

BUY

TP: Rs 1,050 | ▲ 36%

SBI CARD

| NBFC

| 29 April 2023

Positive surprise; maintain BUY

- Q4 PAT beat our estimate by 10% due to robust revenue (+32% YoY), partially offset by higher credit cost (+60% YoY)
- Card spends the highest ever at Rs 717bn; gross receivables driven by EMIs, with revolver share muted at 24%
- Maintain BUY with a revised TP of Rs 1,050 (vs. Rs 1,034)

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PAT beats estimate: SBI Card's Q4FY23 net profit increased 3% YoY (17% QoQ) to Rs 6bn but was 10% higher than our estimate primarily due to a rise in non-interest income by 32% YoY (10% QoQ) to Rs 20.9bn. Non-interest income benefited from a 25% YoY rise in fee income (85% of total) and 113% rise in business development income (12% of total). NII grew 17% YoY to Rs 12bn, but a higher cost of funds led to lower NIM (calc.) at 11%. Cost of funds is guided to further increase in Q1FY24 but can stabilise or fall in H2FY24 in the absence of rate hikes.

Spends growth and card addition robust: Q4 credit card spends hit a peak of Rs 717bn (Rs 626bn est.), rising 32% YoY and 4% QoQ. Corporate spends grew 32% YoY (13% QoQ), remaining at 23% of the total. Retails spends (77% share) grew 33% YoY and 2% QoQ. We now increase our FY24/FY25 card spend estimates by 9%/15% to Rs 3.3tn/Rs 4tn. The company's cards in force grew 22% YoY to 16.8mn in Q4 with new account additions up 37%.

Gross receivables soar; revolver still muted: Gross receivables rose 30% YoY to Rs 407bn in Q4, with revolvers growing 25%, EMI 42% and transactors 27%. Revolver and EMI share was stable QoQ at 24% and 37% respectively. Lower revolvers remain an industry-wide phenomenon.

Credit costs high: Credit cost remained high at 6.6% of loans (+120bps YoY, 80bps QoQ) as strengthening of the ECL ratio resulted in a one-time cost of Rs 200mn (~20bps annualised). We bake in credit cost of 6% for both FY24/FY25 vs. our previous estimates of 5.8%/5.7%. GNPA/NNPA were stable at 2.4%/0.9% in Q4, and we expect levels of <3%/~1% over FY24/FY25.

Maintain BUY: 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. We increase our FY24/FY25 PAT estimates marginally by 1% each based on the Q4 results, leading to a revised TP of Rs 1,050 (vs. Rs 1,034), and retain BUY for a potential upside of 36%. We value the stock at an unchanged FY25E P/E multiple of 29x, 35% below the long-term mean.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SBICARD IN/Rs 772
Market cap	US\$ 9.0bn
Free float	31%
3M ADV	US\$ 7.9mn
52wk high/low	Rs 1,029/Rs 656
Promoter/FPI/DII	69%/8%/17%

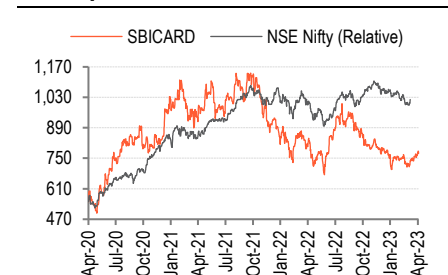
Source: NSE | Price as of 28 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income (Rs)	45,053	58,172	72,579
NII growth (%)	17.4	29.1	24.8
Adj. net profit (Rs mn)	22,585	28,498	34,282
EPS (Rs)	23.8	30.0	36.1
Consensus EPS (Rs)	23.8	28.2	36.1
P/E (x)	32.4	25.7	21.4
P/BV (x)	7.5	5.9	4.7
ROA (%)	5.6	5.6	5.5
ROE (%)	25.7	25.7	24.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

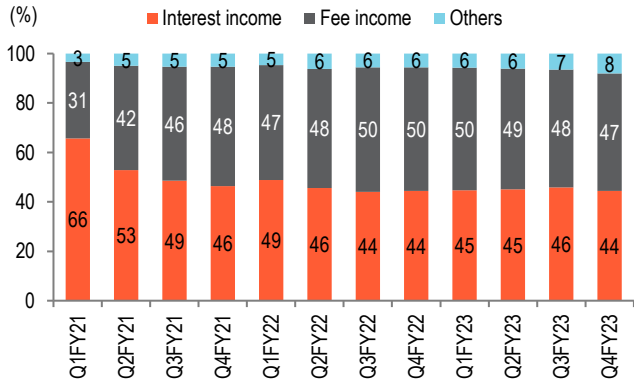
Stock performance



Source: NSE

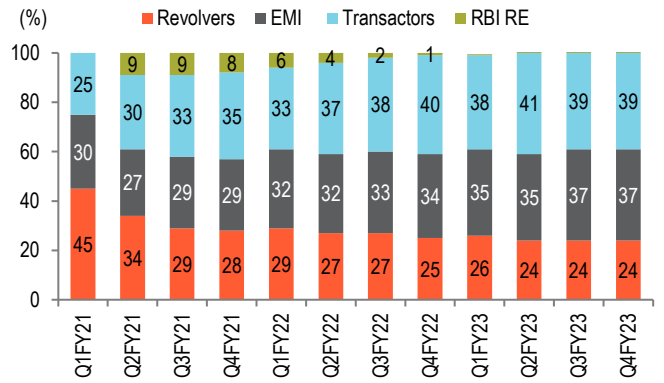


Fig 1 – Other income streams grew faster than interest and fee income QoQ



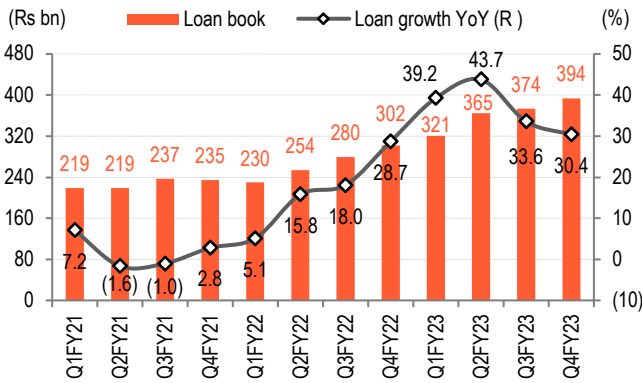
Source: Company, BOBCAPS Research

Fig 2 – Revolvers stable QoQ in receivables mix



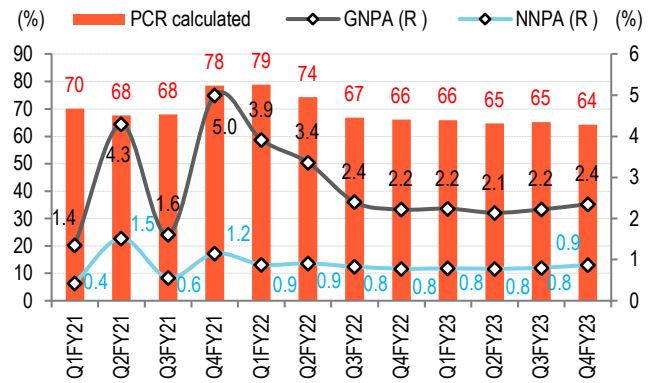
Source: Company, BOBCAPS Research | EMI: Equated Monthly Installment, RBI RE: RBI Restructuring

Fig 3 – Loan book grew 30% YoY



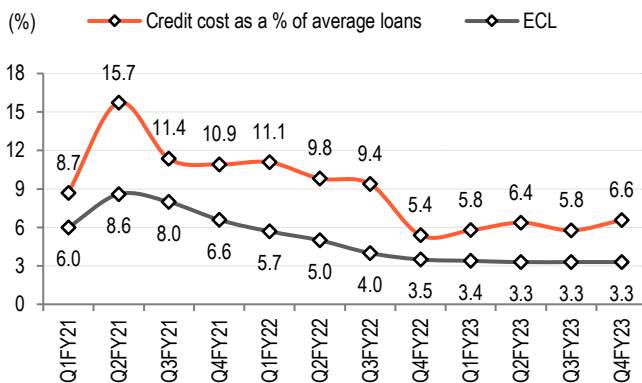
Source: Company, BOBCAPS Research

Fig 4 – Asset quality strong



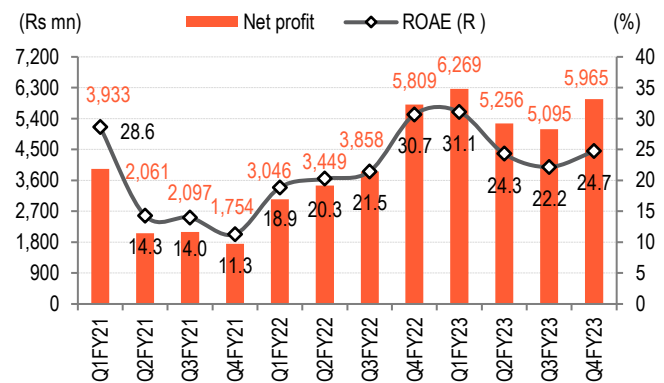
Source: Company, BOBCAPS Research | PCR: Provision Coverage Ratio, GNPA & NNPA: Gross & Net Non-Performing Assets

Fig 5 – Credit cost inch up in Q4; ECL stable



Source: Company, BOBCAPS Research

Fig 6 – Return ratios rose in Q4 on the back of high profit



Source: Company, BOBCAPS Research

Earnings call highlights

Spends growth highest ever

- SBI Card recorded its highest ever spends of Rs 717bn in Q4FY23, up 32% YoY and 4% QoQ. FY23 spends stood at Rs 2.6tn, up 40%, with online spends constituting 57% share.
- Category 1 (departmental stores, health, utilities, education & direct marketing) recorded 10% QoQ growth, Category 2 (consumer durables, furnishing & hardware, apparel & jewellery) declined 24%, and Category 3 (travel agents, hotels, airlines, railways, entertainment & restaurants) grew 2%.
- The company's 30-day spend active rate stood at 50%.
- Retail spends per card on average grew from Rs 124,000 in Q4FY22 to Rs 136,000 in Q4FY23.

Robust card sales continue

- The company added 0.9mn cards in Q4 and reiterated that it would look to continue adding 0.9-1mn cards every quarter.
- Parent SBIN constituted 44% of newly sourced cards in Q4 and had a share of 42% in cards in force (CIF) as of 31 Mar 2023.
- In Q4, the company launched a new co-branded card in partnership with Aditya Birla Finance.

Cost of funding to rise further

- Funding cost remained high in Q4, in line with management guidance. The company expects a further increase of 10-15bps in Q1FY24. In the absence of fresh hikes by RBI, the cost of funds should stabilise in Q2FY24 and come down in H2FY24, accordingly benefiting NIM in the second half.
- SBI Card focuses on risk-based pricing that allows it to transmit rates to the customer in case of a rise in cost of funding. For instance, in Q3, the company was successful in transmitting the higher cost of funds to new disbursements under a 'Flexi Pay' scheme.

Receivables mix – Revolvers share stable but on the lower side

- Interest-bearing assets (gross receivables) grew 30% YoY in Q4, with revolvers growing 25%, EMI 42% and transactors 27%.
- Revolver share remained low in the gross receivables mix at 24% for Q4 (flat vs. Q3). Lower revolver customers remain an industry-wide phenomenon.

Robust fee growth

- Fees income was robust in Q4 at 25% YoY and 7% QoQ to Rs 18bn owing to higher spends and new card acquisitions.
- Instance-based fees grew 32% YoY and constituted 22% of revenue from operations. This was higher because the company increased the fee on making rental payments from Rs 99 to Rs 199 in the month of March.

Operating expenses flat sequentially

- Q4 operating expenses increased 26% YoY but remained flat QoQ. Of these, operating and other expenses (90% of total) remained flat QoQ while employee cost (8% of total) grew 7%.
- The company incurred technology costs in Q4. Due to this, the QoQ decline in operating cost seen in the year-ago quarter was not visible in Q4.
- Customer acquisition cost has declined 10% YoY. Management reiterated that cost of acquisition via the banking channel is lower than that of open market sourcing.

Credit cost high owing to one-time adjustment

- Credit cost grew 60% YoY and 18% QoQ to Rs 6.3bn. Moreover, at 6.6% of loans, it was higher by 120bps YoY and 80bps sequentially. This is because strengthening of the ECL (expected credit loss) model, which is based on macroeconomic factors, resulted in a one-time cost of Rs 200mn (~20bps annualised). Thus, credit cost is expected to come down in the next few quarters.
- The company expects credit cost to be in the range of 5.8-6.2% going ahead.

Others

- Business development income more than doubled YoY in Q4 to Rs 2.6bn owing to milestone incentives received from partners based on cards issued and related spends.
- SBI Card announced a dividend of Rs 2.5/sh for FY23.

Fig 7 – P&L account

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Interest income	16,724	12,661	32.1	16,089	3.9	61,530	48,660	26.4
Interest expense	5,073	2,674	89.7	4,643	9.3	16,476	10,273	60.4
Net Interest Income (NII)	11,651	9,987	16.7	11,446	1.8	45,053	38,387	17.4
Non-interest income	20,898	15,842	31.9	18,983	10.1	75,137	58,112	29.3
-Fee income	17,857	14,268	25.2	16,697	6.9	66,042	52,266	26.4
Revenue from operations	37,622	28,503	32.0	35,071	7.3	1,36,666	1,06,773	28.0
Other income	1,544	1,658	(6.9)	1,490	3.6	6,190	6,243	(0.8)
Total income	39,166	30,161	29.9	36,562	7.1	1,42,857	1,13,015	26.4
Operating expenses	19,799	15,767	25.6	19,745	0.3	74,484	58,462	27.4
PPOP	14,294	11,720	22.0	12,174	17.4	51,896	44,280	17.2
Provisions and contingencies	6,298	3,928	60.3	5,330	18.1	21,591	22,558	(4.3)
PBT	7,997	7,792	2.6	6,843	16.9	30,306	21,722	39.5
Tax	2,032	1,984	2.4	1,749	16.2	7,721	5,560	38.9
PAT	5,965	5,809	2.7	5,095	17.1	22,585	16,161	39.7

Source: Company, BOBCAPS Research

Fig 8 – Balance sheet

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Financial assets	4,34,138	3,29,726	31.7	4,10,670	5.7	4,34,138	3,29,726	31.7
Cash and bank balances	13,545	11,064	22.4	7,850	72.5	13,545	11,064	22.4
Loans	3,93,610	3,01,873	30.4	3,73,540	5.4	3,93,610	3,01,873	30.4
Other financial assets	26,983	16,790	60.7	29,280	-7.8	26,983	16,790	60.7
Non-financial assets	21,318	16,758	27.2	19,200	11.0	21,318	16,758	27.2
Deferred tax assets	2,467	2,185	12.9	2,300	7.2	2,467	2,185	12.9
PP&E, other fixed and intangible	5,737	4,537	26.4	4,890	17.3	5,737	4,537	26.4
Other non-financial assets	13,115	10,036	30.7	12,010	9.2	13,115	10,036	30.7
Total Assets	4,55,456	3,46,484	31.5	4,29,870	6.0	4,55,456	3,46,484	31.5
Financial liabilities	3,42,010	2,56,828	33.2	3,21,250	6.5	3,42,010	2,56,828	33.2
Borrowings including lease liabilities	3,11,096	2,29,825	35.4	2,94,030	5.8	3,11,096	2,29,825	35.4
Other financial liabilities	30,914	27,004	14.5	27,220	13.6	30,914	27,004	14.5
Non-financial liabilities	15,145	12,129	24.9	14,040	7.9	15,145	12,129	24.9
Provisions	6,380	4,774	33.6	5,950	7.2	6,380	4,774	33.6
Other non-financial liabilities	8,765	7,355	19.2	8,090	8.3	8,765	7,355	19.2
Total Liabilities	3,57,155	2,68,957	32.8	3,35,290	6.5	3,57,155	2,68,957	32.8
Equity	98,301	77,527	26.8	94,580	3.9	98,301	77,527	26.8
Equity share capital	9,461	9,432	0.3	9,460	0.0	9,461	9,432	0.3
Other equity	88,840	68,095	30.5	85,120	4.4	88,840	68,095	30.5
Total Liabilities and Equity	4,55,456	3,46,484	31.5	4,29,870	6.0	4,55,456	3,46,484	31.5

Source: Company, BOBCAPS Research

Fig 9 – Ratio analysis

(%)	Q4FY23	Q4FY22	YoY (bps)	Q3FY23	QoQ (bps)	FY23	FY22	YoY (bps)
Yield	17.4	17.4	2	17.4	1	17.7	18.1	(45)
Cost of funds	6.7	4.9	185	6.4	26	6.1	5.0	106
Spread	10.7	12.6	(183)	11.0	(24)	11.6	13.1	(151)
Net interest margin (NIM - calculated)	11.0	12.6	(159)	11.3	(28)	11.8	13.1	(135)
Return on avg. Assets (ROAA)	5.4	7.0	(157)	4.8	57	5.6	5.2	39
Return on avg equity (ROAE)	24.7	30.7	(594)	22.2	256	25.7	23.0	269
Cost to income	58.1	57.4	71	61.9	(379)	58.9	56.9	203
Credit costs	6.6	5.4	116	5.8	79	6.2	8.4	(220)
GNPA	2.4	2.2	13	2.2	13	2.4	2.2	13
NNPA	0.9	0.8	9	0.8	7	0.9	0.8	9

Source: Company, BOBCAPS Research

Fig 10 – Corporate spends

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
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
Corporate	61,620	84,910	1,29,800	1,22,630	1,41,830	1,14,110	1,42,730	1,61,660
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
Composition (%)								
Retail	81.5	80.5	76.6	77.3	76.2	81.7	79.3	77.4
Corporate	18.5	19.5	23.4	22.7	23.8	18.3	20.7	22.6

Source: Company, BOBCAPS Research

Fig 11 – Sourcing trends

New sourcing (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Salaried	83	80	78	76	74	70	66	61
Self employed	17	20	22	24	26	30	34	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 from third at end-FY23 in terms of card spends and has retained its #2 rank in terms of cards outstanding.

During Q4FY23, SBI Card recorded its highest ever spends of Rs 717bn, beating our estimate by 14% and leading us to raise our card spend forecasts for FY24/FY25 by 9%/15% to Rs 3.3tn/Rs 4tn. Moreover, net profit outperformed our estimate by 10% following a beat on total income. However, operating expenses and credit costs both came in above our expectations. Consequently, we increase our FY24/FY25 net profit estimates by ~1% for each of the forecasted years.

We value the company at an unchanged 29x FY25E EPS – 35% below the long-term mean, for a revised TP of Rs 1,050 (vs. Rs 1,034). We retain BUY for a potential upside of 36%. Our secondary residual income model assumes COE of 11.9% and terminal growth of 5.5%, and yields a similar target price.

Fig 12 – Revised estimates

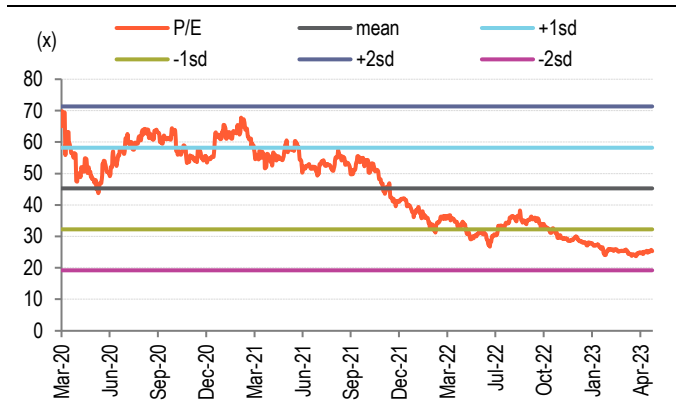
(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Spends	32,99,938	40,57,574	30,36,885	35,32,335	8.7	14.9
Loans	4,91,691	6,08,636	4,73,754	5,54,577	3.8	9.7
Total income	1,76,816	2,14,782	1,71,611	2,02,824	3.0	5.9
C/ I ratio (in %)	58.4	58.1	58.5	58.1	(8bps)	7bps
PPOP	64,594	78,627	62,605	74,608	3.2	5.4
Credit costs	26,495	32,796	25,037	29,309	5.8	11.9
PAT	28,498	34,282	28,101	33,884	1.4	1.2

Source: Company, BOBCAPS Research

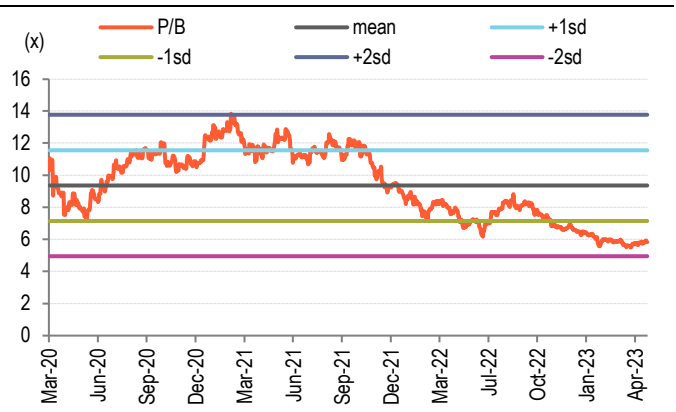
Fig 13 – Residual income model

Parameter	
Cost of equity (%)	12.0
Terminal growth rate (%)	5.5
PV of Residual Income (Rs mn)	8,98,148
Current Book Value (Rs mn)	98,301
Estimated Market Value (Rs mn)	9,96,449
Shares (mn)	951
Estimated Price Per Share (Rs)	1,048

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 can't 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.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Net interest income	39,033	38,387	45,053	58,172	72,579
Nil growth (%)	10.2	(1.7)	17.4	29.1	24.8
Non-interest income	43,498	58,112	75,137	90,064	1,07,186
Total income	97,136	1,13,015	1,42,857	1,76,816	2,14,782
Operating expenses	47,079	58,462	74,484	90,718	1,09,154
PPOP	39,623	44,280	51,896	64,594	78,627
PPOP growth (%)	8.0	11.8	17.2	24.5	21.7
Provisions	26,386	22,558	21,591	26,495	32,796
PBT	13,237	21,722	30,306	38,099	45,831
Tax	3,392	5,560	7,721	9,601	11,549
Reported net profit	9,845	16,161	22,585	28,498	34,282
Adjustments	0	0	0	0	0
Adjusted net profit	9,845	16,161	22,585	28,498	34,282

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Equity capital	9,405	9,432	9,461	9,432	9,432
Reserves & surplus	53,615	68,095	88,840	1,13,953	1,45,384
Net worth	63,020	77,527	98,301	1,23,385	1,54,816
Debt securities	59,329	71,063	66,062	76,704	94,947
Borrowings	1,06,635	1,46,801	2,31,429	2,79,969	3,46,557
Other liab. & provisions	41,144	51,093	59,664	80,640	89,498
Total liab. & equities	2,70,129	3,46,484	4,55,456	5,60,697	6,85,819
Cash & bank balance	7,201	11,064	13,545	11,554	11,097
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	27,752	29,568
Total assets	2,70,129	3,46,484	4,55,456	5,60,697	6,85,819
Total debt growth (%)	2.8	26.1	35.2	23.3	23.8
Advances growth (%)	2.8	28.7	30.4	24.9	23.8

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
EPS	10.4	17.0	23.8	30.0	36.1
Dividend per share	0.0	2.5	2.5	3.0	3.0
Book value per share	66.4	81.6	103.5	129.9	163.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
P/E	74.4	45.4	32.4	25.7	21.4
P/BV	11.6	9.5	7.5	5.9	4.7
Dividend yield (%)	0.0	0.3	0.3	0.4	0.4

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Net interest income	14.9	12.5	11.2	11.4	11.6
Non-interest income	16.6	18.8	18.7	17.7	17.2
Operating expenses	18.0	19.0	18.6	17.9	17.5
Provisions	10.1	7.3	5.4	5.2	5.3
ROA	3.8	5.2	5.6	5.6	5.5
Leverage (x)	4.5	4.4	4.6	4.6	4.5
ROE	16.9	23.0	25.7	25.7	24.6

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Net interest income	10.2	(1.7)	17.4	29.1	24.8
Pre-provisioning profit	8.0	11.8	17.2	24.5	21.7
EPS	(21.4)	64.0	39.8	26.0	20.3
Profitability & Return ratios (%)					
Net interest margin	15.9	13.1	11.8	12.0	12.1
Fees / Avg. assets	16.6	18.8	18.7	17.7	17.2
Cost-Income	54.3	56.9	58.9	58.4	58.1
ROE	16.9	23.0	25.7	25.7	24.6
ROA	3.8	5.2	5.6	5.6	5.5
Asset quality (%)					
GNPA	5.0	2.2	2.3	2.6	2.8
NNPA	1.2	0.8	0.6	0.8	0.9
Slippage ratio	12.6	7.2	4.3	4.3	4.3
Credit cost	11.4	8.4	6.2	6.0	6.0
Provision coverage	77.9	65.3	73.5	70.2	67.9
Ratios (%)					
Loans to Total debt	129.8	132.5	127.8	129.5	129.5
CAR	24.8	23.8	23.1	22.1	22.5
Tier-1	20.9	21.0	20.4	20.3	21.1

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

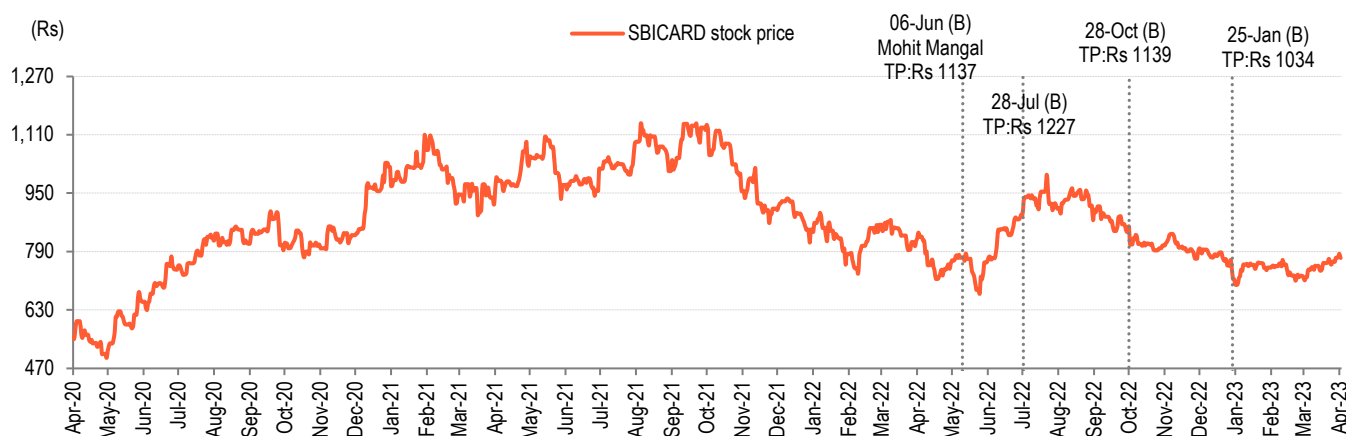
HOLD – Expected return from -6% to +15%

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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