



Press Release
BOBCARD LIMITED
September 24, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
BOND	100.00	ACUITE AAA Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of **'ACUITE AAA' (read as ACUITE triple A)** on the Rs. 100.00 crore Proposed Perpetual Bonds (Perpetual debt instruments in the form of Non-Convertible debentures) of BOBCARD Limited. The outlook will be **'Stable'**.

Rationale for the rating

The ratings on BOBCARD centrally factor in the company's strategic importance to, and the expectation of strong support from, its parent, Bank of Baroda. As on date, BOB holds 100% stake in BOBCARD. In FY23 Bank of Baroda had infused Rs 700 Cr. into BOBCARD, which shows the continuous support of Bank of Baroda in BOBCARDS. Moreover, it is expected that in FY25 another Rs 300 Cr. is expected to be infused by BOB (subject to regulatory approval) which again shows the continuous support from the parent entity. The perpetual Bond that is to be raised of Rs 100 Cr. would take the firms CAR 19.10% in FY-25 with Tier 1 Capital at 16.56% from CAR of 18.30% and a Tier 1 Capital adequacy ratio of 15.03% (FY23 CAR 30.54% and Tier 1 25.49%). The profitability of BOBCARD has improved considerably in FY-24 where PAT stood at Rs 90.38 Cr. and in FY-23 it stood at Rs 1.53 Cr. Moreover, total income net of interest expenses has also improved by 44.06% where in FY24 the total income was Rs 1069.88 Cr. and in FY23 it was Rs 742.66 Cr. Asset quality has seen stability as well where the GNPA improved to 3.67% in FY24 from 5.09% FY23. However the NNPA has seen a deterioration from 0.69% in FY23 to 1.18% respectively in FY24. This performance has come post the capital infusion from BOB and with further support from BOB it is expected that BOBCARDS would only continue to grow.

The rating also factors in the company's adequate capitalization. These strengths are partially offset by small, though increasing scale of operations, modest earnings and improving asset quality metrics.

About the company

Wholly owned by BoB, BOBCARD Limited (formerly, BoB Financial Solutions Limited) was incorporated in September 1994 as a credit card issuing non-banking financial company (NBFC). Its main business has been credit card issuance. In January 2024, the company underwent a rebranding, changing its name from BoB Financial Solutions Limited to BOBCARD Limited. The Director for BOBCARD is Shri. Ravindra Rai M who has a rich experience of more than 25 years in Banking at different levels. He has been a part of the Company in the capacity of Deputy Managing Director since March 31, 2023. Previous to the Company, the recent assignment was the Vertical Head of Gold Loan for Bank of Baroda. BOBCARD is headquartered in Mumbai, Maharashtra.

Unsupported Rating

ACUITE A+/Stable

Analytical Approach

Acuité has adopted the standalone approach while assessing the business and financial risk profile of the BOBCARDS. The standalone approach, however, also duly factors in the support expectations from the parent, i.e. Bank of Baroda

Key Rating Drivers

Strength

Strategic importance to, and expectation of strong support from, parent Bank of Baroda

BoB is expected to provide substantial support given the company's growing strategic relevance to the parent, as well as the latter's strong moral commitment due to ownership and brand sharing. The rating also takes into account BoB's stated determination to maintain a majority shareholding in BOBCARD and support it in the event of any future stress or exigencies.

While the current size of activities is limited, the strategic relevance is growing with a larger emphasis on the credit card business; BOBCARD is the platform via which the credit card business is conducted. A competent management team has been established, and the company has already changed its card management system to improve client experience, credit monitoring, and payments. Investing in technology to increase capacity will enable BOBCARD to penetrate the market through both open and digital channels. Board-level monitoring from BoB is expected to remain strong, while operational synergies will increase.

BoB maintains a 100% ownership in BOBCARD and has invested Rs 975 crore since its creation, including Rs 400 crore in March 2023 and Rs 300 crore in June 2022. Acuite Ratings believes that BOBCARD remains a key strategic subsidiary for BOB, as it manages the credit card business, which is crucial to the bank's retail strategy. Furthermore, name and brand sharing, operational, management, and board monitoring from BOB are planned to continue after the disposal. Even after the divestment, BOB will retain a majority share in BOBCARD. The same will continue to be a key monitorable.

Adequate capitalisation

BOBCARD's capitalisation parameters are adequate, having a total capital ratio of 18.30% as of March 31, 2024. It has decreased from 30.54% as of March 31, 2023, following the adjustment of risk weights for consumer loans as per the RBI's direction in November 2023. The gearing increased to 3.54 times as of March 31, 2024, from 2.22 times on March 31, 2023. The steady-state gearing is intended to stay below 5 times. Capitalization is supported by the parent's timely stock investment. BoB infused Rs 400 crore in March 2023 and Rs 300 crore in July 2022, bringing the total equity investment to Rs 975 crore since inception. Moreover further significant capital infusion is expected in FY25 to enhance operational performance of BOBCARD.

Acuite ratings has also taken note of the Reserve Bank of India (RBI)'s recent policies affecting the banking and NBFC sectors. NBFCs' risk weights for unsecured consumer loans (including credit card receivables) have increased by 25 percentage points to 125% from 100%. This legislation applies to all retail loans excluding those for houses, vehicles, education, gold loans, and microfinance/SHG. Increasing risk-weighted assets has lowered BOBCARD's capital adequacy ratio. However, parental support will continue to help capitalisation. Banks' exposure to NBFCs sees a 25% increase in risk weights (above the external rating) when the existing risk weight is less than 100%. Loans to HFCs and NBFCs that qualify for priority sector designation are excluded. This change may result in an increase in the cost of bank borrowing for the NBFC sector. This could result in a more diverse borrowing mix, including a greater use of capital market instruments and securitization, among other things. The ability of NBFCs to pass on rising borrowing rates will be watched

Weakness

Stable asset quality metrics

The gross NPA improved to 3.67% in FY24, compared to 5.09% in FY 2023 and 7.55% in FY 2022. This was due to portfolio growth and an increase in salaried customers. Net NPAs were 1.18 as on March 31 2024 and 0.69% as of March 31, 2023, according to IND-AS accounting standards.

Collection efficiency continued at 90-93% from FY24. BOBCARD has strengthened its risk management methods for customer sourcing over time. The organization has built effective transaction monitoring and fraud prevention systems, which will positively benefit the overall portfolio performance of the company. Nevertheless, given the segment of operations and amidst the economic environment, the ability of the company to manage its asset quality would remain a key monitorable.

Modest earnings profile

The company's revenue mostly originates from credit card transactions. After reporting losses until fiscal 2022, the company began to make profits, which were aided by an increase in operating size. In FY24, the company reported a PAT of Rs 90.38 crore, compared to Rs 1.53 crore in FY23 and a net loss of Rs 10.43 crore in FY22. This is also demonstrated by the lower operating expense to earning assets, which stood at 18.16% in FY24, compared to 20.16% and 28.53% in FY23 and FY22, respectively. As the company grows, operating expenses are likely to become more consistent. Nonetheless, the company's ability to manage profitability while expanding its portfolio remains an important metric.

Scale of operations

The majority of the company's revenue comes from Bank of Baroda's existing 140 million client base. Around 90% of leads are produced from BoB branches. To grow operations, the company is investing in technology, processes, and procedures to minimize turnaround time and acquisition costs, which will eventually lead to higher market share. Despite rapid development, BOBCARD's market share in terms of outstanding cards is still modest at about 2%, making it a minor player in the credit card market for the medium term.

ESG Factors Relevant for Rating

Public sector banks play a significant role in promoting financial inclusion in the country including facilitation of banking services in unbanked areas. Healthy corporate governance practices are important for sustainability in a bank's long term performance. Some of the critical governance factors in the banking sector include board independence and diversity, effectiveness of the board sub committees, shareholders' rights as well as policies on KMP compensation and business ethics. Further, for the financial services sector, data privacy, security of financial instruments and responsible investments are relevant social factors. Other material social factors involve employee management and talent retention given the manpower intensive nature of banking operations and various initiatives for community support and development. While the banking sector has low exposure to environmental risks, energy efficiency and electronic waste management carry moderate materiality. Bank of Baroda and BOBCARDS has taken multiple steps towards enhancement of shareholder rights. The bank has formed a stakeholders' relationship committee for redressal of grievances of shareholders and investors. The bank board also has a committee for performance evaluation of MD & CEO, Executive Directors and General Managers; this committee is constituted as per Government of India, Ministry of Finance, Department of Financial Services directives. The bank has taken initiatives and programmes for improvement of business ethics; these include full, accurate timely and meaningful disclosures in the periodic reports required to be filed by the Bank with government and regulatory agencies. In the environmental

category, the bank has financing products or services that help develop clean or renewable energy. Further in the social category, the bank continues to take initiatives towards career development of its employees by bridging the skill gap and imparting training through its 7 training colleges. The bank has recognised the importance of data privacy and has taken several initiatives towards it; it has put in place Captive Security Operation Centre (SOC) at Data Center and has also employed information security tools for Real-time monitoring of Information Security breach attempts / incidents / events on 24x7 basis. Some of the programmes of the bank under Corporate Social Responsibility (CSR) include engagement in Swachh Bharat Abhiyan, Beti Bachao Beti Padhao Abhiyan, rural socioeconomic development and health care to poor and under privileged

Rating Sensitivity

- Continued ownership & support from Bank of Baroda
- Movement in asset quality and profitability metrics
- Movement in capitalization adequacy levels
- Credit Rating movement of Bank of Baroda

Liquidity Position

Adequate

The bank's liquidity position is supported by its parent company Bank of Baroda. Its unutilized assets are at Rs 740.75 Cr. as on Aug 2024. The liquidity position is adequate.

Outlook: Stable

Acuité believes that BOBCARDS will benefit from the momentum financial performance until now in the near to medium term. The outlook may be revised to 'Positive' in case of higher than expected growth in loan book, equity infusion, improvement in key operating metrics and liquidity. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of any challenges in maintaining its asset quality and profitability metrics or any deterioration in liquidity position.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY24 (Actual)	FY23 (Actual)
Total Assets	Rs. Cr.	5134.35	3370.47
Total Income*	Rs. Cr.	1069.88	742.66
Profit After Tax (PAT)	Rs. Cr.	90.38	1.53
AUM	Rs. Cr.	4890.90	3285.73
Net Advances	Rs. Cr.	4605.49	2930.25
Capital Adequacy	(%)	18.30	30.54
Capital Adequacy (Tier 1 Capital)	(%)	15.03	25.49
Gross NPA	(%)	3.67	5.09
Net NPA	(%)	1.18	0.69
Return on Average Assets (RoAA)	(%)	2.13	0.06

Status of non-cooperation with previous CRA (if applicable):

None

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>
- Covered Bonds: <https://www.acuite.in/view-rating-criteria-83.htm>
- Hybrid Instruments Issued By NBFCs & HFCs: <https://www.acuite.in/view-rating-criteria-56.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not avl. / Not appl.	Proposed Perpetual Additional Tier I Bonds	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Highly Complex	100.00	ACUITE AAA Stable Assigned

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr. No.	Company Name
1	BOBCARD Limited
2	Bank of Baroda Ltd.

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Shabad Palakkal Associate Analyst-Rating Operations Tel: 022-49294065 shabad.palakkal@acuite.in	Varsha Bist Associate Vice President-Rating Administration Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.