

## Small Industries Development Bank of India

September 06, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Short-term bank facilities	59,500.00 (Enhanced from 39,500.00)	CARE A1+ (A One Plus)	Reaffirmed
<b>Total bank facilities</b>	<b>59,500.00</b> <b>(₹ Fifty-nine thousand five hundred crore only)</b>		
Long-term/Short-term instruments	64,000.00 (Enhanced from 46,000.00)	CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/ A One Plus)	Reaffirmed
<b>Total long-term/short-term instruments</b>	<b>64,000.00</b> <b>(₹ Sixty-four thousand crore only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to Small Industries Development Bank of India (SIDBI) continue to factor-in its position as the apex financial institution for the promotion and development of the micro, small and medium enterprises (MSME) sector in India. The ratings also continue to factor-in the Government of India's (GOI's) support in the form of equity contribution and governance (GOI has the power to appoint the Chairman and Managing Director [CMD], two Whole-time Directors and two Nominated Directors on the Board of SIDBI), guarantee for foreign currency borrowings, and continued access to the MSE Refinance Fund (Rural Infrastructure Development Fund [RIDF]) for strengthening the bank's refinancing capabilities, besides SIDBI's ownership by public sector entities. The ratings continue to consider SIDBI's healthy capitalisation levels, strong resource profile, comfortable liquidity profile and moderate asset quality.

The continuation of SIDBI's position as the apex financial institution for the MSME sector, government support, and ownership by public sector entities, capitalisation levels and asset quality, and profitability are the key rating sensitivities.

### Rating sensitivities

**Positive factors – Factors that could lead to positive rating action/upgrade:** Not applicable

**Negative factors – Factors that could lead to negative rating action/downgrade:**

- Any material changes in the government support and/or strategic role played by SIDBI in supporting the MSME sector.
- Significant dilution in ownership by GOI and public sector entities.
- Deterioration in SIDBI's asset quality with gross non-performing asset (GNPA) ratio increasing to more than 3% of the total advances.
- Deterioration in SIDBI's standalone credit profile, including its profitability, liquidity and/or capitalisation metrics.

### Detailed description of the key rating drivers

#### Key rating strengths

**Government support and ownership by public sector entities:** SIDBI, being a nodal agency for the development of MSMEs in the country, receives continuous support from the GOI and the Reserve Bank of India (RBI) in the form of budgetary support and access to the MSE Refinance Fund from shortfall in priority sector lending (PSL) by the banks. SIDBI is owned by public sector banks, financial institutions, and the GOI, with the State Bank of India (SBI; 15.65%), GOI (20.85%), the Life Insurance Corporation of India (LIC; 13.33%) and the National Bank for Agriculture and Rural Development (NABARD; 9.36%), being the major shareholders.

The GOI has appointed Sivasubramanian Ramann as the Chairman and Managing Director of SIDBI, and nominated Devendra Kumar Singh (IAS; Additional Secretary & Development Commissioner (MSME), Ministry of MSME) and Lalit Kumar Chandel (IAS; Additional Secretary, Development of Financial Services) as the nominee directors.

**Healthy capitalisation levels:** SIDBI's capital adequacy parameters remained strong, with the bank reporting an overall capital adequacy ratio (CAR) of 21.53% as on June 30, 2022 and 24.28% as on March 31, 2022. During FY22 (refers to the period April 1 to March 31), SIDBI has increased its advance base by 29.46% after a negative growth in FY21, thereby resulting in increase in the risk weighted assets.

The overall gearing increased from 9.05x as on March 31, 2022 to 10.70x as on June 30, 2022, owing to increase in borrowings to fund growth in advances. The RBI has enhanced the borrowing limit of SIDBI to 14x of its net-owned funds (NOF) until March 31, 2023. SIDBI had received approval from the RBI for an umbrella limit to 300% of NOF up to March 31, 2023. The 'umbrella limit' consists of five instruments, viz., term deposits, term money borrowings, certificates of deposits (CDs), commercial papers (CPs) and inter-corporate deposits (ICDs).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Strong resource profile:** SIDBI has a very strong resource profile, consisting of mainly domestic and some overseas borrowings. Some of the overseas borrowings of SIDBI are guaranteed by the GOI. SIDBI also has access to the low-cost MSE Refinance Fund from scheduled commercial banks due to their shortfall in PSL targets, which forms a large portion of its resource profile. As on June 30, 2022, domestic market borrowings constituted 42.10% (FY22: 36.59%), MSE (RIDF) deposits constituted 52.86% (FY22: 61.07%) of the total borrowings, respectively, with overseas borrowings constituting 1.78% (FY22: 2.35%).

**Moderate profitability and spreads:** During FY22, the bank's total income decreased by 18.15% owing to a 14.74% decline in the interest income. The interest income declined, as much of the growth in advances occurred during the last quarter of FY22. Also, yield on advances plunged to 4.02% in FY22 from 5.49% in FY21 and 6.61% in FY20 on account of fall in the interest rates in the past two years. As yields declined at a faster pace than reduction in cost of funds, the interest spread moved down by 45 bps to 1.02%. Correspondingly, the net interest income (NII) was 18.1% lower at ₹3,012 crore in FY22. Overall, the spread in the lending activity is low due to the cap on the margin that SIDBI can charge for lending to banks and financial institutions (FIs) against RIDF deposits. SIDBI reported a one-time gain of ₹518 crore during Q1FY21 on account of reversal of funds from exchange risk fluctuation fund, as approved by the GoI. Resultantly, the overall profitability declined from 1.32% in FY21 to 0.92% in FY22.

During Q1FY23, the bank's total income increased by 39.59% over Q1FY22 on the back of 40% rise in the interest income. The NII was 70% higher at ₹1,134 crore in Q1FY23. Resultantly, the overall profitability improved from 1.07% in Q1FY22 to 1.16% in Q1FY23.

**Strong asset quality:** The asset quality of SIDBI has been improving over the years, consequent to the bank entering into settlements with state finance corporations (SFCs) and having stopped taking additional exposures. Currently, majority of its lending portfolio comprises indirect financing, which predominantly constitutes banks and other finance companies, including non-banking finance companies (NBFCs). Indirect finance constituted 92.94% (FY22: 92.90%) of the total portfolio as on June 30, 2022, while direct financing stood at 7.06% (FY22: 7.10%). Of the indirect finance portfolio, refinance to banks (including SFBs) constituted 82.63% (FY22: 82.49%) of the total portfolio of the bank, assistance to NBFCs constituted 8.84% (FY22: 8.87%) of the total portfolio, while assistance to MFIs (including SFCs) constituted 1.47% (FY22: 1.54%). SIDBI's GNPA's decreased to ₹218 crore in FY22 from ₹282 crore in FY21. The GNPA levels remained stable in Q1FY23. This, in conjunction with significant growth in the advances improved GNPA ratio and net NPA ratio to 0.11% and 0.07%, respectively, as on March 31, 2022 and June 30, 2022. The asset quality in the indirect financing segment remains strong; and most of the NPAs are from direct finance. The restructured assets formed 3.01% of the direct advances portfolio, which formed just 0.21% of the overall advances portfolio, as on March 31, 2022.

#### **Liquidity:** Strong

The liquidity profile is strong, on account of the longer tenure borrowings vis-à-vis shorter tenure lending. SIDBI's liquidity profile, as on June 30, 2022, exhibits positive cumulative mismatches across all-time buckets. SIDBI had cash and deposits with banks, of ₹13,280 crore, as on June 30, 2022. It also has strong access to the money market due to its status as an apex financial institution, owned by the GOI and its entities.

#### **Analytical approach**

While SIDBI's standalone profile as been considered, the assessment also factors-in the support it receives from GOI.

#### **Applicable criteria**

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

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[Factoring Linkages Government Support](#)

#### **About the company**

SIDBI is the apex financial institution for the MSME sector and is the nodal agency for the MSME-oriented schemes of the GOI. As on March 31, 2022, State Bank of India (SBI; 15.65%), GOI (20.85%), the Life Insurance Corporation of India (LIC; 13.33%) and the National Bank for Agriculture and Rural Development (NABARD; 9.36%) are the major shareholders. SIDBI provides refinance to primary lending institutions like banks (including SFBs), NBFCs, MFIs, etc, which in turn, lend to units under the MSME sector. SIDBI also provides direct finance to the MSME sector by way of long-term loans, working-capital facilities, discounting/rediscounting bills of exchange, etc.

As on March 31, 2022, SIDBI had three wholly-owned subsidiaries, viz., SIDBI Venture Capital Limited (SVCL), SIDBI Trustee Co Limited (STCL) and Micro Units Development & Refinance Agency Limited (MUDRA). GOI has set up MUDRA through a statutory enactment. MUDRA is responsible for developing and refinancing all institutions that are in the business of lending to micro/small business entities engaged in the manufacturing, trading and service activities. MUDRA would partner with state-level/regional-level coordinators to provide finance to the last mile financiers of small/micro business enterprises.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	11,165	9,139	3,113
PAT	2,494	2,012	776
Interest coverage (times)	1.48	1.42	1.54
Total assets	191,974	246,564	2,90,646
Net NPA (%)	0.12	0.07	0.07
ROTA (%)	1.32	0.92	1.16

A: Audited, UA: Unaudited

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Short-term bank facilities	-	-	-	23-Aug-23	36499.74	CARE A1+
Fund-based-Short-term bank facilities (Proposed)	-	-	-	-	23000.26	CARE A1+
LT/ST Instrument-CP / CD	INE556F14IB6	17-Jan-22	4.55%	16-Dec-22	1000.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F14ID2	02-May-22	4.65%	31-Oct-22	3500.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F14IE0	25-May-22	6.12%	27-Feb-23	2550.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F14IF7	29-Jul-22	NA	21-Oct-22	4000.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F14IG5	08-Aug-22	NA	10-Mar-23	2575.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F14IH3	23-Aug-22	NA	09-Nov-22	3500.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F14II1	30-Aug-22	NA	20-Mar-23	4000.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F16887	10-Jan-2022	4.62%	10-Jan-2023	850.00	CARE AAA; Stable / CARE A1+

LT/ST Instrument-CP / CD	INE556F16895	18-Jan-2022	4.62%	18-Jan-2023	1000.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F16903	31-Jan-2022	4.65%	31-Jan-2023	1000.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F16911	14-Feb-2022	4.92%	14-Feb-2023	1200.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F16929	15-Feb-2022	4.92%	15-Feb-2023	1300.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F16937	22-Feb-2022	4.76%	22-Feb-2023	3300.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F16945	3-Mar-2022	4.80%	3-Mar-2023	2500.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F16952	23-Mar-2022	4.85%	23-Mar-2023	2500.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F16960	30-May-2022	6.30%	30-May-2023	2200.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F16978	7-Jun-2022	6.40%	7-Jun-2023	925.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD	INE556F16986	29-Aug-2022	NA	29-Aug-2023	2200.00	CARE AAA; Stable / CARE A1+
LT/ST Instrument-CP / CD (Proposed)	-	-	-	-	23900.00	CARE AAA; Stable / CARE A1+

### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	LT/ST Instrument-CP / CD	LT/ST*	64000.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (07-Jul-22)	1)CARE AAA; Stable / CARE A1+ (02-Sep-21)	1)CARE AAA; Stable / CARE A1+ (04-Sep-20)	1)CARE AAA; Stable / CARE A1+ (31-Jan-20) 2)CARE AAA; Stable / CARE A1+ (04-Oct-19)
2	Fixed deposit	LT	18000.00	CARE AAA; Stable	1)CARE AAA; Stable (07-Jul-22)	1)CARE AAA (FD); Stable (28-Feb-22) 2)CARE AAA (FD); Stable (02-Sep-21)	1)CARE AAA (FD); Stable (04-Sep-20)	1)CARE AAA (FD); Stable (04-Oct-19)
3	MSE/RIDF deposits	LT	170000.00	CARE AAA;	1)CARE AAA; Stable	1)CARE AAA; Stable	1)CARE AAA; Stable	1)CARE AAA; Stable

				Stable	(07-Jul-22)	(02-Sep-21)	(28-Sep-20)	(31-Jan-20)
							2)CARE AAA; Stable (04-Sep-20)	2)CARE AAA; Stable (04-Oct-19)
4	Bonds	LT	-	-	-	-	-	1)Withdrawn (30-Apr-19)
5	Bonds	LT	-	-	-	-	-	1)Withdrawn (31-Jan-20) 2)CARE AAA; Stable (04-Oct-19) 3)CARE AAA; Stable (30-Apr-19)
6	Issuer rating-Issuer ratings	Issuer rat	0.00	CARE AAA (Is); Stable	1)CARE AAA (Is); Stable (07-Jul-22)	1)CARE AAA (Is); Stable (02-Sep-21)	1)CARE AAA (Is); Stable (04-Sep-20)	1)CARE AAA (Is); Stable (04-Oct-19)
7	Bonds-Unsecured redeemable	LT	46000.00	CARE AAA; Stable	1)CARE AAA; Stable (07-Jul-22)	1)CARE AAA; Stable (28-Feb-22) 2)CARE AAA; Stable (02-Sep-21)	1)CARE AAA; Stable (04-Sep-20)	1)CARE AAA; Stable (31-Jan-20) 2)CARE AAA; Stable (04-Oct-19) 3)CARE AAA; Stable (30-Apr-19)
8	Fund-based-Short term	ST	15000.00	CARE A1+	1)CARE A1+ (07-Jul-22)	1)CARE AAA; Stable (28-Feb-22) 2)CARE AAA; Stable (02-Sep-21)	1)CARE AAA; Stable (28-Sep-20) 2)CARE AAA; Stable (04-Sep-20)	1)CARE AAA; Stable (04-Oct-19) 2)CARE AAA; Stable (14-Jun-19)
9	Fund-based-Short term	ST	44500.00	CARE A1+	1)CARE A1+ (07-Jul-22)	1)CARE A1+ (28-Feb-22) 2)CARE A1+ (02-Sep-21)	1)CARE A1+ (28-Sep-20)	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-Short-term bank facilities	Simple
2	LT/ST Instrument-CP / CD	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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