

BUY

TP: Rs 1,011 | ▲ 18%

SBI CARD

| NBFC

| 29 July 2023

Higher provisions dent net profit

- Q1 credit cost climbed 130bps YoY to 7.1% of loans (calc.) owing to stress from customers acquired in CY19, inducing a 5% fall in net profit
- Revolver accounts muted; NIM stable as better yields on the EMI book set off a higher cost of funds
- TP revised to Rs 1,011 (vs. Rs 1,050) as we trim FY24/FY25 PAT forecasts by 8%/4%; maintain BUY

Mohit Mangal

research@bobcaps.in

Credit cost hits profitability: SBI Card's net profit declined 5% YoY (flattish QoQ) in Q1FY24 owing to higher credit cost at Rs 7bn or 7.1% of loans (+130bps YoY, 51bps QoQ), as stress emanated from customers acquired in CY19. These accounts constitute 16% of assets and 20% of NPA (Rs 600mn or 14bps) as of Q1. The company has boosted collection efforts and reduced credit limits to guard against further defaults, guiding for lower credit cost of 5.8-6.2% for H2FY24. GNPA/NNPA were stable at 2.4%/0.9% in Q1. We now bake in credit cost of 6.3%/6.2% for FY24/FY25 (vs. 6% each earlier) and consequently prune our PAT estimates by 8%/4% to Rs 26bn/Rs 33bn.

Spends growth robust: Q1 credit card spends climbed to a peak of Rs 739bn, rising 24% YoY and 3% QoQ. Corporate spends grew 10% YoY (-4% QoQ), constituting 21% of the total. Retails spends increased 28% YoY (+5% QoQ), forming 79% share. Cards in force grew 21% YoY to 17.3mn in Q1 with 0.6mn additions.

NIM stable; cost of funds guided to rise in Q2: NIM (calc.) was stable QoQ at ~11% as the company was able to pass on a higher cost of funds to customers. Yield on the EMI book increased 120-150bps. Non-interest income (including fee income) grew 23% YoY, showcasing high customer interest. Despite its assumption of no further rate hikes by RBI, management expects the cost of funds to increase by 5-10bps in Q2 as liabilities, especially longer-term funds, get repriced upward.

Revolving credit muted: Gross receivables rose 30% YoY to Rs 433bn in Q1, of which revolver credit grew 20%, EMIs 41% and transactors 30%. Revolver share remained muted at 24%, whereas EMI customers held at 38% of receivables.

Maintain BUY: SBI Card, India's only listed credit card player, remains in a strong position to grow backed by a wide array of offerings that drive robust spends. Q1 witnessed record growth in spends and non-interest income, but higher credit cost leads us to trim our net profit forecasts. This translates to a revised TP of Rs 1,011 (vs. Rs 1,050), set at an unchanged FY25E P/E multiple of 29x, 35% below the long-term mean. We retain BUY for a potential upside of 18%.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SBICARD IN/Rs 857
Market cap	US\$ 9.9bn
Free float	31%
3M ADV	US\$ 13.2mn
52wk high/low	Rs 1,029/Rs 696
Promoter/FPI/DII	69%/8%/17%

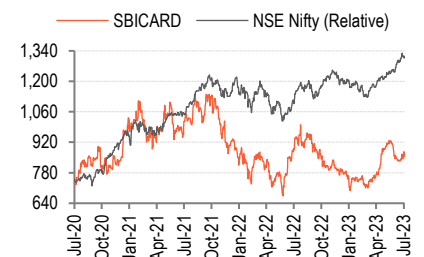
Source: NSE | Price as of 28 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income (Rs)	45,053	55,743	71,840
NII growth (%)	17.4	23.7	28.9
Adj. net profit (Rs mn)	22,585	26,241	33,106
EPS (Rs)	23.8	27.6	34.8
Consensus EPS (Rs)	23.8	29.0	37.0
P/E (x)	36.0	31.0	24.6
P/BV (x)	8.3	6.7	5.4
ROA (%)	5.6	5.2	5.3
ROE (%)	25.7	23.9	24.2

Source: Company, Bloomberg, BOBCAPS Research

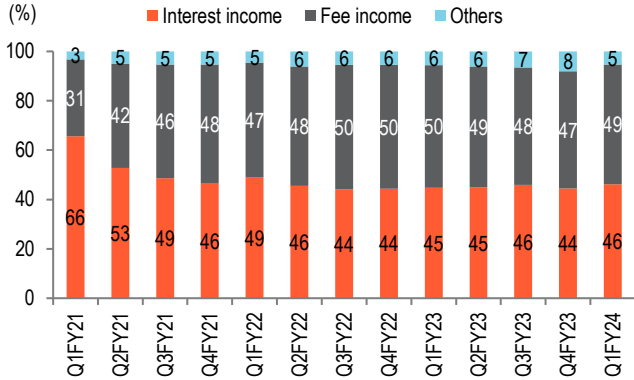
Stock performance



Source: NSE

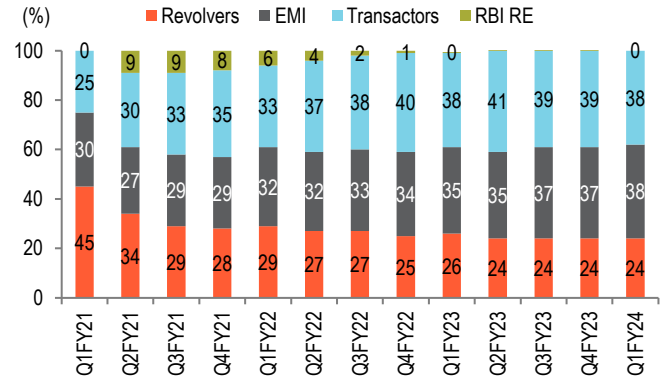


Fig 1 – Interest and fee income grew faster than other income QoQ



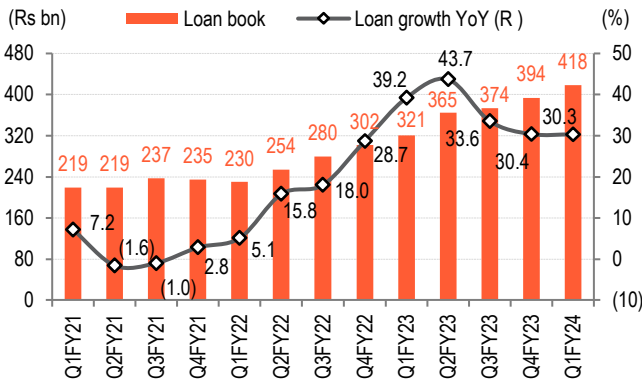
Source: Company, BOBCAPS Research

Fig 2 – Revolvers in receivables mix muted



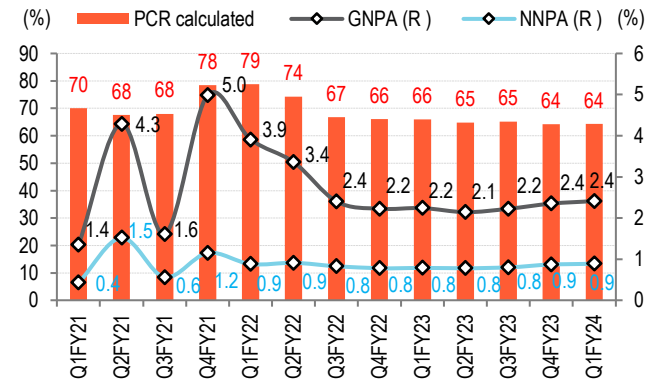
Source: Company, BOBCAPS Research | EMI: Equated Monthly Installment, RBI RE: RBI Restructuring

Fig 3 – Loan book grew 30% YoY



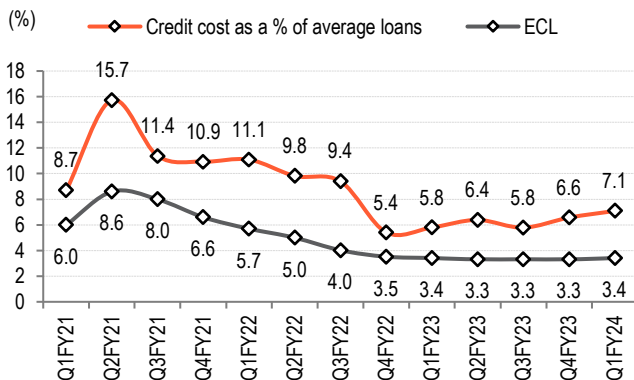
Source: Company, BOBCAPS Research

Fig 4 – Asset quality strong



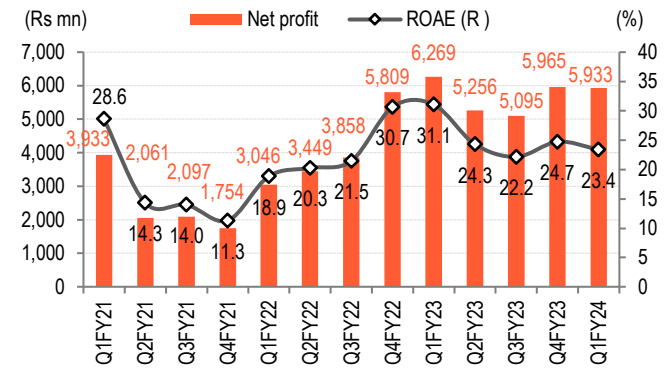
Source: Company, BOBCAPS Research | PCR: Provision Coverage Ratio, GNPA & NNPA: Gross & Net Non-Performing Assets

Fig 5 – Credit cost spiked; ECL stable



Source: Company, BOBCAPS Research

Fig 6 – Lower net profit hurt return ratios



Source: Company, BOBCAPS Research

Earnings call highlights

Highest-ever spends growth in Q1

- SBI Card recorded its highest-ever spends of Rs 739bn in Q1FY24, up 24% YoY and 3% QoQ. Online spends constituted 55% share. The company maintained its #2 position in the credit card industry.
- By category, spends grew sequentially as follows: 1% QoQ for category 1 (departmental stores, health, utilities, education & direct marketing), 17% QoQ for category 2 (consumer durables, furnishing & hardware, apparel & jewellery), and 11% QoQ for category 3 (travel agents, hotels, airlines, railways, entertainment & restaurants).
- The company's 30-day active spend rate stood at 50%.
- Retail spends per card grew from Rs 130,000 on average in Q1FY23 to Rs 137,000 in Q1FY24, with total spends (retail plus corporate) up from Rs 170,000 to Rs 173,000 respectively. Receivables per card have grown to Rs 24,949 from Rs 23,202 in the year-ago quarter.

Robust card sales continue

- SBI Card added ~600,000 cards in Q1 and aspires to retain ~20% market share in net credit card addition.
- Parent SBIN constituted 54% of newly sourced cards in Q1 and had a share of 42% in cards in force (CIF) as of Jun'23.
- During Q1, the company introduced Paytm SBI cards on the RuPay network. It intends to make this live on the UPI platform soon and is currently in the testing stage.

Cost of funding to rise further

- Funding cost remained high in Q1, in line with management guidance. The company expects a further increase of 5-10bps QoQ in Q2FY24 even if the RBI maintains rates, as some short- and long-term liabilities come up for repricing, especially those in the three-year bracket.
- NIM is guided to be stable in Q2.

Revolver share stable in receivables mix but on the lower side

- Interest-bearing assets (gross receivables) grew 30% YoY in Q1 with revolvers growing 20%, EMI assets 41% and transactors 30%. The yield on the EMI book has risen by 120-150bps YoY.
- Revolver share remained low in the gross receivables mix at 24% for Q1 (flat vs. Q4).

Credit cost high owing to 2019 cohorts

- Credit cost grew 60% YoY and 14% QoQ to Rs 7.2bn or 7.1% (calc.) of loans (+130bps YoY, +50bps QoQ). This was because of a high delinquency curve for customers sourced in CY19. The CY19 cohort constitutes 16% of assets and 20% of NPA (Rs 600mn or 14bps). The company asserted that it has boosted collection efforts and lowered credit limits to fend off further damage. Credit cost is expected to trend lower as the proportion of newer (better quality) accounts increases.
- Per management, the performance of recently sourced customers is in line with expectations. Also, trends in June and July were better than that seen in April and May, pointing to improvement ahead.
- Credit cost for H2FY24 is guided to be in the range of 5.8% to 6.2%.

Operating expenses flat sequentially

- Q1 operating expenses increased 18% YoY but remained flat QoQ. Of these, operating and other expenses (90% of total) grew 19% YoY (flat QoQ) while employee cost (7% of total) grew 5% YoY (-5% QoQ).

Others

- Business development income increased 22% YoY but declined 34% QoQ to Rs 1.7bn. The company stated that it has long-term partnership deals over 4-5 years and milestone-linked income streams.

Fig 7 – P&L account

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Interest income	18,042	13,873	30.1	16,724	7.9	61,530	48,660	26.4
Interest expense	5,711	3,084	85.2	5,073	12.6	16,476	10,273	60.4
Net Interest Income (NII)	12,332	10,789	14.3	11,651	5.8	45,053	38,387	17.4
Non-interest income	21,077	17,130	23.0	20,898	0.9	75,137	58,112	29.3
-Fee income	18,981	15,380	23.4	17,857	6.3	66,042	52,266	26.4
Revenue from operations	39,119	31,003	26.2	37,622	4.0	1,36,666	1,06,773	28.0
Other income	1,342	1,626	(17.4)	1,544	(13.1)	6,190	6,243	(0.8)
Total income	40,461	32,628	24.0	39,166	3.3	1,42,857	1,13,015	26.4
Operating expenses	19,599	16,633	17.8	19,799	(1.0)	74,484	58,462	27.4
PPOP	15,151	12,912	17.3	14,294	6.0	51,896	44,280	17.2
Provisions and contingencies	7,186	4,503	59.6	6,298	14.1	21,591	22,558	(4.3)
PBT	7,966	8,409	(5.3)	7,997	(0.4)	30,306	21,722	39.5
Tax	2,033	2,140	(5.0)	2,032	0.0	7,721	5,560	38.9
PAT	5,933	6,269	(5.4)	5,965	(0.5)	22,585	16,161	39.7

Source: Company, BOBCAPS Research

Fig 8 – Balance sheet

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Financial assets	4,57,900	3,51,960	30.1	4,34,138	5.5	4,34,138	3,29,726	31.7
Cash and bank balances	12,280	10,530	16.6	13,545	(9.3)	13,545	11,064	22.4
Loans	4,18,130	3,20,790	30.3	3,93,610	6.2	3,93,610	3,01,873	30.4
Other financial assets	27,490	20,640	33.2	26,983	1.9	26,983	16,790	60.7
Non- financial assets	21,260	16,630	27.8	21,318	(0.3)	21,318	16,758	27.2
Deferred tax assets	2,600	2,300	13.0	2,467	5.4	2,467	2,185	12.9
PP&E, other fixed and intangible	5,500	4,540	21.1	5,737	(4.1)	5,737	4,537	26.4
Other non-financial assets	13,160	9,790	34.4	13,115	0.3	13,115	10,036	30.7
Total Assets	4,79,160	3,68,590	30.0	4,55,456	5.2	4,55,456	3,46,484	31.5
Financial liabilities	3,59,430	2,72,140	32.1	3,42,010	5.1	3,42,010	2,56,828	33.2
Borrowings including lease liabilities	3,29,570	2,47,920	32.9	3,11,096	5.9	3,11,096	2,29,825	35.4
Other financial liabilities	29,860	24,220	23.3	30,914	(3.4)	30,914	27,004	14.5
Non- financial liabilities	15,489	12,710	21.9	15,145	2.3	15,145	12,129	24.9
Provisions	6,309	5,030	25.4	6,380	(1.1)	6,380	4,774	33.6
Other non-financial liabilities	9,180	7,680	19.5	8,765	4.7	8,765	7,355	19.2
Total Liabilities	3,74,919	2,84,850	31.6	3,57,155	5.0	3,57,155	2,68,957	32.8
Equity	1,04,241	83,740	24.5	98,301	6.0	98,301	77,527	26.8
Equity share capital	9,461	9,432	0.3	9,461	0.0	9,461	9,432	0.3
Other equity	94,780	74,308	27.6	88,840	6.7	88,840	68,095	30.5
Total Liabilities and Equity	4,79,160	3,68,590	30.0	4,55,456	5.2	4,55,456	3,46,484	31.5

Source: Company, BOBCAPS Research

Fig 9 – Ratio analysis

(%)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Yield	17.8	17.8	(4bps)	17.4	34bps	17.7	18.1	(45)
Cost of funds	7.1	5.2	197bps	6.7	42bps	6.1	5.0	106
Spread	10.7	12.7	(201bps)	10.7	(8bps)	11.6	13.1	(151)
Net interest margin (NIM - calculated)	11.1	12.7	(160bps)	11.0	3bps	11.8	13.1	(135)
Return on avg. Assets (ROAA)	5.1	7.0	(193bps)	5.4	(31bps)	5.6	5.2	39
Return on avg equity (ROAE)	23.4	31.1	(766bps)	24.7	(130bps)	25.7	23.0	269
Cost to income	56.4	56.3	10bps	58.1	(167bps)	58.9	56.9	203
Credit costs	7.1	5.8	130bps	6.6	51bps	6.2	8.4	(220)
GNPA	2.4	2.2	13bps	2.4	6bps	2.4	2.2	13
NNPA	0.9	0.8	9bps	0.9	2bps	0.9	0.8	9

Source: Company, BOBCAPS Research

Fig 10 – Corporate spends

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Retail	2,70,980	3,50,700	4,24,170	4,18,720	4,54,880	5,08,950	5,45,620	5,55,200	5,83,470
Corporate	61,620	84,910	1,29,800	1,22,630	1,41,830	1,14,110	1,42,730	1,61,660	1,55,650
Total spends	3,32,600	4,35,610	5,53,970	5,41,350	5,96,710	6,23,060	6,88,350	7,16,860	7,39,120
Composition (%)									
Retail	81.5	80.5	76.6	77.3	76.2	81.7	79.3	77.4	78.9
Corporate	18.5	19.5	23.4	22.7	23.8	18.3	20.7	22.6	21.1

Source: Company, BOBCAPS Research

Fig 11 – Sourcing trends

New sourcing (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Salaried	83	80	78	76	74	70	66	61	61
Self-employed	17	20	22	24	26	30	34	39	39

Source: Company, BOBCAPS Research

Valuation methodology

We remain positive on credit card growth in India given the government's push for digital transactions and the growing internet reach. SBI Card is the only listed credit card player in India and in a strong position to grow backed by a wide array of offerings, including co-branded cards, that drive robust spends. The company derives key synergistic benefits from parent SBIN, including access to an extensive branch network and ready customer base with high cross-sell opportunities.

We note that the company was able to jump to second position in card spends from third at end-FY23 and has retained its #2 rank in terms of cards outstanding. Rankings held stable in Q1FY24 in the face of intense competition.

The company recorded its highest-ever spends of Rs 739bn in Q1, growing 24% YoY, though credit cost at 7.1% of loans was a negative surprise. We retain our estimates for spends of Rs 3.3tn/Rs 4.1tn for FY24/FY25 but now pencil in credit cost of 6.3%/6.2% (vs. 6% each earlier). Consequently, our net profit estimates for these years decline 8%/4% to Rs 26bn/Rs 33bn.

Post estimate revision, we arrive at a revised TP of Rs 1,011 (vs. Rs 1,050), set at an unchanged FY25E P/E multiple of 29x (35% below the long-term mean). We retain BUY for a potential upside of 18%. Our secondary residual income model assumes cost of equity of 12% and terminal growth of 5.5%, and yields a similar target price.

Fig 12 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Spends	32,99,938	40,57,574	32,99,938	40,57,574	-	-
Loans	4,91,691	6,08,636	4,91,691	6,08,636	-	-
Total income	1,73,649	2,13,969	1,76,814	2,14,632	(1.8)	(0.3)
C/ I ratio (in %)	58.3	58.1	58.3	58.1	(4 bps)	(0 bps)
PPOP	63,060	78,262	64,690	78,613	(2.5)	(0.4)
Credit costs	27,978	34,002	26,452	32,743	5.8	3.8
PAT	26,241	33,106	28,602	34,311	(8.3)	(3.5)

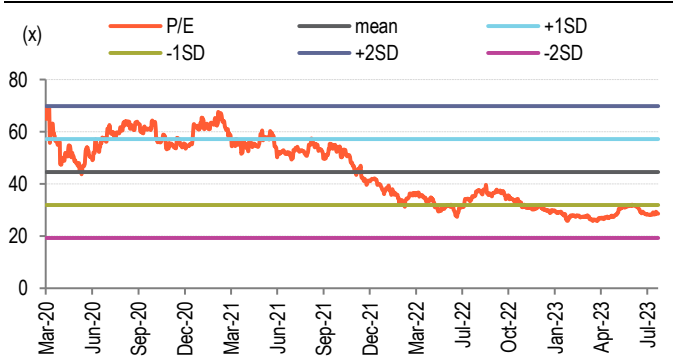
Source: Company, BOBCAPS Research

Fig 13 – Residual income model

Parameter	
Cost of equity (%)	12.0
Terminal growth rate (%)	5.5
PV of Residual Income (Rs mn)	8,63,583
Current Book Value (Rs mn)	98,301
Estimated Market Value (Rs mn)	9,61,883
Estimated Price Per Share (Rs)	1,012

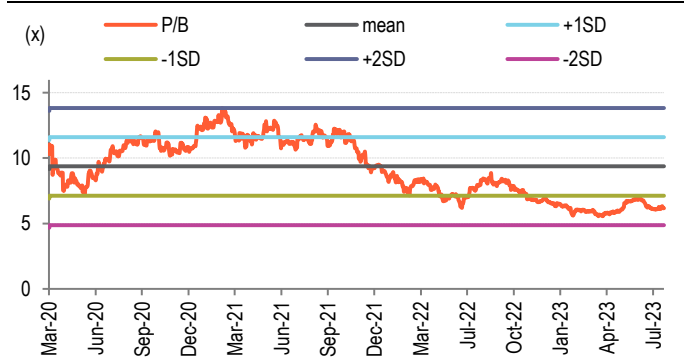
Source: Company, BOBCAPS Research

Fig 14 – SBI Card: 1Y fwd P/E trading between -1SD and -2SD



Source: Company, BOBCAPS Research

Fig 15 – SBI Card: 1Y fwd P/B trading between -1SD and -2SD



Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- UPI gaining market share:** Digital payments have gained market share over the last few years owing to their ease of use and secure process, with the usage of cards, UPI (unified payment interface) and wallet-based payment systems rising considerably. UPI's market share by value has soared from 1% in FY17 to 85%+ at end-FY23, proving a challenge to the credit card business which saw its share decline from 19.9% at end-FY17 to ~2% at end-FY23. UPI has been highly popular as there are no merchant discount rate (MDR) charges on transactions, which are instead borne by the RBI and banks. However, we believe that such services cannot be offered for free indefinitely. Besides, UPI is a prepaid mode of transaction.
- MDR overhang:** RBI has sporadically raised the issue of lowering the MDR on credit cards. The overall MDR range is currently 1-3%. With this rate being regulated for debit cards, there lies a risk that credit cards could also be brought under regulation. However, there is a cost for financial institutions to set up the payments infrastructure and, thus, there should be compensation. Therefore, despite the risk, we believe MDR is unlikely to be eliminated altogether.
- Other risks:** (1) Any modification of terms with the parent or SBIN lowering its stake further could be detrimental to growth. SBI Card is required to pay a royalty fee of 2% of PAT or 0.2% of total income, whichever is higher, to SBIN within two months of the end of every financial year. (2) Technology plays an important part in the credit card business. With the increased use of digital payments, there is a constant risk of cyberattacks which could disrupt day-to-day operations. This apart, RBI is strict about customer data storage which could lead to restrictions on sourcing new clients, as was recently seen with a leading card player. Although these matters will be resolved eventually, there could be business losses in the interim.

Glossary

Glossary			
CIF	Cards in Force	MDR	Merchant Discount Rate
EMI	Equated Monthly Installment	UPI	Unified Payment Interface
ECL	Expected Credit Loss		

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Net interest income	39,033	38,387	45,053	55,743	71,840
NilI growth (%)	10.2	(1.7)	17.4	23.7	28.9
Non-interest income	43,498	58,112	75,137	89,094	1,06,469
Total income	97,136	1,13,015	1,42,857	1,73,649	2,13,969
Operating expenses	47,079	58,462	74,484	88,204	1,08,517
PPOP	39,623	44,280	51,896	63,060	78,262
PPOP growth (%)	8.0	11.8	17.2	21.5	24.1
Provisions	26,386	22,558	21,591	27,978	34,002
PBT	13,237	21,722	30,306	35,082	44,260
Tax	3,392	5,560	7,721	8,841	11,154
Reported net profit	9,845	16,161	22,585	26,241	33,106
Adjustments	0	0	0	0	0
Adjusted net profit	9,845	16,161	22,585	26,241	33,106

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity capital	9,405	9,432	9,461	9,461	9,461
Reserves & surplus	53,615	68,095	88,840	1,12,231	1,42,487
Net worth	63,020	77,527	98,301	1,21,692	1,51,948
Debt securities	59,329	71,063	66,062	77,687	94,947
Borrowings	1,06,635	1,46,801	2,31,429	2,83,558	3,46,557
Other liab. & provisions	41,144	51,093	59,664	80,091	88,139
Total liab. & equities	2,70,129	3,46,484	4,55,456	5,63,028	6,81,591
Cash & bank balance	7,201	11,064	13,545	12,607	11,240
Investments	9,576	12,972	21,397	29,699	36,518
Advances	2,34,591	3,01,873	3,93,610	4,91,691	6,08,636
Fixed & Other assets	18,761	20,576	26,904	29,031	25,197
Total assets	2,70,129	3,46,484	4,55,456	5,63,028	6,81,591
Total debt growth (%)	2.8	26.1	26.4	24.9	22.2
Advances growth (%)	2.8	28.7	30.4	24.9	23.8

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	10.4	17.0	23.8	27.6	34.8
Dividend per share	0.0	2.5	2.5	3.0	3.0
Book value per share	66.4	81.6	103.5	128.1	159.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	82.6	50.4	36.0	31.0	24.6
P/BV	12.9	10.5	8.3	6.7	5.4
Dividend yield (%)	0.0	0.3	0.3	0.4	0.4

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Net interest income	14.9	12.5	11.2	10.9	11.5
Non-interest income	16.6	18.8	18.7	17.5	17.1
Operating expenses	18.0	19.0	18.6	17.3	17.4
Provisions	10.1	7.3	5.4	5.5	5.5
ROA	3.8	5.2	5.6	5.2	5.3
Leverage (x)	4.5	4.4	4.6	4.6	4.5
ROE	16.9	23.0	25.7	23.9	24.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Net interest income	10.2	(1.7)	17.4	23.7	28.9
Pre-provisioning profit	8.0	11.8	17.2	21.5	24.1
EPS	(21.4)	64.0	39.8	16.1	26.2
Profitability & Return ratios (%)					
Net interest margin	15.9	13.1	11.8	11.5	12.0
Fees / Avg. assets	16.6	18.8	18.7	17.5	17.1
Cost-Income	54.3	56.9	58.9	58.3	58.1
ROE	16.9	23.0	25.7	23.9	24.2
ROA	3.8	5.2	5.6	5.2	5.3
Asset quality (%)					
GNPA	5.0	2.2	2.4	2.8	2.9
NNPA	1.2	0.8	0.9	0.9	1.0
Slippage ratio	12.6	7.2	5.3	4.5	4.5
Credit cost	11.4	8.4	6.2	6.3	6.2
Provision coverage	77.9	65.3	63.6	68.1	66.2
Ratios (%)					
Loans to Total debt	129.8	132.5	136.6	136.6	138.4
CAR	24.8	23.8	23.1	22.2	23.0
Tier-1	20.9	21.0	20.4	20.1	21.3

Source: Company, BOBCAPS Research

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

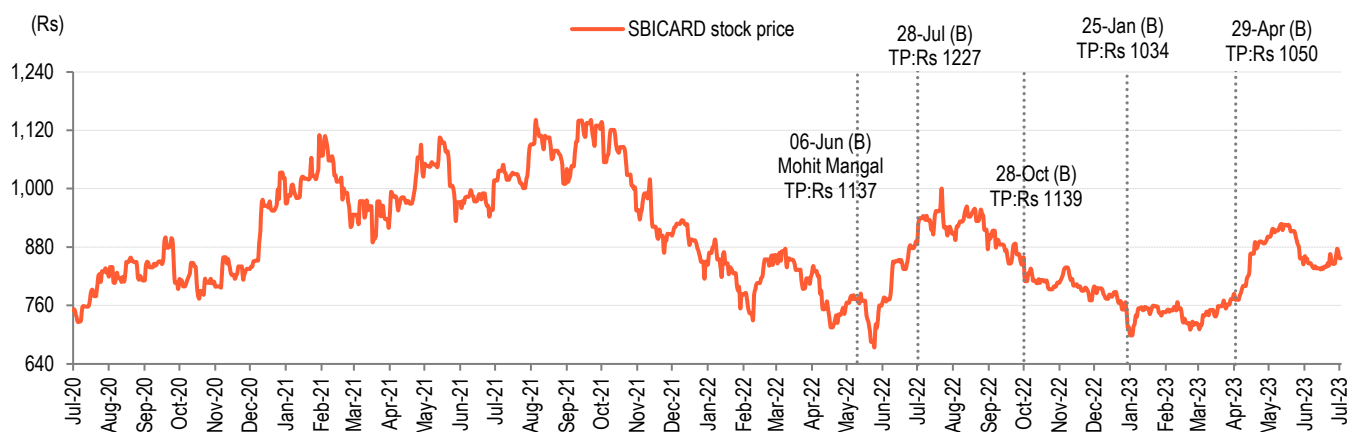
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SBI CARD (SBICARD IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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