

BUY

TP: Rs 910 | ▲ 15%

SBI CARD

| NBFC

| 28 October 2023

Challenges persist despite spending frenzy

- Credit card spends climbed 27% YoY to a record high of Rs 792bn in Q2; debut on UPI platform promising
- Industry-wide stress in unsecured loans saw credit cost surge 36% YoY to Rs 7.4bn; NIM fell 90bps YoY on higher cost of funds
- TP revised to Rs 910 (vs. Rs 1,011) as we trim FY24/FY25 PAT forecasts by 6%/7% to bake in rising credit cost; maintain BUY

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Credit cost remains a challenge: SBI Card typically incurs high credit costs, but the Q2FY24 print was a negative surprise as costs shot up 36% YoY (+3% QoQ) to Rs 7.4bn, forming 6.9% of loans (+60bps YoY, -13bps QoQ). Management cited industry-wide stress in unsecured loans rather than defaults in any specific cohort or customer class and expects the pain to continue into Q3. Loan write-offs increased 9% QoQ to Rs 6.8bn but recoveries were also 14% QoQ higher at Rs 1.3bn. GNPA/NNPA were steady at 2.4%/0.9%. We now bake in credit cost of 6.8%/6.5% for FY24/FY25 (6.3%/6.2% earlier) and consequently prune PAT estimates by 6%/7%.

Spends growth strong: Q2 credit card spends climbed to a new high of Rs 792bn, rising 27% YoY and 7% QoQ. Corporate spends swelled 55% YoY (+14% QoQ), constituting 22% of the total, and retails spends grew 21% YoY (+5% QoQ), forming 78% share. Cards in force increased 21% YoY to 17.9mn with 0.5mn additions.

Credit cards on UPI gain traction: In Q2, SBI Card introduced the use of credit cards on the UPI platform. About 9% of RuPay cardholders have enrolled for this feature, with monthly average UPI spends per account at Rs 11,000. The company is seeing an uptick in RuPay cards, which now form 10% of its card portfolio.

NIM declines; cost of funds rises: NIM (calc.) slipped 90bps YoY to 11% (stable QoQ) due to an increase in cost of funds. Management expects high funding costs in H2 as well. Further, we do not anticipate a significant rise in yields on the EMI book given competitive intensity and hence pare our FY24/FY25 NII estimates by 2% each and NIM projections by 30-40bps to 11.2%/11.6%.

Maintain BUY: SBI Card has witnessed record card spends and healthy adoption of its cards on the UPI platform during the July to September quarter. However, higher credit costs have led us to cut net profit forecasts. Estimate revision coupled with a lower target P/E of 28x on FY25E (vs. 29x), which is 35% below the long-term mean, yields a reduced TP of Rs 910 (vs. Rs 1,011). We retain our BUY rating for a potential upside of 15% owing to the company's strong pedigree and positioning in the credit card industry where it consistently ranks as the No. 2 player.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SBICARD IN/Rs 790
Market cap	US\$ 9.1bn
Free float	31%
3M ADV	US\$ 11.8mn
52wk high/low	Rs 933/Rs 696
Promoter/FPI/DII	69%/8%/17%

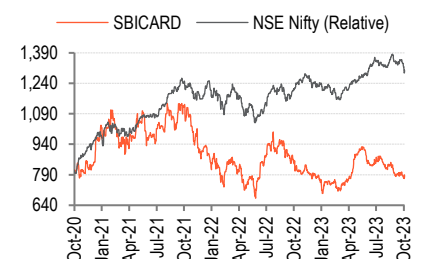
Source: NSE | Price as of 27 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NII (Rs mn)	45,053	54,721	70,111
NII growth (%)	17.4	21.5	28.1
Adj. net profit (Rs mn)	22,585	24,597	30,937
EPS (Rs)	23.8	25.9	32.6
Consensus EPS (Rs)	23.8	27.0	34.7
P/E (x)	33.2	30.5	24.3
P/BV (x)	7.6	6.3	5.1
ROA (%)	5.6	4.8	4.9
ROE (%)	25.7	22.5	23.1

Source: Company, Bloomberg, BOBCAPS Research

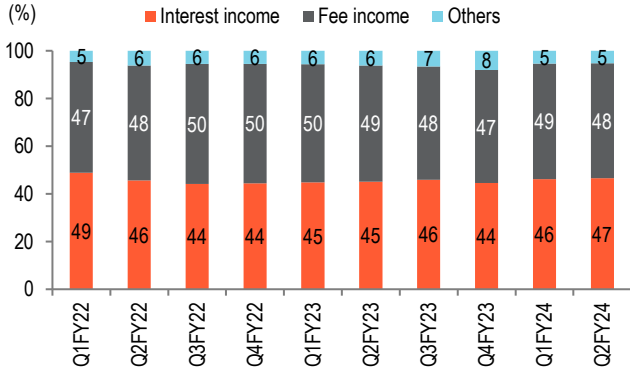
Stock performance



Source: NSE

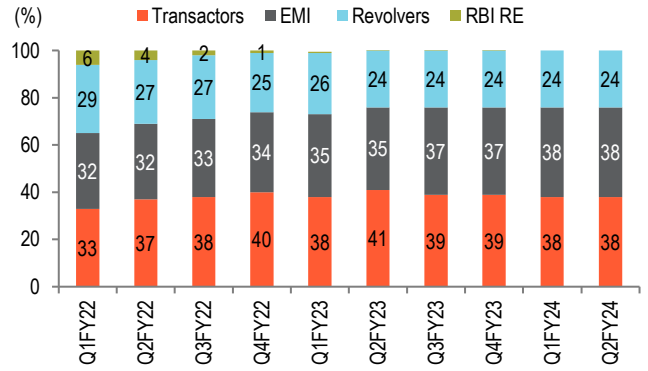


Fig 1 – Revenue mix: Interest income grew faster QoQ in Q2FY24



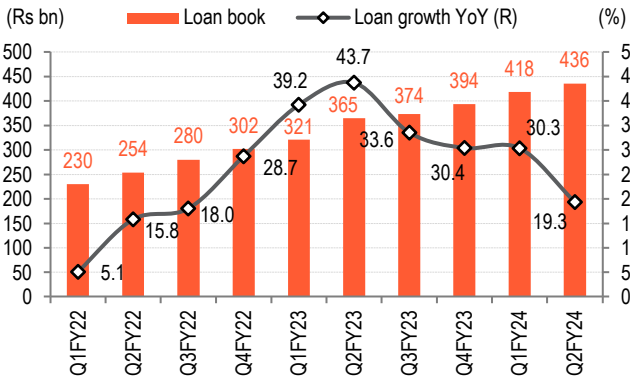
Source: Company, BOBCAPS Research

Fig 2 – Revolvers in receivables mix unchanged



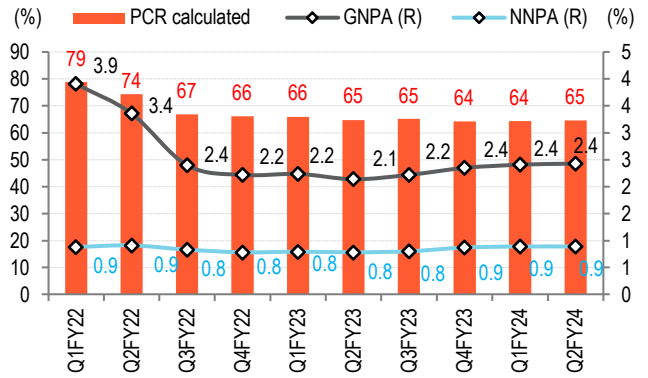
Source: Company, BOBCAPS Research | EMI: Equated Monthly Installment, RBI RE: RBI Restructuring

Fig 3 – Loan book grew 19% YoY



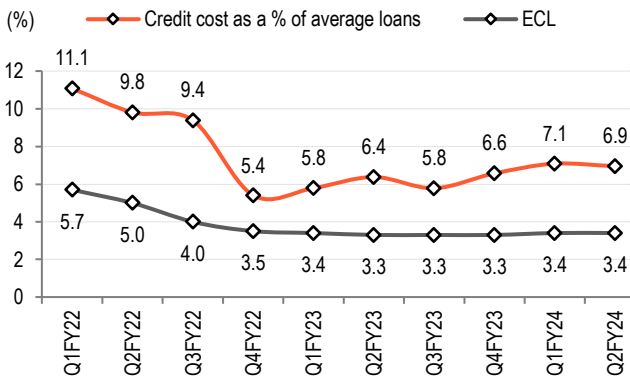
Source: Company, BOBCAPS Research

Fig 4 – Asset quality strong



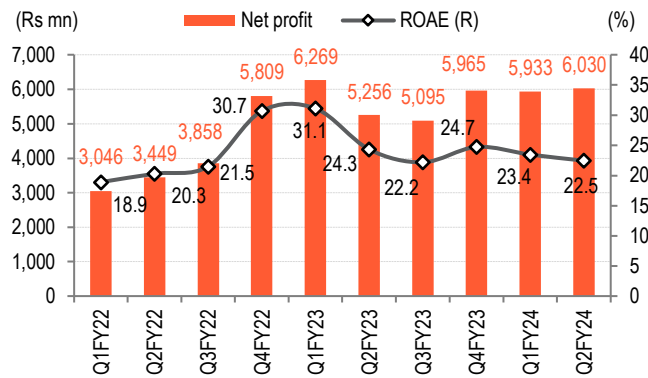
Source: Company, BOBCAPS Research

Fig 5 – Credit cost still elevated; ECL stable



Source: Company, BOBCAPS Research

Fig 6 – Lower net profit growth hurt return ratios



Source: Company, BOBCAPS Research

Earnings call highlights

Robust spends

- Credit card spends remain buoyant with SBI Card recording its highest-ever spends of Rs 792bn in Q2FY24, up 27% YoY and 7% QoQ. With this, the company maintained its #2 position in the industry. Online spends constituted 57% share. The company maintained its #2 position in the industry.
- By category, spends grew 29% YoY in H1FY24 for category-1 (departmental stores, health, utilities, education & direct marketing), dipped 3% for category-2 (consumer durables, furnishing & hardware, apparel & jewellery), and increased 26% for category-3 (travel agents, hotels, airlines, railways, entertainment & restaurants). These numbers are not strictly comparable as festive sales began in October as compared to September last year.
- The company's 30-day active spend rate stood at 50%.
- Retail spends per card grew from Rs 137,000 in Q1FY24 to Rs 140,000 in Q2FY24, with total spends (retail plus corporate) rising from Rs 173,000 to Rs 180,000. Receivables per card have grown from Rs 24,949 in the year-ago quarter to Rs 25,220.

Strong card sales

- SBI Card added 1.1mn cards on gross basis and 0.5mn net in Q2.
- Parent SBIN originated 51% of newly sourced cards for the quarter and 42% of cards in force (CIF) as of Sep'23.
- CIF reached 17.9mn in Sep'23, growing 21% YoY and clocking in at 19.2% market share.
- The company introduced a 'SimplySave' merchant card on the RuPay platform designed to cater to the short-term credit requirements of MSME merchants.

Credit card on UPI makes a good debut

- During Q2, SBI Card introduced UPI functionality on its RuPay credit cards. About 9% of its RuPay cardholders have already enrolled for this feature and the monthly average UPI spend per account has reached Rs 11,000.
- RuPay cards are growing rapidly and now form 10% of the company's cards portfolio.

Revolver share in receivables mix stable but on the lower side

- Interest-bearing assets (gross receivables) grew 19% YoY in Q2 with revolvers rising 19%, EMI assets 30% and transactors 11%.
- Revolver share in the gross receivables mix remained low at 24% (flat QoQ).

Cost of funding remains high

- In line with management guidance, funding cost remained elevated in Q2, at 7.2% vs. 7.1% in Q1.
- Cost of funds is guided to rise marginally over the next 1-2 quarters.

Credit cost spikes

- Credit cost grew 36% YoY and 3% QoQ to Rs 7.4bn, with management citing industry-wide stress in unsecured loans rather than defaults in any specific cohort or customer class. Credit cost is guided to remain elevated in Q3 as well.
- The 2019 cohort, which had shown stress in Q1FY24, has come down from 16% of NEA (net earning assets) to 14%. The newer vintages over 2021-23 together account for more than 50% of NEA and are showing lower delinquency than the portfolio average, per management.
- Gross credit cost at 6.7% in Q2FY24 was 13bps lower QoQ owing to actions taken at the portfolio level and a change in collection strategy.
- As of Q2, GNPA was stable QoQ at 2.4% and NNPA at 0.9%.
- Write-offs increased 9% QoQ to Rs 6.8bn but recoveries also rose 14% QoQ to Rs 1.3bn.

Opex moves up

- Q2 operating expenses increased 13% YoY and 5% QoQ. Of these, operating and other expenses (90% of total) grew 12% YoY (+6% QoQ) while employee cost (7% of total) grew 15% YoY (+2% QoQ).
- The cost-to-income ratio inched up to 57.1% in Q2 from 56.4% in Q1 due to cashback costs on credit cards in August.

Fig 7 – P&L account

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Interest income	19,018	14,845	28.1	18,042	5.4	37,060	28,718	29.0
Interest expense	6,049	3,677	64.5	5,711	5.9	11,759	6,761	73.9
Net Interest Income (NII)	12,969	11,168	16.1	12,332	5.2	25,301	21,957	15.2
Non-interest income	21,856	18,126	20.6	21,077	3.7	42,933	35,256	21.8
-Fee income	19,739	16,108	22.5	18,981	4.0	38,721	31,488	23.0
Revenue from operations	40,874	32,971	24.0	39,119	4.5	79,992	63,974	25.0
Other income	1,341	1,562	(14.2)	1,342	(0.1)	2,683	3,188	(15.8)
Total income	42,214	34,533	22.2	40,461	4.3	82,675	67,162	23.1
Operating expenses	20,656	18,340	12.6	19,599	5.4	40,255	34,973	15.1
PPOP	15,510	12,517	23.9	15,151	2.4	30,661	25,428	20.6
Provisions and contingencies	7,416	5,460	35.8	7,186	3.2	14,601	9,962	46.6
PBT	8,094	7,057	14.7	7,966	1.6	16,060	15,466	3.8
Tax	2,064	1,800	14.7	2,033	1.6	4,097	3,940	4.0
PAT	6,030	5,256	14.7	5,933	1.6	11,963	11,525	3.8

Source: Company, BOBCAPS Research

Fig 8 – Balance sheet

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Financial assets	4,82,440	3,98,395	21.1	4,57,900	5.4	4,82,440	3,98,395	21.1
Cash and bank balances	14,780	10,355	42.7	12,280	20.4	14,780	10,355	42.7
Loans	4,35,560	3,64,998	19.3	4,18,130	4.2	4,35,560	3,64,998	19.3
Other financial assets	32,100	23,042	39.3	27,490	16.8	32,100	23,042	39.3
Non- financial assets	21,450	17,416	23.2	21,260	0.9	21,450	17,416	23.2
Deferred tax assets	2,840	2,470	15.0	2,600	9.2	2,840	2,470	15.0
PP&E, other fixed and intangible	5,390	4,471	20.5	5,500	(2.0)	5,390	4,471	20.5
Other non-financial assets	13,220	10,475	26.2	13,160	0.5	13,220	10,475	26.2
Total Assets	5,03,890	4,15,811	21.2	4,79,160	5.2	5,03,890	4,15,811	21.2
Financial liabilities	3,77,040	3,13,330	20.3	3,59,430	4.9	3,77,040	3,13,330	20.3
Borrowings including lease liabilities	3,40,830	2,81,860	20.9	3,29,570	3.4	3,40,830	2,81,860	20.9
Other financial liabilities	36,210	31,470	15.1	29,860	21.3	36,210	31,470	15.1
Non- financial liabilities	16,260	13,291	22.3	15,489	5.0	16,260	13,291	22.3
Provisions	6,420	5,515	16.4	6,309	1.8	6,420	5,515	16.4
Other non-financial liabilities	9,840	7,777	26.5	9,180	7.2	9,840	7,777	26.5
Total Liabilities	3,93,300	3,26,621	20.4	3,74,919	4.9	3,93,300	3,26,621	20.4
Equity	1,10,590	89,190	24.0	1,04,241	6.1	1,10,590	89,190	24.0
Equity share capital	9,470	9,433	0.4	9,461	0.1	9,470	9,433	0.4
Other equity	1,01,120	79,757	26.8	94,780	6.7	1,01,120	79,757	26.8
Total Liabilities and Equity	5,03,890	4,15,811	21.2	4,79,160	5.2	5,03,890	4,15,811	21.2

Source: Company, BOBCAPS Research

Fig 9 – Ratio analysis

(%)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Yield	17.8	17.3	50bps	17.8	4bps	17.4	16.8	61bps
Cost of funds	7.2	5.6	167bps	7.1	9bps	7.0	5.1	191bps
Spread	10.6	11.8	(116bps)	10.7	(5bps)	10.3	11.6	(130bps)
Net interest margin (NIM - calculated)	11.0	11.9	(87bps)	11.1	(3bps)	10.8	11.7	(94bps)
Return on Avg. Assets (ROAA)	4.9	5.4	(45bps)	5.1	(17bps)	4.9	5.9	(101bps)
Return on Avg Equity (ROAE)	22.5	24.3	(186bps)	23.4	(98bps)	22.3	26.7	(438bps)
Cost to income	57.1	59.4	(232bps)	56.4	72bps	56.8	57.9	(114bps)
Credit costs	6.9	6.4	58bps	7.1	(13bps)	6.8	5.8	103bps
GNPA	2.4	2.1	29bps	2.4	2bps	2.4	2.1	29bps
NNPA	0.9	0.8	11bps	0.9	0bps	0.9	0.8	11bps

Source: Company, BOBCAPS Research

Fig 10 – Card spends composition

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
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	6,14,460
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	1,77,180
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	7,91,640
Composition (%)										
Retail	81.5	80.5	76.6	77.3	76.2	81.7	79.3	77.4	78.9	77.6
Corporate	18.5	19.5	23.4	22.7	23.8	18.3	20.7	22.6	21.1	22.4

Source: Company, BOBCAPS Research

Fig 11 – Sourcing trends

New sourcing (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Salaried	83	80	78	76	74	70	66	61	61	59
Self-employed	17	20	22	24	26	30	34	39	39	41

Source: Company, BOBCAPS Research

Valuation methodology

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 is ranked #2 in India's highly competitive credit card industry, both in terms of spends and cards outstanding. A key advantage is the synergistic benefits it derives from parent SBIN, including access to the bank's extensive branch network and ready customer base with high cross-sell opportunities.

Factoring in the record spends in Q2FY24, we raise our credit card spend estimates by 1% each for FY24/FY25. On the flip side, the spike in credit costs for the quarter leads us to pencil in higher credit cost estimates of 6.8%/6.5% for our forecast years as against 6.3%/6.2% earlier. Also, the rise in funding costs prompts us to reduce NII by 2% for each of the forecasted years. Consequently, our net profit projections decline by 6%/7% to Rs 25bn/Rs 31bn.

Estimate revision coupled with a lower target P/E multiple of 28x on FY25E (29x earlier), which is 35% below the long-term mean, yields a revised TP of Rs 910 (Rs 1,011 earlier). We retain BUY for a potential upside of 15% owing to the company's strong pedigree and positioning in the credit card industry. Our secondary residual income model, which assumes cost of equity of 12% and terminal growth of 5.25%, yields a similar target price.

Fig 12 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Spends	33,38,521	40,95,495	32,99,938	40,57,574	1.2	0.9
Loans	4,94,101	6,14,324	4,91,691	6,08,636	0.5	0.9
Total income	1,75,331	2,14,756	1,73,649	2,13,969	1.0	0.4
C/I ratio (%)	58.3	58.1	58.3	58.1	(5bps)	(1bps)
PPOP	63,043	77,586	63,060	78,262	(0.0)	(0.9)
Credit costs	30,160	36,227	27,978	34,002	7.8	6.5
PAT	24,597	30,937	26,241	33,106	(6.3)	(6.6)

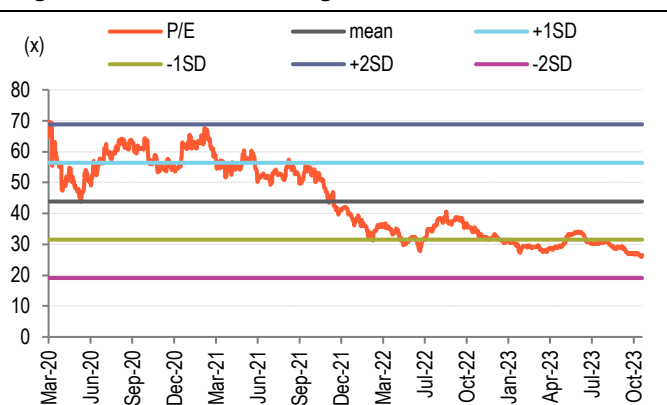
Source: Company, BOBCAPS Research

Fig 13 – Residual income model

Parameter	
Cost of equity (%)	12.0
Terminal growth rate (%)	5.3
PV of Residual Income (Rs mn)	7,56,716
Current Book Value (Rs mn)	1,10,590
Estimated Market Value (Rs mn)	8,67,306
Estimated Fair Value Per Share (Rs)	913

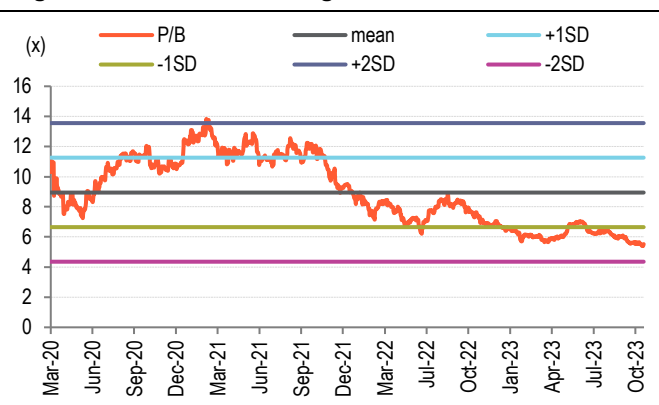
Source: Company, BOBCAPS Research

Fig 14 – 1Y fwd P/E: Trading between -1SD and -2SD



Source: Company, BOBCAPS Research

Fig 15 – 1Y fwd P/B: Trading between -1SD and -2SD



Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- **Unexpected rise in credit costs:** Higher credit costs than assumed could lead to lower earnings and, in turn, lower valuations. This can also be detrimental to future growth prospects.
- **Loss of customer base due to high competition:** The credit card market is heavily saturated. Thus, competitors may offer a better value proposition or may use aggressive advertising or cross-selling strategies to acquire and retain more cardholders, capturing larger market share.
- **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 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% to ~2% over the same period. 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 reducing the MDR on credit cards, which currently stands in the range of 1-3%. With this rate being regulated for debit cards, there lies a risk that credit cards could also be brought under regulation. However, financial institutions incur costs to set up the payments infrastructure and, thus, require compensation. We therefore believe MDR is unlikely to be eliminated altogether.
- **Other risks:** (1) 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. Any modification of terms or a reduction in stake by the parent could be detrimental to growth. (2) Technology plays an important role 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 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	54,721	70,111
NilI growth (%)	10.2	(1.7)	17.4	21.5	28.1
Non-interest income	43,498	58,112	75,137	89,621	1,06,450
Total income	97,136	1,13,015	1,42,857	1,75,331	2,14,756
Operating expenses	47,079	58,462	74,484	88,003	1,07,522
PPOP	39,623	44,280	51,896	63,043	77,586
PPOP growth (%)	8.0	11.8	17.2	21.5	23.1
Provisions	26,386	22,558	21,591	30,160	36,227
PBT	13,237	21,722	30,306	32,884	41,359
Tax	3,392	5,560	7,721	8,287	10,423
Reported net profit	9,845	16,161	22,585	24,597	30,937
Adjustments	0	0	0	0	0
Adjusted net profit	9,845	16,161	22,585	24,597	30,937

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	1,10,587	1,38,674
Net worth	63,020	77,527	98,301	1,20,047	1,48,134
Debt securities	59,329	71,063	66,062	78,562	95,835
Borrowings	1,06,635	1,46,801	2,31,429	2,86,752	3,49,796
Other liab. & provisions	41,144	51,093	59,664	80,580	94,012
Total liab. & equities	2,70,129	3,46,484	4,55,456	5,65,941	6,87,777
Cash & bank balance	7,201	11,064	13,545	12,669	11,575
Investments	9,576	12,972	21,397	30,047	36,859
Advances	2,34,591	3,01,873	3,93,610	4,94,101	6,14,324
Fixed & Other assets	18,761	20,576	26,904	29,124	25,018
Total assets	2,70,129	3,46,484	4,55,456	5,65,941	6,87,777
Total debt growth (%)	2.8	26.1	26.4	26.3	22.0
Advances growth (%)	2.8	28.7	30.4	25.5	24.3

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	10.4	17.0	23.8	25.9	32.6
Dividend per share	0.0	2.5	2.5	3.0	3.0
Book value per share	66.4	81.6	103.5	126.4	155.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	76.1	46.4	33.2	30.5	24.3
P/BV	11.9	9.7	7.6	6.3	5.1
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	10.7	11.2
Non-interest income	16.6	18.8	18.7	17.5	17.0
Operating expenses	18.0	19.0	18.6	17.2	17.2
Provisions	10.1	7.3	5.4	5.9	5.8
ROA	3.8	5.2	5.6	4.8	4.9
Leverage (x)	4.5	4.4	4.6	4.7	4.7
ROE	16.9	23.0	25.7	22.5	23.1

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Net interest income	10.2	(1.7)	17.4	21.5	28.1
Pre-provisioning profit	8.0	11.8	17.2	21.5	23.1
EPS	(21.4)	64.0	39.8	8.8	25.8
Profitability & Return ratios (%)					
Net interest margin	15.9	13.1	11.8	11.2	11.6
Fees / Avg. assets	16.6	18.8	18.7	17.5	17.0
Cost-Income	54.3	56.9	58.9	58.3	58.1
ROE	16.9	23.0	25.7	22.5	23.1
ROA	3.8	5.2	5.6	4.8	4.9
Asset quality (%)					
GNPA	5.0	2.2	2.4	2.8	2.9
NNPA	1.2	0.8	0.9	0.5	1.5
Slippage ratio	12.6	7.2	5.3	4.5	4.5
Credit cost	11.4	8.4	6.2	6.8	6.5
Provision coverage	77.9	65.3	63.6	82.7	51.1
Ratios (%)					
Loans to Total debt	129.8	132.5	136.6	135.8	138.4
CAR	24.8	23.8	23.1	21.7	22.2
Tier-1	20.9	21.0	20.4	19.7	20.5

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

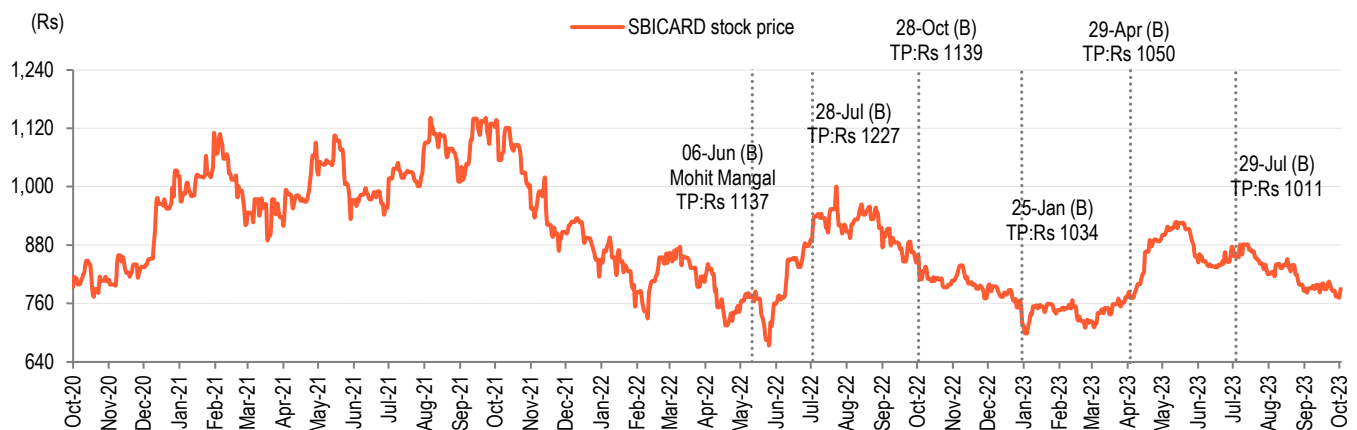
HOLD – Expected return from -6% to +15%

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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