratings Limited

(A subsidiary of CRISIL Limited)

Corporate Identity Number: U67100MH2019PLC326247

Rating Rationale

January 11, 2023 | Mumbai

Small Industries Development Bank of India

'CRISIL AAA/Stable' assigned to Non Convertible Debentures

Rating Action

Rs.35000 Crore Non Convertible Debentures	CRISIL AAA/Stable (Assigned)
Fixed Deposits	CRISIL AAA/Stable (Reaffirmed)
Rs.2000 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned '**CRISIL AAA/Stable**' ratings to Rs.35,000 crore of non convertible debentures of Small Industries Development Bank of India (SIDBI) and reaffirmed its '**CRISIL AAA/Stable/CRISIL A1+**' ratings on the existing debt instruments.

The ratings continue to reflect the support the bank receives from the government of India (GoI) because of the key public policy role it plays in India's micro, small and medium enterprises (MSME) sector. The ratings also factor in the robust capitalisation; and healthy resource profile. The asset quality in the direct finance portfolio while weaker than refinance book, has seen improvement over the year.

The Reserve Bank of India (RBI) had allotted Rs 15,000 crore to SIDBI under the additional special liquidity facility (SLF) – 1 for on-lending and refinancing to banks and financial entities that sanction loans to MSMEs. Furthermore, the RBI allotted Rs 15,000 crore under SLF-2 to support the liquidity of intermediaries in fiscal 2022 and another Rs 16,000 crore under SLF-3 for innovative schemes to support the short- and medium-term needs of small MSMEs in credit-deficient and aspirational districts.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of SIDBI and its subsidiaries given the operational, managerial and financial linkages among the entities. Furthermore, the ratings continue to factor in the expectation of strong support from the government.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Continued strong support from the government given SIDBI's key public policy role in India's MSME sector

SIDBI plays an important role in channelling finance to MSMEs and implements government initiatives for MSMEs, which is a major driver for India's manufacturing output. In addition, Micro Units Development and Refinance Agency (MUDRA), which lends to micro/small business entities, has been set up as a wholly owned subsidiary of SIDBI.

SIDBI played a pivotal role in implementing the different schemes of the government and the RBI to support the MSME sector after the pandemic. Since the onset of Covid-19, the RBI has allotted Rs 46,000 crore under three tranches of SLF to support MSMEs. Furthermore, SIDBI enhanced the scope of its current schemes, such as SIDBI Make in India Soft Loan Fund for Micro Small and Medium Enterprises and SIDBI Assistance to Facilitate Emergency response against Coronavirus, to support the MSMEs affected by pandemic-induced lockdowns.

The government is likely to continue to support SIDBI given its role as the nodal agency for implementing public policies and channelling credit in the MSME sector.

Robust capitalisation

Capitalisation is supported by sizeable standalone network of Rs 26,045 crore as on September 30, 2022, and Rs 24,583 crore as on March 31, 2022. Network, on a consolidated basis, was Rs 22,132 crore as on March 31, 2021. Standalone capital adequacy ratio (CAR) was healthy at 20.6% as on September 30, 2022 (24.3% as on March 31, 2022). Asset-side risks were adequately covered, with network to net non-performing assets (NPAs) ratio at 208 times as on September 30, 2022 (186 times as on March 31, 2022).

With growth in asset base, borrowings (including deposits) have increased against which the RBI has allowed to increase the leverage to 18 times as on March 31, 2023, from 14 times earlier to meet the refinance requirement. Gearing^[1] remains within the regulatory requirement and stood at 12.4 times as on September 30, 2022 (8.8 times as on March 31, 2022).

Healthy and diversified resource profile

Borrowings (including deposits) were Rs 319,381 crore as on September 30, 2022 (Rs 216,590 crore as on March 31, 2022), of which deposits and bonds/debentures formed 46% and 9%, respectively. The bank has access to funds at low interest rates under the special refinance schemes of the RBI. Resource profile has been driven by increase in deposits allocated under the MSE refinance fund of SIDBI. Cost of borrowings for the bank stood at 3.41% (based on average of year-end numbers) in fiscal 2022 against 4.0% in fiscal 2021. While there was a slight uptick to 4.5% for the six months ended September 30, 2022, SIDBI continues to mobilise funds at competitive rates.

Weakness:**Average asset quality in the direct finance portfolio**

Asset quality metrics of direct finance portfolio was impacted in prior years, however SIDBI has seen improving trends on the back of write offs and lower incremental NPA in this segment. Consequently, GNPA's stood at 1.27% and 1.38% as on September 30 and March 31, 2022, respectively, compared with 2.41% in March 2021.

Overall GNPA's and net NPA's remained low at 0.07% and 0.04%, respectively, as on September 30, 2022, against 0.11% and 0.07%, respectively, as on March 31, 2022 (0.18% and 0.11%, respectively, as on March 31, 2021).

[1]As per CRISIL Ratings calculation.

Liquidity: Superior

The asset liability maturity profile as on September 30, 2022, is well matched across most buckets, with negative cumulative gap in 3 and 6 months buckets. These are expected to be met by rollover of liabilities in those buckets. As on September 30, 2022, SIDBI had total liquid investments of Rs 63,459 crore in the form of cash and bank balance (Rs 22,411 crore), investment in government securities (Rs10,593 crore) and other investments of Rs 30,454 crore.

Outlook: Stable

SIDBI is likely to continue to receive operational and funding support from the government and will maintain healthy capitalisation and resource profile over the medium term.

Rating Sensitivity factors**Downward factors**

- Any change in the support philosophy of the Gol or decrease in government shareholding, directly or indirectly (through quasi-government entities), below 51%
- Sharp weakening of the asset quality affecting profitability and capital levels

About the Bank

SIDBI was incorporated as a wholly owned subsidiary of IDBI Ltd in 1990. It is the apex financial institution for the MSME sector. State Bank of India (15.65%), Government of India (20.85%), Life Insurance Corporation of India (13.33%) and National Bank for Agriculture and Rural Development (9.36%) are its majority shareholders.

SIDBI provides refinance to banks, state financial corporations and state industrial development corporations that lend to units in the MSME sector. SIDBI also provides direct finance to the MSME sector by way of long-term loans, working capital facilities and discounting/rediscouinting bills of exchange. As on September 30, 2022, SIDBI had three wholly owned subsidiaries: SIDBI Venture Capital Ltd (SVCL), SIDBI Trustee Co Ltd (STCL) and MUDRA. MUDRA was established by the government through a statutory enactment and is responsible for developing and refinancing all institutions that lend to micro/small business entities engaged in manufacturing, trading and service activities.

SIDBI reported lower profit after tax (PAT) of Rs 1,958 crore on total income (net of interest expense) of Rs 3,348 crore in fiscal 2022, compared with Rs 2,398 crore on total income (net of interest expense) of Rs 4,623 crore in the previous fiscal, on the back of lower net interest margins. Return on assets (RoA) for fiscal 2022 stood at 0.9% (1.3% in fiscal 2021).

Growth in the asset book as well as a rising interest rate cycle benefitted profitability, resulting in higher PAT for the six months ended September 30, 2022, at Rs 1,465 crore; against Rs 945 crore in the corresponding period previous fiscal. RoA remained stable at 1.0% for the respective periods.

Key Financial Indicators: SIDBI

As on/for the period ended September 30	Unit	2022	2021
Total assets	Rs crore	3,52,599	1,70,746
Total income (net of interest expense)	Rs crore	2,608	1,456
Reported PAT	Rs crore	1,465	945
GNPA's	%	0.07	0.20
Overall CAR	%	20.6	30.9
RoA	%	1.0	1.1

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating outstanding with outlook
NA	Fixed deposit programme	NA	NA	NA	NA	Simple	CRISIL AAA/Stable
NA	Commercial paper programme	NA	NA	7-365 Days	2000	Simple	CRISIL A1+
NA	Non convertible debenture*	NA	NA	NA	35,000	Simple	CRISIL AAA/Stable

*Yet to be issued

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
MUDRA	Full	Subsidiary
SVCL	Full	Subsidiary
STCL	Full	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Bond	LT		--		--		--		--	29-12-20	Withdrawn	CRISIL AAA/Stable
Commercial Paper	ST	2000.0	CRISIL A1+		--	28-12-22	CRISIL A1+	28-12-21	CRISIL A1+	29-12-20	CRISIL A1+	CRISIL A1+
			--		--	24-06-22	CRISIL A1+		--		--	--
Fixed Deposits	LT	0.0	CRISIL AAA/Stable		--	28-12-22	CRISIL AAA/Stable	28-12-21	F AAA/Stable	29-12-20	F AAA/Stable	F AAA/Stable
			--		--	24-06-22	CRISIL AAA/Stable		--		--	--
Non Convertible Debentures	LT	35000.0	CRISIL AAA/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Rating Criteria for Banks and Financial Institutions
CRISILs criteria for rating fixed deposit programmes
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support
CRISILs Criteria for Consolidation

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