BUY
TP: Rs 1,137 | ⮝ 47%

SBI CARD | NBFC | 06 June 2022

A play on India's cashless revolution – initiate with BUY

- **Major player in credit card domain with vast growth potential due to partnership with parent SBIN and customised offerings**
- **Expect earnings to log a 32% CAGR over FY22-FY25, aiding +6% ROAA and +26% ROAE in the medium term**
- **Initiate with BUY given strong fundamentals, structural story and compelling valuations; TP at Rs 1,137 (36x FY24E P/E)**

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Competitive advantage of SBIN partnership: SBI Card's partnership with its parent State Bank of India gives it the benefits of SBIN's vast network, cheaper customer acquisition cost, better asset-quality clients and strong cross-sell opportunities. The company's strategy to expand into tier-2/3 cities should spur growth, with SBIN having the highest network reach among banks in these markets.

Open market sourcing reinforces business model: SBI Card boasts a presence in ~3,500 open market points of sale, has 148 sourcing locations and 35,000+ sales agents. It also has co-branded partnerships with over 10 non-bank entities and 8 banks that use their own channels and networks for client origination.

Return ratios healthy: Credit cards are a high-margin business and SBI Card earned average ROAA/ROAE of 4.6%/29% for FY16-FY20. Amid Covid, these ratios fell to 3.8%/16.9% in FY21 before rebounding to 5.2%/23% in FY22. We expect ROAA of 6%/6.4% and ROAE of 26.2%/26.9% in FY23/FY24 as the pandemic impact ebbs.

NIM on path to recovery: SBI Card was consistently generating 15%+ NIMs but in FY22, NIM contracted to ~13% owing to a lower share of revolving accounts in the receivables mix. We believe that as economic activity revives, the share of interest-earning EMI and revolver accounts in the receivables mix will grow over the next 2-3 years, supporting better margins of ~14.5% by FY25.

Asset quality improving: The company's credit cost averaged 6% during FY16-FY19. This increased during the pandemic to 9.5%/11.4% in FY20/FY21, before ending lower at 8.4% in FY22. We expect credit cost to decline further to 7.7%/7.2%/7% for FY23/FY24/FY25. GNPA averaged 2.4% over FY17-FY20 and net NPA 0.8%. Although GNPA rose to 5.0% in FY21, it tapered to 2.2% in FY22.

Initiate with BUY: SBI Card is trading at attractive valuations of 24x FY24E EPS. We value the stock at 36x FY24E P/E– this yields a TP of Rs 1,137, implying a potential upside of 47%. Our residual income model assumes COE of 11.8% and terminal growth rate of 5.5%. Initiate with BUY.

Ticker/Price	SBICARD IN/Rs 773
Market cap	US$ 9.5bn
Free float	30%
3M ADV	US$ 24.8mn
52wk high/low	Rs 1,165/Rs 711
Promoter/FPI/DII	70%/10%/21%

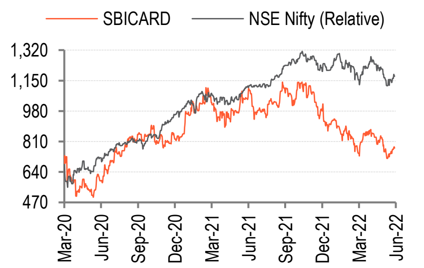
Source: NSE | Price as of 3 Jun 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Net interest income (Rs mn)	38,387	47,999	61,277
NII growth (%)	(1.7)	25.0	27.7
Adj. net profit (Rs mn)	16,161	23,064	30,012
EPS (Rs)	17.0	24.3	31.6
Consensus EPS (Rs)	17.0	24.3	31.4
P/E (x)	45.4	31.9	24.5
P/BV (x)	9.5	7.5	5.9
ROA (%)	5.2	6.0	6.4
ROE (%)	23.0	26.2	26.9

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

Stock performance



Source: NSE

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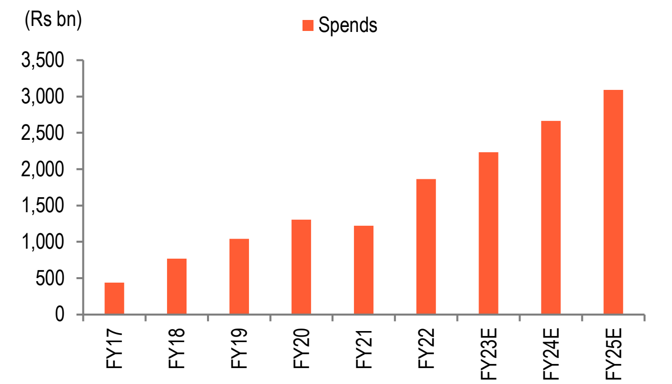

Source: RBI, Company, BOBCAPS Research

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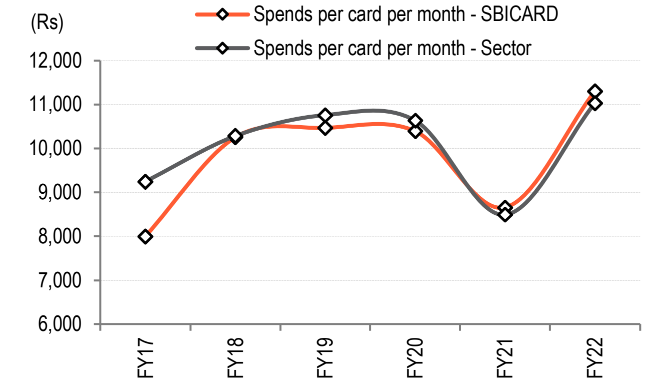

Source: Company, RBI, BOBCAPS Research

Fig 3 – Retail segment dominates spends

Source: Company, BOBCAPS Research

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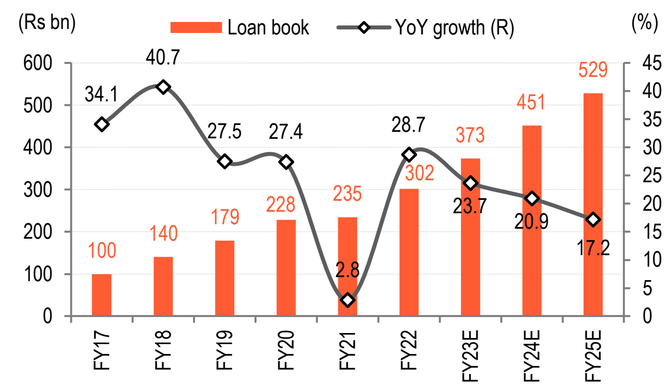

Source: Company, BOBCAPS Research

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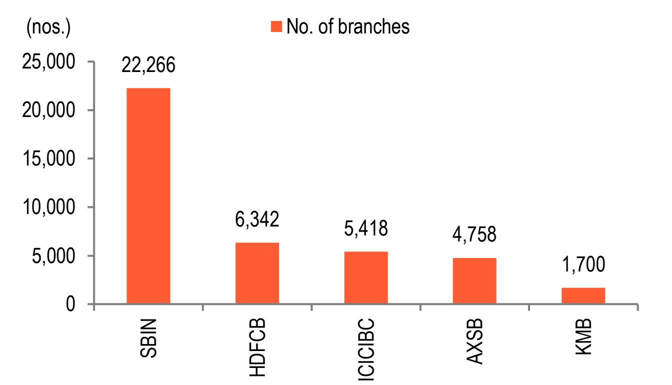

Source: Respective Company Presentations | Note: Data as of end-FY22

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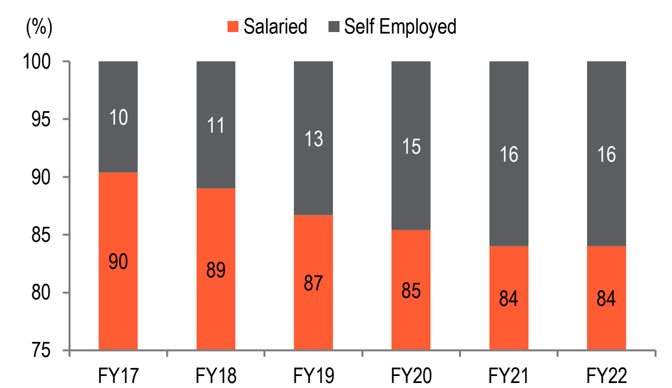

Source: Company, BOBCAPS Research | Note: Data based on cards in force (CIF)

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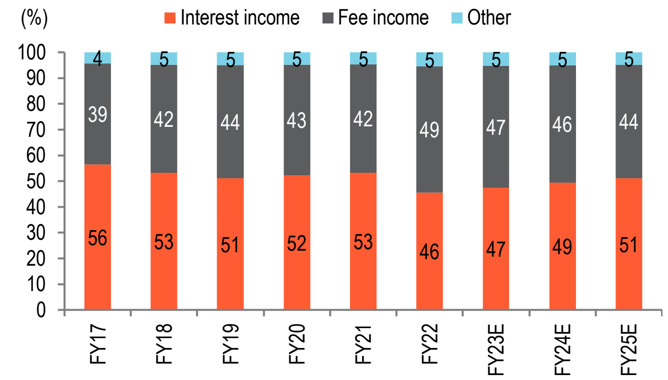

Source: Company, BOBCAPS Research

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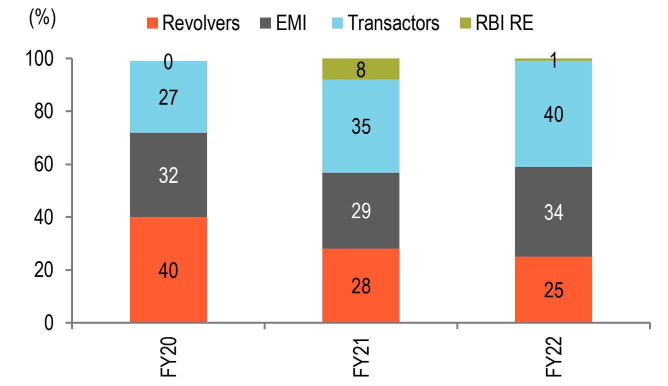

Source: Company, BOBCAPS Research | Note: RBI RE – RBI restructuring

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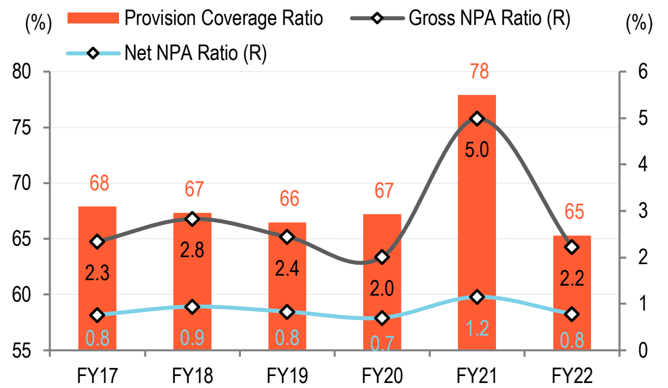

Source: Company, BOBCAPS Research

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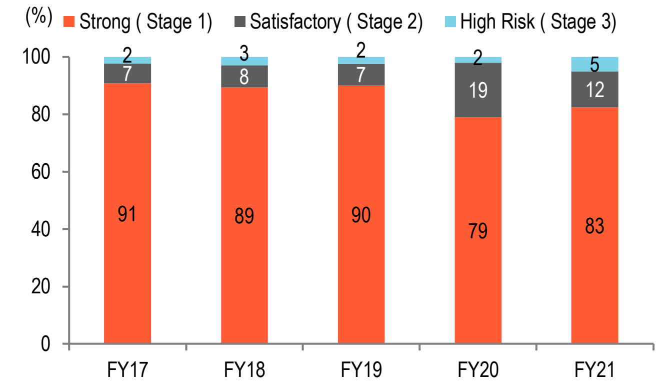

Source: Company, BOBCAPS Research

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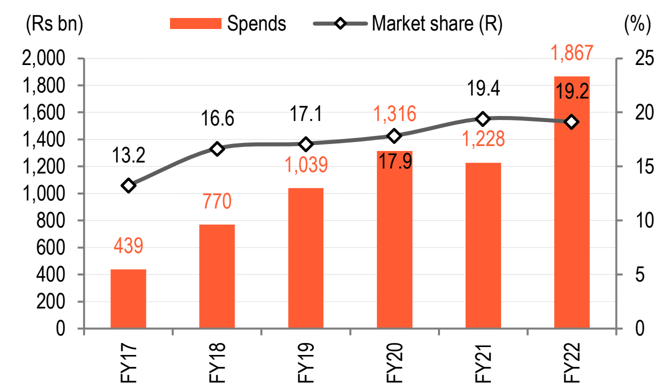

Source: Company, RBI, BOBCAPS Research

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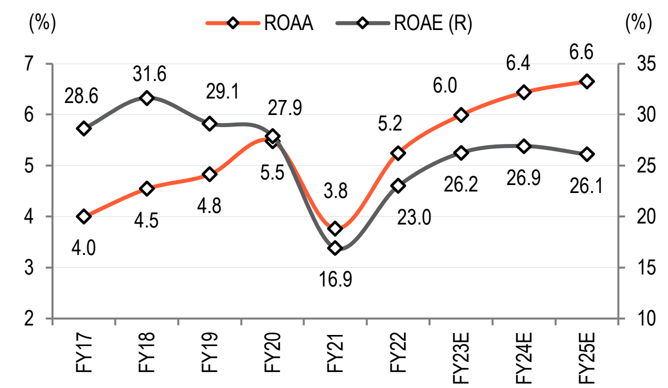


Source: Company, BOBCAPS Research

Investment rationale

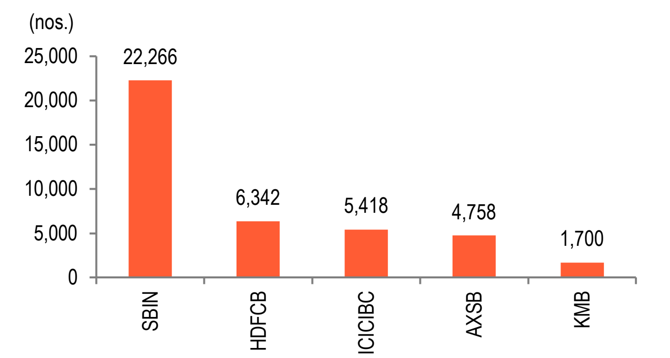
Strong parentage with sizeable opportunity to upscale

SBI Cards and Payment Services (SBI Card) has the competitive advantage of partnering with its parent, State Bank of India (SBIN) – the country's largest state-owned bank. Under Project Shikhar initiated in Oct'17, the company has access to over 22,000 branches of SBIN and over 450mn customers, which provides immense scalability potential. The customer acquisition cost of the bancassurance channel is also lower than open market sourcing, apart from providing better quality clientele.

As much as 46.5% of new customer acquisitions came from the bancassurance channel at end-FY22 vs. 35% in FY17. In terms of cards in force (CIF), the split between SBIN and open sourcing was 43.2% and 56.8% respectively at end-FY22. Apart from sourcing and cross-sell benefits, a strong parent can provide solid support in the event of any distress.

SBI Card's strategy is to expand to tier-2 & 3 cities by leveraging the parent's vast branch base and also using the open market channel. This augurs well for growth as the proportion of new accounts sourced from tier-2/3 cities has stepped up from 29% in FY17 to 31% in FY19 and further to 46% in FY22. These markets also constitute 42% of CIF. Thus, the company's expansion strategy remains intact despite the pandemic.

Fig 13 – Parent SBIN has the most branches in India, FY22



Source: Respective Company Presentations

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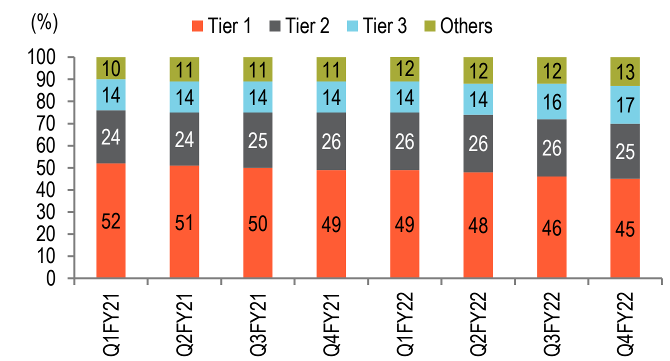


Source: Company, BOBCAPS Research

Fig 15 – CIF indexed 30+ delinquency comparatively lower for salaried, tier 1/2

CIF - Indexed 30+ delinquency	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Occupation								
Salaried	0.94	0.93	0.92	0.91	0.91	0.92	0.93	0.95
Self employed	1.26	1.35	1.42	1.47	1.53	1.51	1.44	1.33
By City Tier								
Tier 1	1.06	1.14	1.10	1.12	1.06	1.06	1.02	1.00
Tier 2	0.93	0.86	0.92	0.92	0.97	0.93	0.91	0.91
Tier 3	0.87	0.72	0.75	0.78	0.89	0.96	1.05	1.08
Others	0.87	0.71	0.74	0.72	0.86	0.87	1.05	1.11

Source: Company, BOBCAPS Research

SBI Card has high cross-selling potential as its credit-to-debit card ratio at 5x (end-FY22) is lower than the >30x of leading private banks such as HDFC Bank (HDFCB), ICICI Bank (ICICIBC) and Axis Bank (AXSB). While not all of the parent's ~276mn debit card customers would be eligible for conversion to credit cards, we estimate a sizeable opportunity at ~200mn on excluding Jan Dhan accounts, dormant accounts and some rural areas. SBI Card has ~13.7mn credit cards outstanding; even if 1% of eligible bank customers are converted, it would lead to ~15% annual growth in this metric.

Fig 16 – Credit-to-debit card ratios suggest SBI Card has vast untapped opportunity

Bank	FY17	FY18	FY19	FY20	FY21	FY22
SBIN	1.7	2.2	2.6	3.8	4.0	5.0
HDFCB	36.3	43.9	46.3	45.2	40.8	38.4
ICICIBC	11.5	12.0	14.8	19.8	27.1	35.4
AXSB	16.6	20.1	24.3	28.5	30.0	32.6
KMB	21.0	17.8	16.2	15.5	13.5	13.6

Source: Respective Company Websites, BOBCAPS Research

Open market sourcing – a robust model

In addition to the bancassurance channel, SBI Card has a well-defined strategy to acquire customers through open market sources. The company has 148 sourcing locations, 35,000+ sales agents across India, and a presence in ~3,500 open market points of sale (POS), including malls, fuel stations and railway stations. Further, it has co-branding partnerships with over 10 non-bank entities and 8 banks that use their communication channels and distribution network for client origination.

Banking co-brand partners include City Union Bank, Karnataka Bank, UCO Bank, Central Bank of India, Allahabad Bank, South Indian Bank, Karur Vysya Bank and Bank of Maharashtra. Non-bank co-brand partners include Lifestyle Home Centre SBI Card, Air India SBI Signature Card, BPCL SBI Card Octane, and IRCTC SBI Card Premier.

As of FY22, 53.5% of new customer were originated from the open market channel which also accounted for 57% of CIF. We note that customer churn in cards originated from this channel is relatively lower, per our analysis below.

Churn analysis: Higher volatility in banca-originated cards

An analysis of customer churn (difference between new accounts added and CIF added during the year) indicates that the churn rate is higher in the bancassurance channel than in the open market. SBI Card's overall churn was 11.8% at end-FY22 vs. 14.6% for the bancassurance channel and 9.7% for the open market. The company mitigates this risk by maintaining a healthy mix between the two modes.

Fig 17 – Churned cards analysis

(mn)	FY20	FY21	FY22
Overall			
New accounts added	3.4	2.7	3.6
Cards in force (CIF)	10.5	11.8	13.8
Incremental	2.3	1.3	1.9
Churn	1.1	1.4	1.6
Churn rate (%)	**10.7**	**11.9**	**11.8**
Churn rate on average CIF (%)	12.0	12.6	12.7
Bancassurance			
New accounts added	1.7	1.5	1.7
Cards in force (CIF)	4.0	5.2	5.9
Incremental	0.9	1.1	0.8
Churn	0.8	0.3	0.9
Churn rate (%)	**20.7**	**6.6**	**14.6**
Churn rate on average CIF (%)	23.2	7.4	15.7
Open market sourcing			
New accounts added	1.7	1.2	1.9
Cards in force (CIF)	6.5	6.7	7.8
Incremental	1.4	0.1	1.2
Churn	0.3	1.1	0.8
Churn rate (%)	**4.6**	**16.0**	**9.7**
Churn rate on average CIF (%)	5.1	16.2	10.4

Source: Company, BOBCAPS Research

Digital sourcing opens up new growth avenue

SBI Card is focussing on digital acquisitions as these are cost-friendly, besides which a couple of products on its website have already been successfully set up via end-to-end digital acquisitions. Parent SBIN has a YONO banking app wherein integration with SBI Card enables the latter to service clients as follows: (i) existing SBIN customers can apply for a credit card through the app, and (ii) existing customers can avail of a full set of services through the app which includes the ability to pay from their bank account and view credit card statements.

Wide-ranging product suite

In order to cater to its retail and corporate customers, SBI Card has built a diverse product line. The cards can be broadly categorised into lifestyle, rewards, shopping, travel and fuel, banking partnership cards and business credit cards. The company launched six products in FY21 (including AURUM in the super-premium segment) and eight in FY20 in a bid to constantly innovate and meet evolving customer needs.

Fig 18 – Diverse product suite

Source: Company presentation, FY22

Focus on lower-risk salaried category

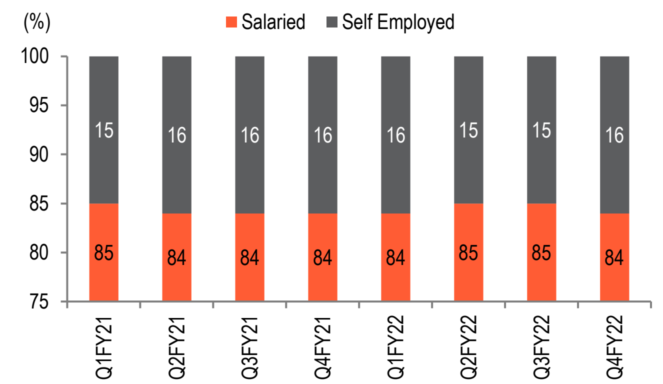
SBI Card is focussed on salaried customers, as illustrated by an average CIF of ~87% belonging to the salaried class over FY17-FY22. At end-FY22, this was at 84%. Of the salaried, ~40% are government/PSU employees, 27% are category-A and 33% are category-B employees. The company targets the salaried class in new sourcing as well.

With credit cards being in the nature of unsecured loans, a higher proportion of salaried individuals in the customer base – including those of the parent bank – offers a cushion against delinquency. While the company is conservative in terms of sourcing, it also strikes a balance by ensuring that the self-employed remain a part of the customer mix.

Fig 19 – CIF mix illustrates focus on salaried class…

Source: Company, BOBCAPS Research

Fig 20 – …a trend consistent each quarter



Source: Company, BOBCAPS Research

Fig 21 – CIF mix shows government/PSU employees form a bulk of salaried category customers…

Salaried category (%)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Government/PSU	35	38	39	39	39	39	40	40
CAT A	26	24	24	25	26	27	27	27
CAT B	39	37	37	36	35	34	33	33

Source: Company, BOBCAPS Research

Fig 22 – …a trend mirrored in new customer sourcing as well

Salaried category (%)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Govt/PSU	47	42	38	40	32	36	38	38
CAT A	21	25	29	30	43	36	31	29
CAT B	32	33	33	30	25	28	31	34

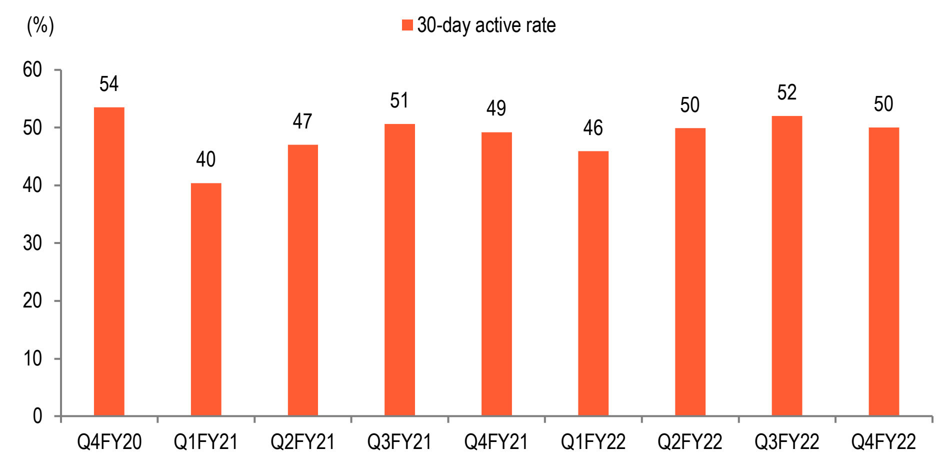
Source: Company, BOBCAPS Research

30-day active rate at ~50%

As at end-Q4FY22, 50% of SBI Card's customers used their credit cards within the prior 30-day period. This has held above 50% over the last three consecutive quarters and also in four of the last eight quarters. Management has formulated a three-pronged strategy to ensure higher card activity – (i) reiterating product value propositions to inactive customers, (ii) providing the right credit line or the right product as per user requirements, (iii) making special offers for spends in certain categories.

If a customer is inactive for 90 days, offers to revive card usage are tailored based on his/her past spending behaviour. Per the company, if a broad 365-day period is taken into account, then over 90% of its customers are either spending or balance-active.

Fig 23 – 30-day active rate



Source: Company, BOBCAPS Research

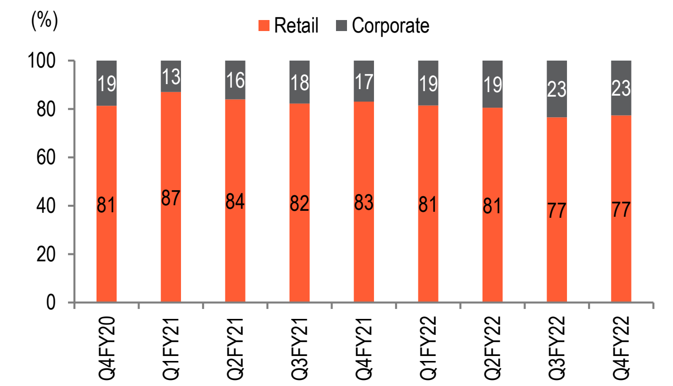
Retail dominates spends; premiumisation holds key

Retail spending constituted 78.6% of SBI Card's total spends in FY22. FY21 was an exception when the retail segment climbed even higher as corporate card usage suffered due to the pandemic, when travel was restricted and was effectively replaced by digital communication. Cards outstanding are also dominated by the retail segment.

Fig 24 – Retail segment accounts for majority of spends…

Source: Company, BOBCAPS Research

Fig 25 – …in a recurring trend seen over several quarters



Source: Company, BOBCAPS Research

Premium cards offer multiplier growth opportunity

Premium cards provide an opportunity to increase revenue as they come with a minimum annual fee of Rs 1,499 per customer and can generate a multiplier impact on income by way of annual fees, MDR-based interchange income, and interest income. In general, customers who pay higher fees also use their cards more frequently. At end-FY19, premium cards accounted for 14.8% of the company's total cards outstanding. This is in line with the ~15% premium share for the industry, as per CRISIL Research estimates.

Fig 26 – Premium card offerings, FY19

Parameter	SBICARD	HDFCB	ICICIBC	AXSB	RBK	IIB
Total number of cards offered	46	20	33	21	30	23
Proportion of premium cards offered (%)	~40	~20	~45	~25	~25	~70

Source: Company RHP, BOBCAPS Research | Note: Above data excludes corporate credit cards

NII growth trajectory healthy, NIM set to improve

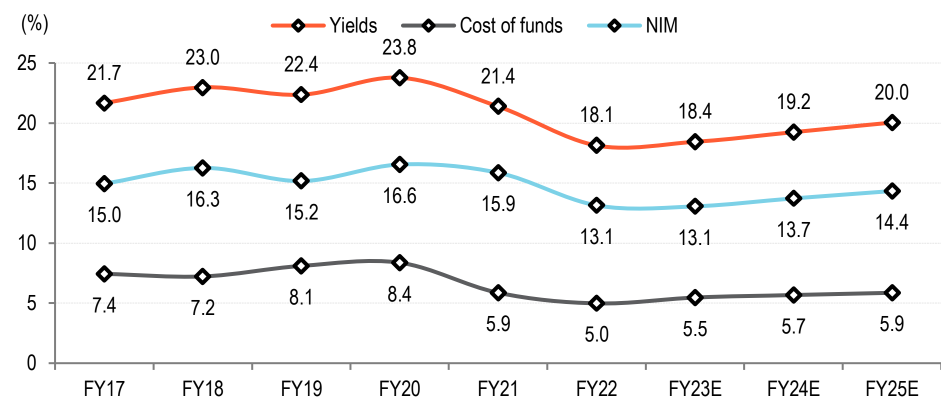
SBI Card registered an average conversion rate of 18.5% of spends into interest-earning assets during FY17-FY22. Interest income formed 52%/53% of revenue from operations in FY20/FY21, which decreased to 46% in FY22. Despite showing a long-term declining trend – from 60% in FY13 to 53% in FY21 and 46% in FY22 – interest income is an important source of revenue generation, with non-interest income contributing the balance.

The decline in FY22 was primarily due to the lower share of revolving accounts in the mix (those paying the minimum amount due of their monthly credit card balance and carrying the rest forward on interest) and higher share of transactors (those paying credit card balances on time, avoiding interest charges). Revolvers play an important role in interest income as they pay the highest interest rate of ~40% p.a. EMI customers pay 12-18% p.a. whereas transactors do not contribute to this revenue stream.

Although the company expects receivables to be spread equally among transactors, EMI payers and revolvers, the share of revolvers has declined (from 40% at end-FY20 to 25% at end-FY22) owing to tightened filters amid stress emanating from Covid-19. Consequently, blended yields which averaged at 22.7% during FY17-FY20 dipped to 21.4% at end-FY21 and 18.1% at end-FY22. As the pandemic stress ebbs, we expect interest income to log a 26% CAGR over FY22-FY25 to Rs 98bn, forming 51% of revenue and clocking an average yield of 19.2% with an increasing bias.

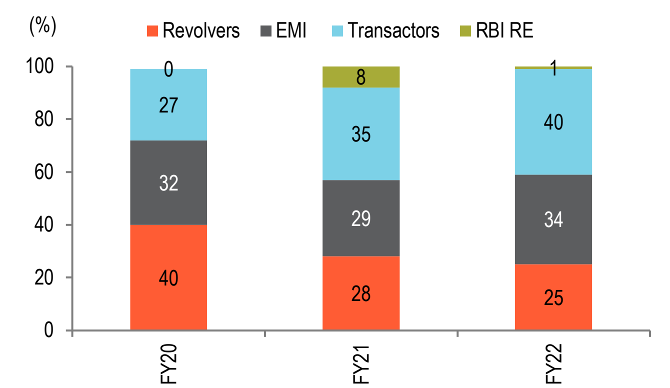
On the margin front, the credit card business is a high-margin model, with the company consistently generating NIM of over 15%. However, FY22 saw NIM contracting to ~13%. On the positive side, the low-rate environment in FY21/FY22 aided a lower cost of funds at 5.9%/5.0% vs. an avg. of 7.8% over FY17-FY20. Our expectation is that NII will post a 26% CAGR over FY22-FY25 to Rs 76bn and that NIM will improve gradually as yields improve, albeit offset to some extent by higher funding costs amid a hardening rate climate.

Fig 27 – NIM expected to improve



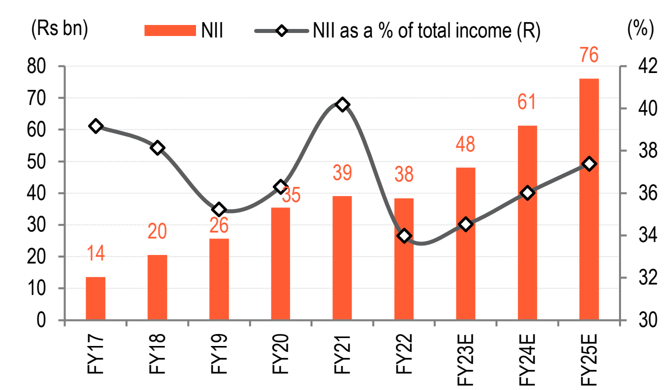
Source: Company, BOBCAPS Research

Fig 28 – Revolver share in receivables has steadily declined



Source: Company, BOBCAPS Research | Note: RBI RE – RBI Restructuring

Fig 29 – NII expected to increase as Covid stress abates

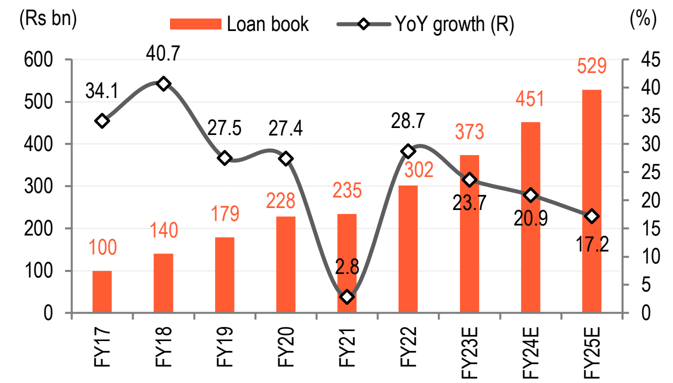


Source: Company, BOBCAPS Research

Expect strong loan book growth through FY25

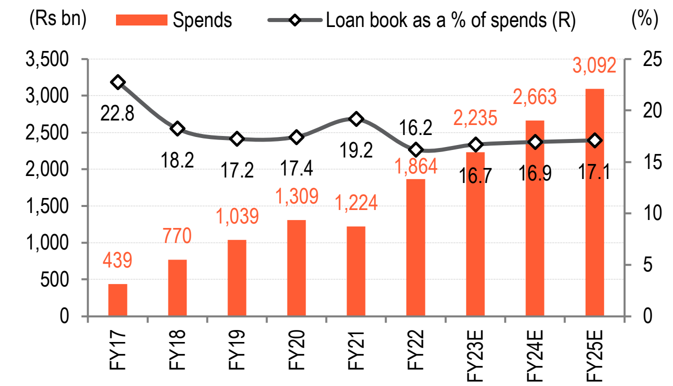
We expect SBI Card's loan book to clock a 21% CAGR over FY22-FY25 to Rs 529bn after posting a 25% CAGR over FY17-FY22. Its loan book as a percentage of spends averaged 18.5% over FY17-FY22. We believe this ratio has bottomed at 16.2% as at end-FY22 and should cross 17% by FY25 backed by a likely decline in the share of transactors and an increase in the interest-earning EMI and revolving book as economic activity revives.

Fig 30 – Expect steady growth in loan book



Source: Company, BOBCAPS Research

Fig 31 – Loan book as a % of spends expected to inch up



Source: Company, BOBCAPS Research

Fee income growth on the rise

SBI Card's fee income consists of three parts:

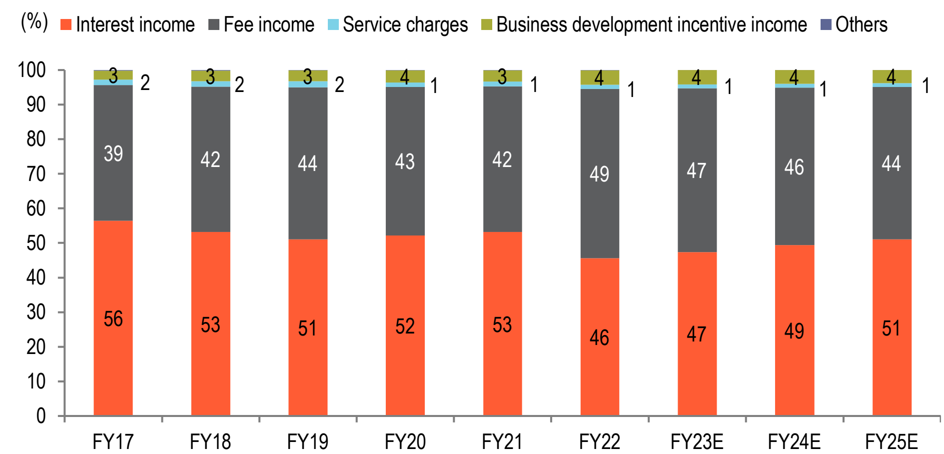
- **spends-based fees**, which is a major component of fee income and consists of interchange income
- **subscription-based fees**, which consists of joining/annual charges; and
- **instance-based fees**, which consists of late fees, cash-withdrawal fees, processing fees for value-added products, over-limit and dishonour fees, among others.

About 50% of the company's fee income is derived from spends-based fees which ranged from 140bps to 160bps of total spends over the last five years. Although this declined from 156bps in FY20 to 140bps in FY22, we expect a marginal increase over FY23-FY25. Credit card spends fell from Rs 1.3tn in FY20 to Rs 1.2tn in FY21 and the corresponding spends-based fees dropped from Rs 20.4bn to Rs 17.6bn. As spending recovered and grew to ~Rs 1.9tn in FY22, interchange fees increased to Rs 26bn. Instance-based fees stood at 97bps of total spends in FY22 (vs. an average of 99bps over the last five years) and subscription-based fees totalled Rs 8bn.

Fee income constituted 43%/42% of revenue from operations in FY20/FY21 which further increased to 49% in FY22. Incrementally, over FY17-FY22, interest income grew by Rs 30bn (to Rs 49bn) on an absolute basis whereas fee income grew by Rs 39bn (to Rs 52bn).

In all, SBI Card generates revenue mainly from interest income and three primary sources of fee income. Although interest income declined by Rs 806mn YoY in FY22, fee income increased by Rs 13bn YoY, leading to a ~Rs 14bn rise in revenue from operations. We model for a 17% CAGR in fee income over FY22-FY25 to ~Rs 85bn.

Fig 32 – Revenue from operations bifurcation



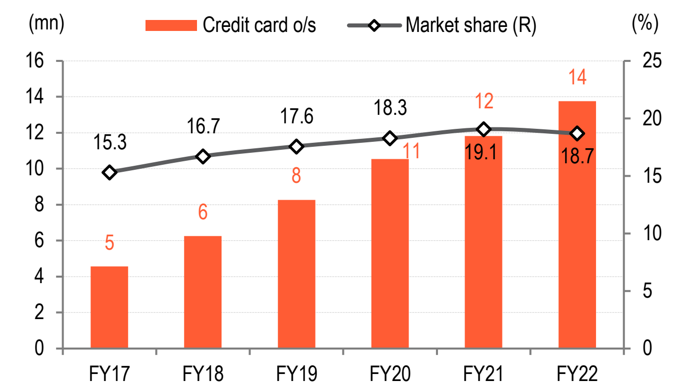
Source: Company, BOBCAPS Research

#2 player in cards outstanding amid stiff competition

SBI Card has ramped up market share in credit cards outstanding from 14.8% in FY16 to 19.1% in FY21 and in spends from 12% to 19.4%. Despite competition, the company has retained its #2 position in cards outstanding in FY22, albeit with a 40bps market share decline. However, in terms of spends, it has dropped a place to #3 with 19.2% share after being dislodged from its position by ICICIBC (HDFCB remains in the lead). On an absolute basis, spends for SBI Card increased by ~Rs 640bn in FY22 and credit cards outstanding rose by ~Rs 1.9mn.

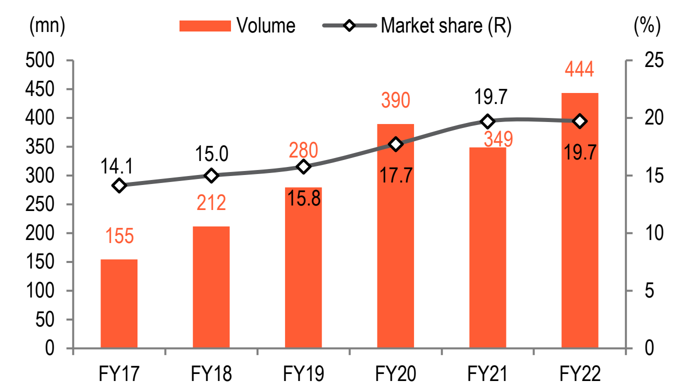
We note that the industry is facing a shake-up, especially foreign banks which are seeing a contraction in market share. For instance, Citibank's share in terms of credit cards outstanding has more than halved from 9.8% in FY16 to 4.2% in FY21 and further to 3.5% in FY22. Similarly, its market share in terms of credit card spends has shrunk from 14.5% in FY16 to 5.8% in FY21 and further to 4.5% in FY22. In Mar'22, Citibank sold its credit card business to AXSB.

Fig 33 – Retains second place in cards o/s after HDFCB



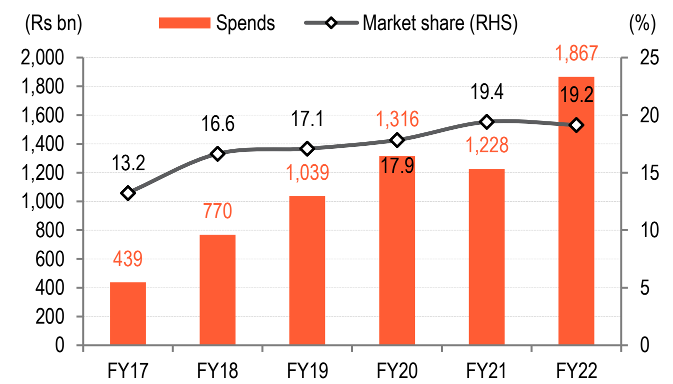
Source: Company, RBI, BOBCAPS Research

Fig 34 – Volume market share steady



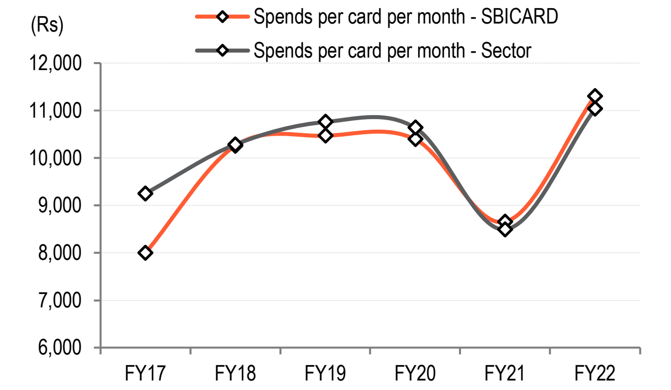
Source: Company, RBI, BOBCAPS Research

Fig 35 – Rising market share in spends ex-FY22



Source: Company, RBI, BOBCAPS Research

Fig 36 – Spends per card per month sync with sector avg.



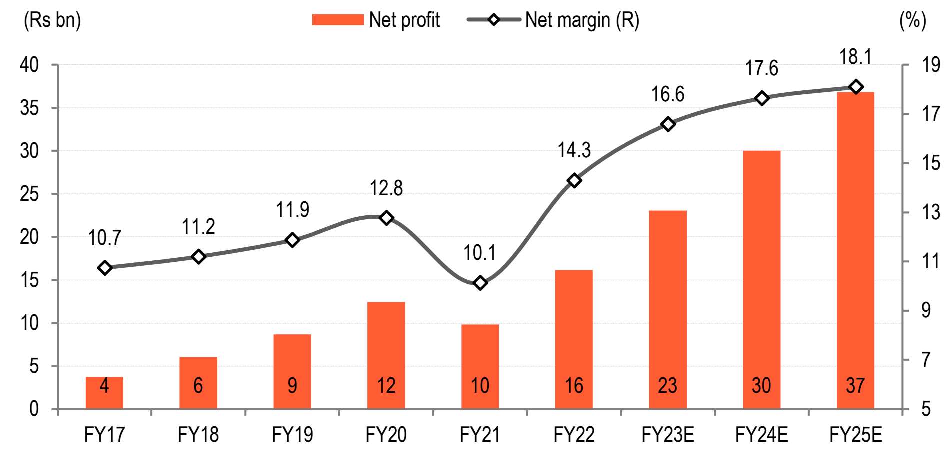
Source: Company, RBI, BOBCAPS Research

Financial review

Expect 32% earnings CAGR over FY22-FY25

We expect SBI Card's earnings to clock a 32% CAGR over FY22-FY25 to ~Rs 37bn after growing at a 34% CAGR over FY17-FY22 to Rs.16bn. This will be driven by a 22% CAGR in total income. Operating expenses and credit costs are expected to increase at a 19% and 15% CAGR respectively.

Fig 37 – Net profit expected to grow at 32% CAGR over FY22-FY25



Source: Company, BOBCAPS Research

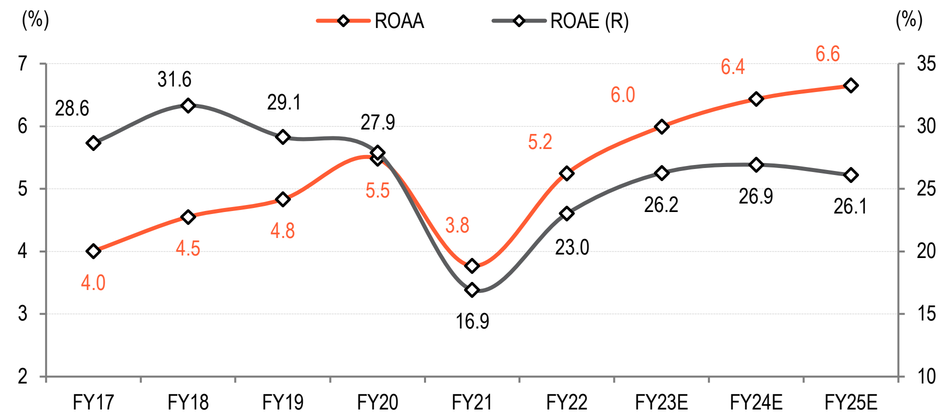
Pandemic, macro climate temporarily depress return ratios

SBI Card has been able to generate robust return ratios, posting an average ROAA of 4.6% and ROAE of 29% over FY16-FY20. With the pandemic, these ratios did contract to 3.8% and 16.9% respectively in FY21 but rebounded to 5.2% and 23% in FY22. We note the following key shifts in operational metrics during the pandemic phase:

- **Share of revolving book in the receivables mix** declined steadily from 40% of total receivables at end-FY20 to 25% at end-FY22. Consequently, blended yields which averaged at 22.7% during FY17-FY20 dropped to 21.4% at end-FY21 and 18.1% at end-FY22.
- **Credit cost surged** from an average of 6.0% during FY16-FY19 to 9.5%/11.4% in FY20/FY21 on higher provisioning amid the pandemic, before cooling off to 8.4% at end-FY22.

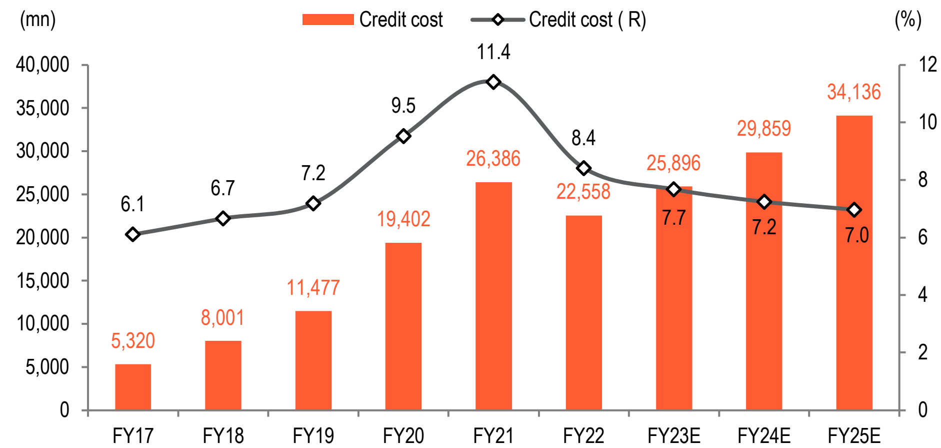
With the waning economic impact of Covid-19 and most of the eligible population vaccinated, we expect a return to business as usual and therefore pencil in higher ROAA of 6.0%/6.4% and ROAE of 26.2%/26.9% for FY23/FY24.

Fig 38 – Return ratios have rebounded; expect further improvement



Source: Company, BOBCAPS Research

Fig 39 – Credit costs expected to subside



Source: Company, BOBCAPS Research

Fig 40 – DuPont comparison of SBI Card vs. Amex (India)

(Rs mn)	Amex			SBI Cards		
Particulars	**FY19**	**FY20**	**FY21**	**FY19**	**FY20**	**FY21**
Loan/ Advances	53,398	39,874	31,376	1,79,087	2,28,116	2,34,591
Total Assets	85,497	82,479	76,039	2,01,461	2,53,067	2,70,129
Equity	18,076	18,091	22,641	35,878	53,412	63,020
Interest Income	5,187	6,873	6,016	35,757	48,413	49,467
Interest Expense	1,461	1,501	1,032	10,094	13,009	10,434
NII	**3,726**	**5,371**	**4,984**	**25,664**	**35,404**	**39,033**
Non-interest income	14,217	14,637	7,932	47,205	62,119	58,103
Net Operating income	17,943	20,008	12,916	72,869	97,523	97,136
Operating expenses	15,126	17,918	12,576	37,947	47,815	47,079
PPOP	2,817	2,090	339	24,828	36,699	39,623
Provisions and contingencies	2,535	2,013	3,306	11,477	19,402	26,386
PBT	282	77	(2,967)	13,351	17,297	13,237
Tax	0	21	0	4,701	4,848	3,392
PAT	282	56	(2,967)	8,650	12,448	9,845

(Rs mn)	Amex			SBI Cards		
Particulars	**FY19**	**FY20**	**FY21**	**FY19**	**FY20**	**FY21**
DuPont analysis (%)						
Net interest income/Average Assets	4.6	6.4	6.3	14.3	15.6	14.9
Non-interest income /Average Assets	15.7	15.6	8.7	20.7	21.6	18.2
Operating expense/Average Assets	18.6	21.3	15.9	21.2	21.0	18.0
Provision (Impairments)/Average Assets	3.1	2.4	4.2	6.4	8.5	10.1
ROAA	0.3	0.1	(3.7)	4.8	5.5	3.8
Average Assets /Average Equity	5.0	4.6	3.9	6.0	5.1	4.5
ROAE	1.7	0.3	(14.6)	29.1	27.9	16.9

Source: Company, Amex, BOBCAPS Research

Asset quality – credit cost expected to fall, GNPA reasonable

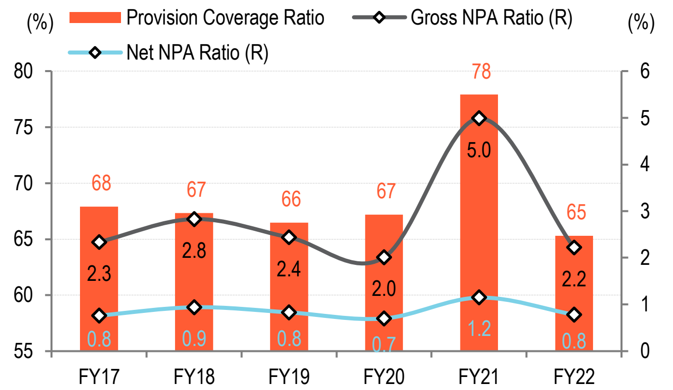
Due to the pandemic, SBI Card witnessed a steep increase in credit cost to 9.5%/11.4% in FY20/FY21. It ended FY22 on the lower side at 8.4% though this was still above the 6% average of FY16-FY19. We bake in credit cost of 7.7%/7.2% for FY23/FY24 on the assumption that the pandemic effect is subsiding. Nevertheless, as the credit card business is in the nature of an unsecured loan, the chances of default are higher.

The company has a strong underwriting process with constant review to monitor and intervene via actions that minimise credit risks. It leverages credit bureaus to enhance decision capability. Moreover, it has access to a wealth of data from co-branded partners that can be used as an additional basis for underwriting. Lastly, a higher proportion of the salaried class in its customer base cushions against unexpected higher rates of default. At end-FY22, salaried customers constituted 84% of total CIF.

Given these practices, GNPA averaged at 2.4% during FY17-FY20 and net NPA at 0.8%. PCR was 65%+ on average during FY17-FY20 and ended FY21/FY22 at 77.9%/65.3%.

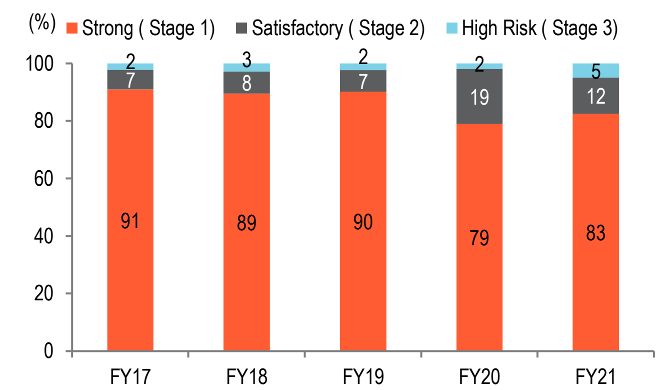
During the pandemic, the company framed a Covid-related stress resolution mechanism in accordance with the RBI's announced relief measures. Accordingly, 9% of gross receivables moved under the restructuring plan (RBI RE). However, with the lifting of lockdown restrictions and the company's efforts to educate customers, the RBI RE book fell to 1% at end-Q4FY22. The extra provisions (management overlay) which totalled Rs 4.9bn at end-Q4FY20 also fell to Rs 510mn at end-Q4FY22.

Fig 41 – NPAs have declined



Source: Company, BOBCAPS Research

Fig 42 – Rebound in Stage-1 assets



Source: Company, BOBCAPS Research

Fig 43 – ECL (Expected credit loss) provision higher in Stage-2 assets

Segment (%)	FY17			FY18			FY19			FY20			FY21		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Corporate-Secured	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Corporate-Unsecured	0.9	2.0	62.1	0.3	0.3	62.1	0.2	0.2	0.0	1.1	15.1	100.0	0.5	0.0	0.0
Retail-Secured	0.5	1.0	12.0	0.5	0.9	9.4	0.3	0.6	7.9	0.3	2.4	6.9	0.3	0.7	9.2
Retail-Unsecured	1.4	4.0	68.2	1.6	4.5	67.6	1.6	4.1	66.7	3.5	7.6	67.3	1.6	11.1	78.2
Total	1.4	3.9	67.9	1.5	4.5	67.3	1.6	4.1	66.5	3.4	7.6	67.2	1.6	11.0	77.9

Source: Company, BOBCAPS Research | Note: Data for FY20 and FY21 includes individual measurement and management overlay

Fig 44 – PD vs. LGD

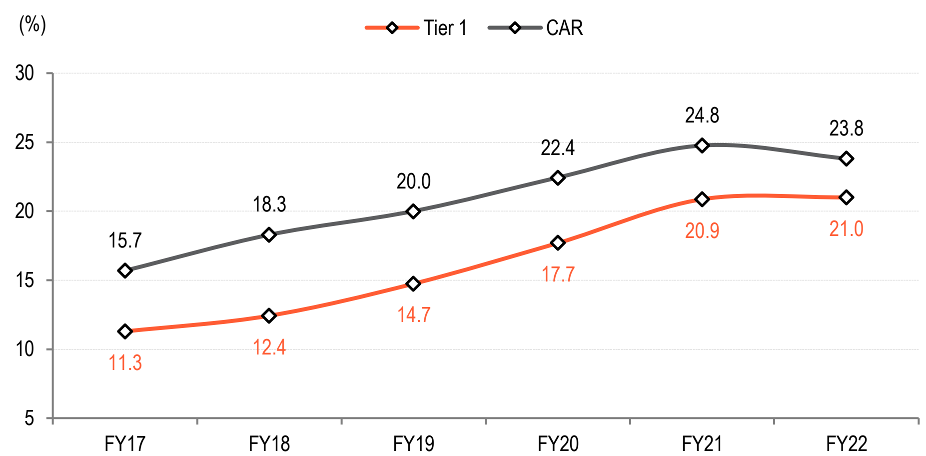
(%)	FY20			FY21		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
PD (probability of default)						
Corporate-Secured	0.0	0.0	0.0	0.0	0.0	0.0
Corporate-Unsecured	1.8	14.6	100.0	0.9	2.9	100.0
Retail-Secured	3.7	6.7	100.0	3.5	8.1	100.0
Retail-Unsecured	2.6	6.5	100.0	2.5	6.2	100.0
LGD (loan given default)						
Corporate-Secured	0.0	0.0	0.0	0.0	0.0	0.0
Corporate-Unsecured	59.8	59.8	100.0	57.9	57.9	57.9
Retail-Secured	6.9	6.9	6.9	9.2	9.2	9.2
Retail-Unsecured	65.6	65.6	65.6	65.9	65.9	65.9

Source: Company, BOBCAPS Research

Well capitalised

SBI Card remains well capitalised with tier-1/CAR of 21.0%/23.8% at end-FY22 (average 16.3%/20.8% during FY17-FY22). Aided by the backing of a strong parent, we believe the company will be able to raise capital whenever required in future.

Fig 45 – Capital adequacy meets requirements

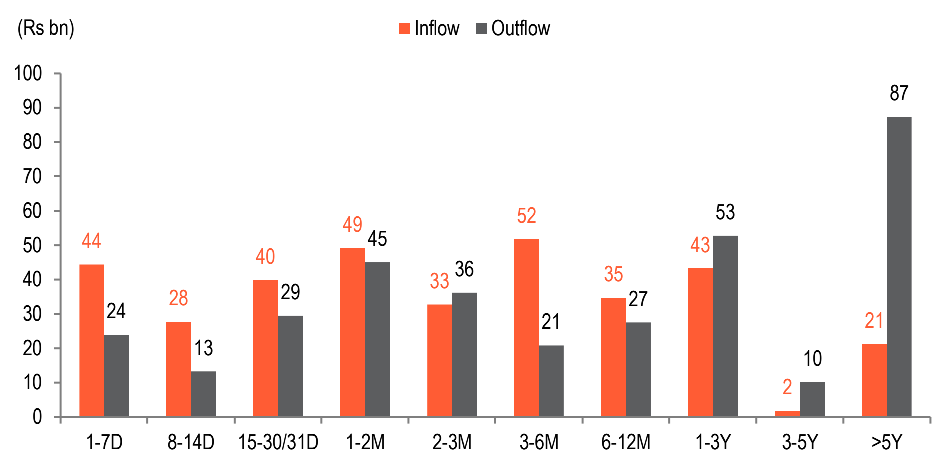


Source: Company, BOBCAPS Research

ALM positive in the short-to-medium term

SBI Card has maintained a positive asset-liability profile for periods less than a year. This is encouraging as it does not have to depend on any refinancing of its liabilities and, thus, possesses a strong maturity profile. At end-FY22, it maintained a net positive ALM of Rs 84bn for the one-year period. The company also has Rs 50bn of sanctioned bank lines unutilised and available for drawdown as at FY22.

Fig 46 – Positive ALM in the short-term encouraging



Source: Company, BOBCAPS Research

Competitive analysis

Spends

SBI Card's spends per card have historically been lower than the sector average but in FY21 and FY22, it moved past the sector, albeit marginally. Though it still lags market leader HDFCB by a distance (12% below on average during FY17-FY22), its spends per card have been much higher than AXSB and RBL Bank (RBK) over the last five years.

Fig 47 – Spends per card per month bounced back in FY22

Spends per card per month (Rs)	FY17	FY18	FY19	FY20	FY21	FY22
SBI Card	7,998	10,256	10,468	10,442	8,657	11,302
HDFCB	9,506	10,325	11,373	12,200	10,879	12,953
ICICIBC	7,092	8,593	8,439	8,238	7,270	12,540
AXSB	7,154	8,234	8,681	9,164	6,181	7,709
Citi	14,043	15,242	16,360	15,677	11,650	14,362
RBK	8,732	7,225	7,983	9,180	8,329	9,850
Sector avg	**9,249**	**10,285**	**10,759**	**10,636**	**8,494**	**11,033**

Source: Company, RBI, BOBCAPS Research

Incremental spends were negative for most major players in FY21 before bouncing back in FY22. SBI Card and HDFCB saw incremental spends of Rs 639bn and Rs 614bn respectively in FY22. ICICIBC topped the leaderboard at Rs 1tn which helped it gain market share.

Fig 48 – Incremental spends for top players bounced back in FY22

(Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
SBICARD	1,47,128	3,31,687	2,68,775	2,76,697	(87,821)	6,39,192
HDFCB	2,30,099	3,49,290	3,80,170	4,18,609	(1,66,497)	6,14,010
ICICIBC	96,418	1,53,276	1,57,675	2,27,609	22,709	10,29,801
AXSB	1,04,757	1,55,983	1,77,539	1,47,426	(2,38,261)	3,05,819
RBK	18,531	39,885	94,948	1,31,073	658	1,39,273
Citibank	72,200	63,069	43,534	(6,595)	(1,57,393)	71,530

Source: RBI, BOBCAPS Research

Volumes

All big players have been able to add cards incrementally due to (1) better marketing, and (ii) attractive online and offline offers that make their products lucrative for customers.

Fig 49 – Major players adding cards on consistent basis

Incremental cards (mn)	FY17	FY18	FY19	FY20	FY21	FY22
SBICARD	0.9	1.7	2.0	2.3	1.3	1.9
HDFCB	1.3	2.1	1.8	2.0	0.5	1.6
ICICIBC	0.6	0.7	1.6	2.5	1.5	2.4
AXSB	0.9	1.1	1.5	1.0	0.2	1.9
RBK	0.1	0.5	0.9	1.0	0.3	0.7
Citibank	0.1	0.1	0.0	0.1	(0.2)	(0.1)

Source: Company, BOBCAPS Research

Fig 50 – Incremental volumes have rebounded

Incremental volumes (mn)	FY17	FY18	FY19	FY20	FY21	FY22
SBICARD	45	57	68	110	(40)	94
HDFCB	81	72	82	123	(104)	74
ICICIBC	42	39	52	83	(37)	137
AXSB	30	40	40	31	(47)	67
RBK	5	11	24	45	(8)	18
Citibank	43	45	20	(9)	(96)	9

Source: Company, BOBCAPS Research

Ticket size

All big players have witnessed an increase in per transaction size in FY22. During FY18-FY21, this metric had remained rangebound.

Fig 51 – Ticket size per transaction rose in FY22

Ticket size per transaction (Rs)	FY17	FY18	FY19	FY20	FY21	FY22
SBICARD	2,835	3,635	3,716	3,377	3,515	4,210
HDFCB	2,929	3,273	3,504	3,481	3,868	4,436
ICICIBC	2,409	2,724	2,795	2,780	3,218	4,612
AXSB	3,257	3,453	3,695	3,853	3,481	3,811
RBK	3,912	3,729	3,815	3,361	3,689	4,448
Citibank	2,458	2,236	2,227	2,285	2,743	3,060

Source: Company, BOBCAPS Research

Buy now, pay later

Buy now, pay later (BNPL) is gaining traction as a short-term mode of financing that allows customers to pay for purchases in instalments by the end of a stipulated time period. In general, BNPL providers make money by charging a 2-3% commission from merchants for each transaction, which allows these credit providers to offer zero interest on transactions. In India, several banks and companies such as Paytm, LazyPay, Simpl, ZestMoney, ePayLater and Flexmoney operate in the space.

BNPL can be broadly classified into two parts: (i) deferred payments, and (ii) shopping EMI loans.

- Deferred payments are mostly observed for online transaction services such as e-commerce, food delivery, e-grocery, online ticketing and utility bill payments. These, like credit cards, offer a 15/30-day repayment period sans interest and also allow customers to revolve payments to a later date by paying a fee.
- In the shopping EMI category, higher loan amounts are provided with longer repayment periods (3/6/12 months).

Examples of BNPL offerings

- **E-commerce:** Amazon offers a Pay Later option whereby customers opting to pay for purchases the following month are not charged, whereas interest applies if they opt for EMI payment (ranging from 3 to 12 months). The minimum and maximum loan disbursed under Amazon Pay Later varies according to the payment schedule. For instance, customers who opt to pay in the next month (interest-free) have a limit of Rs 10k. For repayment in three-month EMIs, customers can borrow anywhere between Rs 3k and Rs 30k, which rises to Rs 6k and Rs 60k when opting for six-month EMIs.

- **Bank-based:** HDFCB offers its savings and current account customers a FlexiPay option which they can use on purchases with partner merchants (including FlipKart, MakeMyTrip, Myntra, Metro Shoes and Royal Oak Furniture). Here, the loan amount can range from Rs 1k to Rs 20k at no extra cost on payment within 15 days. Beyond this, customers can choose an auto-debit repayment schedule of 30/ 60/90 days at 28% p.a. interest. For instance, on purchases of Rs 3k, interest would be charged at Rs 70/month. Non-payment or partial repayment of the outstanding amount will attract a penalty of 3% plus 18% GST. There is a pre-closure charge of 4% on the balance principal outstanding plus 18% GST.

Room for both credit cards and BNPL to coexist

India has far lower retail credit penetration than developed countries (11% in India vs. 75% for the US and 84% in the UK). BNPL is one way to deepen the market because it offers a convenient and informal option to access credit. This business has seen rapid growth with an >80% CAGR in disbursals over FY18-FY21 to US$ 3bn-3.5bn, which is expected to surge to US$ 45bn-50bn by FY26 (Source: Mobikwik DRHP).

We believe some credit card customers may opt for BNPL deals that have attractive offers and vice versa. As such, credit cards can comfortably coexist with BNPL and we see room for both modes to grow, thereby broadening India's underserved credit market.

Fig 52 – BNPL vs. Credit cards

Factors	BNPL	Credit Cards
Annual or joining fees	No	Zero to a few thousands (rollback available)
Credit limit	Rs 2,000-100,000	Varies with income levels and credit history. Credit limit higher than BNPL
Repayment cycle	14-30 days	20-60 days
Interest charges	Low or mostly no interest. Late payment penalties levied	2-4% per month on dues after interest-free period
Acceptability	Acceptable with partnering merchants	Universal acceptability
Revolving credit	Yes	Yes
Additional perks and privileges	No	Free lounge access, instant loans, etc. depending on card variant
Cash withdrawal	No	Allowed with interest payment
Spends size (FY21)	US$ 3bn-3.5bn	US$ 80bn-85bn

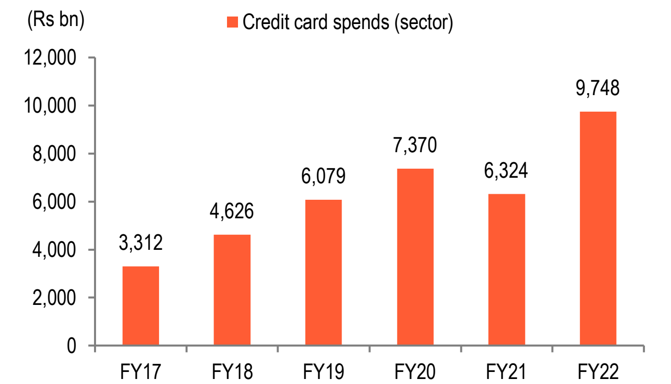
Source: Bank Bazaar

Industry review

Credit card spends at ~Rs 10tn; card o/s at 74mn

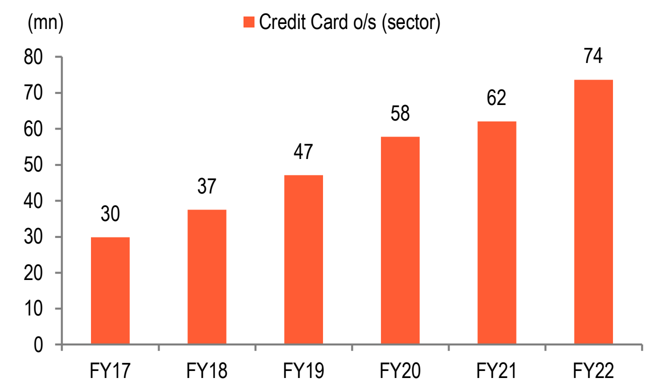
India's credit card penetration is low as income levels remain on the lower side. Nevertheless, growth has picked up pace with the five-year CAGR on card spends at 24% (FY17-FY22) to Rs 10tn (US$ 130bn) and cards outstanding growing 20% to ~74mn.

Fig 53 – Credit card spends bounced back in FY22



Source: RBI, BOBCAPS Research

Fig 54 – Consistent increase in credit card o/s



Source: RBI, BOBCAPS Research

Fig 55 – India's credit card market growing…

Particulars	India (FY22)
Credit card spends (US$ mn)	1,29,968
Credit card balances (US$ mn)	19,704
Credit card outstanding (mn)	74
CAGR spends (FY17-FY22) (%)	24
CAGR balances (FY17-FY22) (%)	23
CAGR credit card outstanding (FY17-FY22) (%)	20

Source: Company, Bloomberg, BOBCAPS Research

Fig 56 – …but penetration remains low

Particulars	India (FY22)
No. of credit cards outstanding (mn)	74
Total population (mn)	1,390
Cards owned per 1000 population	53
No. of individual income tax returns filed (mn)	58.9
% of individuals filing income tax returns	4.2

Source: Company, BOBCAPS Research

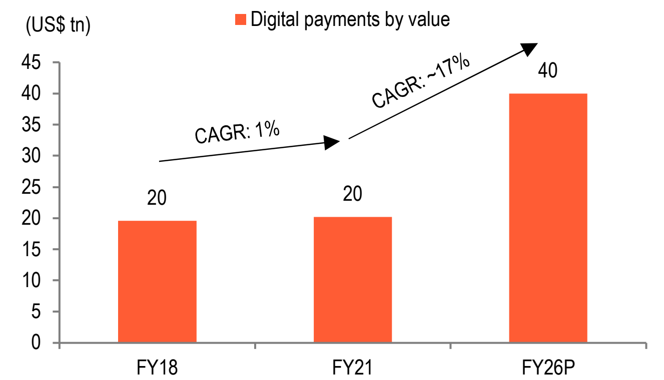
Digital payments gaining traction

Technology is playing an important role by increasing the reach and accessibility of credit for merchants and consumers. In FY21, 650mn-700mn Indians had access to the internet and the number is expected to rise to over 950mn-1,000mn by FY26, representing more than 70% of the population. This growth will come from rising smartphone penetration, reducing data cost, new technology innovations and the government's push towards digitisation.

Though India continues to be a cash-driven economy, digital payments have been growing steadily over time. Demonetisation in 2016 and the pandemic also played key roles in pushing merchants to accept payments digitally and led to growth in products such as QR codes and e-wallets.

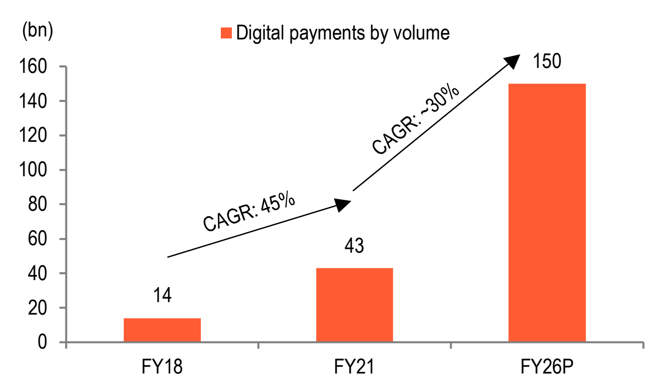
In FY21, the digital payments market stood at ~US$ 20tn with 43bn transactions during the year. Given several conducive factors such as government initiatives and reforms, improving technology, and increasing reach and awareness, digital payments are expected to more than double to US$ 40tn-50tn by FY26. (Source: Mobikwik RHP)

Fig 57 – India's digital payments poised to soar…



Source: Mobikwik RHP

Fig 58 – …as volumes likely take off



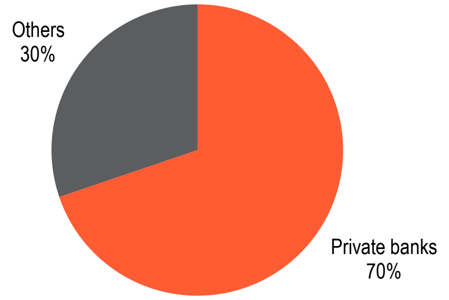
Source: Mobikwik RHP

Key credit card industry trends

An FY21 report by credit bureau CRIF highlights the following trends:

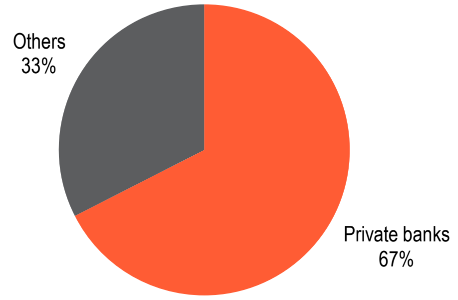
- **Industry dominated by private banks:** Due to higher profitability in the credit card business, banks consider this an area of focus. Private banks dominate the credit card industry with 70% market share by balances and 67% by cards in circulation at end-FY21.

Fig 59 – Private banks dominate credit card balances…



Source: CRIF, BOBCAPS Research

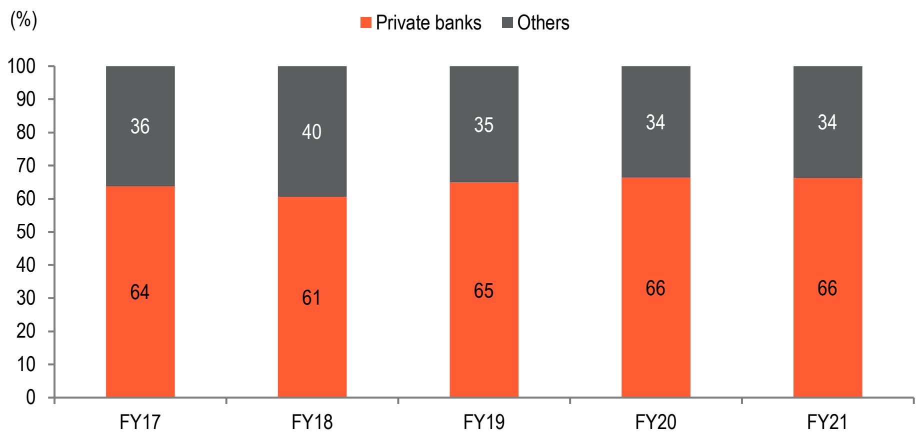
Fig 60 – …and also cards in circulation, FY21



Source: CRIF, BOBCAPS Research

- **Similar trends in new cards issued:** Private banks dominate new cards issued as well and have increased share from 63.8% in FY17 to 66.3% at end-FY21.

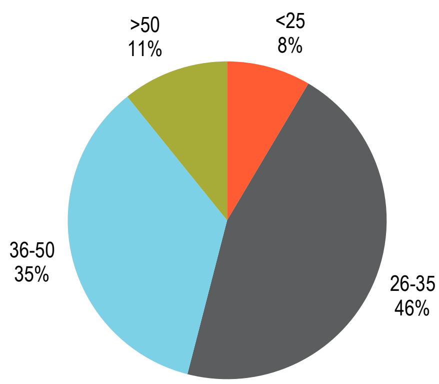
Fig 61 – Private banks dominate new card issuance



Source: CRIF, BOBCAPS Research

- **>50% of new cards issued in FY21 were to under-35s:** As much as 54% of the new cards issued in FY21 were to people below the age of 35. Within this, 45.5% went to those between 26 and 35 years and the remaining 8.5% to those under the age of 25. Customers between 36 and 50 years of age absorbed 35.2% of the new cards and the remaining 10.8% went to people aged 50 and above.

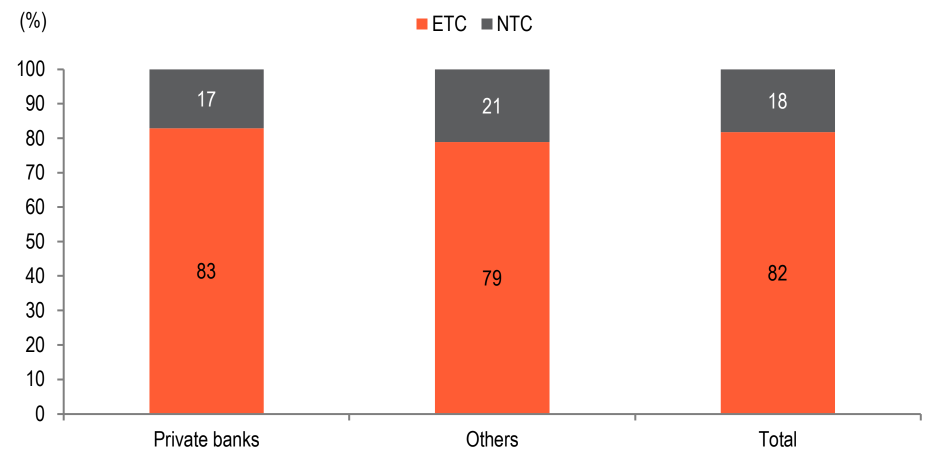
Fig 62 – 26-35 customer age group dominates the card market, FY21



Source: CRIF, BOBCAPS Research

- **New-to-credit customers attractive for card companies:** In FY21, 18.2% of new card originations at the sector level were for new-to-credit (NTC) customers. Private banks provided 17.1% of their new cards to NTC whereas others were at 21.1%. Faster adaptability of technology and a change in consumer mindset from being debt-averse to increasing indebtedness has led to rising originations among the younger population.

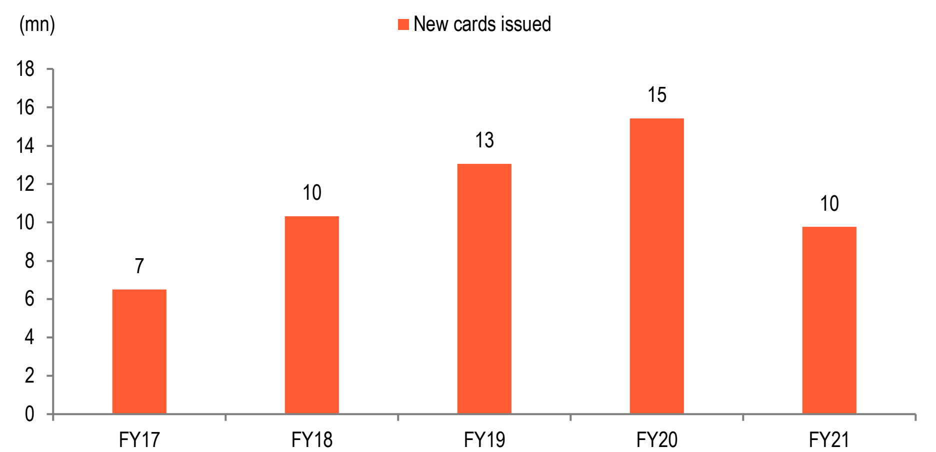
Fig 63 – NTC originations at 18%, FY21



Source: CRIF, BOBCAPS Research | Note: ETC – Existing to Credit; NTC – New to Credit

- **New cards issued declined in FY21 but earlier trends positive:** New cards issued have grown each year from FY17 to FY20, rising from 6.5mn to 15mn. Owing to the pandemic, this number declined to ~10mn in FY21. Q1FY21 was the most affected period, followed by recovery in subsequent quarters.

Fig 64 – New card issuances on robust path



Source: CRIF, BOBCAPS Research

- **Portfolio at risk (PAR) rose in FY21:** PAR rose across buckets but PAR 91-180 increased the most in FY21 as compared to the previous two years. This could be due to pressure on income levels amid lockdown restrictions.

Fig 65 – Credit card default risk rose in FY21 compared to FY20

Particulars	FY19	FY20	FY21
Credit card balances (Rs tn)	1.1	1.6	1.7
YoY growth (%)	-	47.9	11.6
Cards in circulation (mn)	45.2	53.6	60.9
YoY growth (%)		18.5	13.5
PAR (31-90) (%)	2.4	1.9	2.5
PAR (91-180) (%)	1.7	3.6	6.5
PAR (180+) (%)	6.2	5.0	5.3

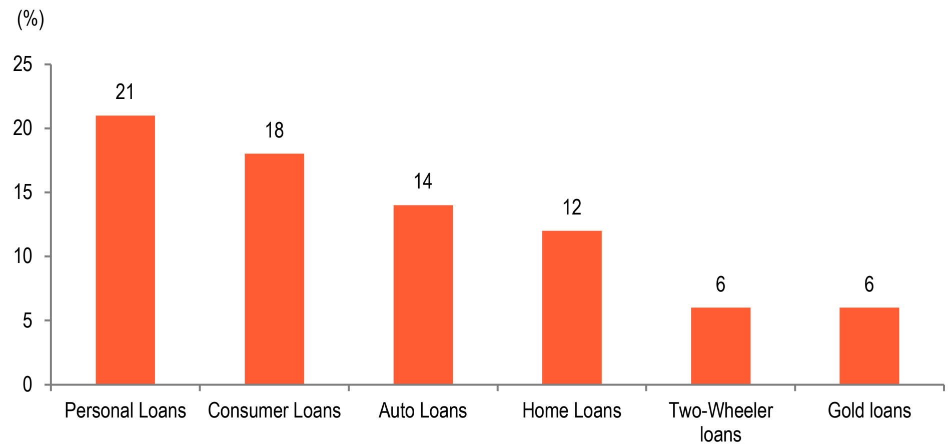
Source: CRIF, BOBCAPS Research

CRIF in its Apr'20 report highlighted the following behavioural trends:

- **Young customers have lower outstandings:** Customers aged 18-25 have comparatively lower outstanding card balances owing to limited purchasing capacities. As of Sep'19, just 3% (Rs 28bn) of outstanding balances were in this group. As income levels rise and stabilise, balances increase sharply. Customers aged 36-50 have the highest levels, at 43% (Rs 412bn). Beyond the age of 50, balances reduce as borrowers turn more cautious and begin to restrict card usage to accommodate future needs, post retirement. As of Sep'19, 35% of the inactive/ closed cards were from the age segment over 50 years.

- **One-fifth of card customers avail of other unsecured loans:** From the overall credit cards' customer base, ~27mn customers have graduated to other retail loans – 21% took personal loans, 18% consumer durables loans, 14% auto, 12% home, and 6% each took two-wheeler and gold loans.

Fig 66 – Cross-selling opportunities galore, Sep'19

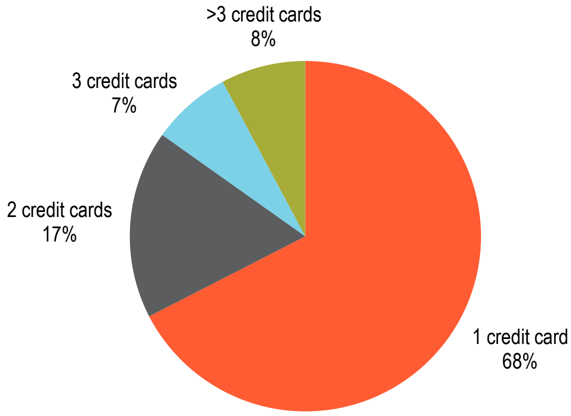


Source: CRIF, BOBCAPS Research

- **37% of customers aged 26-35 years have two or more credit cards:** As of Sep'19, ~17% of credit card owners have two cards, ~7% have 3 cards and ~8% more than 3. The balance 67% of the card base is occupied by customers with one credit card.

  Out of all credit card holders in the 18-25 age group, ~81% have 1 card. About 13% of these customers have graduated to 2 cards, 4% to 3 cards and 2% to more than 3 cards. As they get older, a larger proportion of customers are in possession of 2 or more cards because they have higher disposable incomes. However, customers over 50 years of age typically own a single card, attributable to their increasing weariness towards personal debt.

Fig 67 – Distribution of customer base by number of cards per customer, Sep'19



Source: CRIF

Fig 68 – Number of credit cards by age segment, Sep'19

(%)	1 card	2 cards	3 cards	>3 cards
18-25Y	81.2	12.8	3.7	2.4
26-35Y	62.7	20.1	8.8	8.5
36-50Y	65.8	17.3	7.8	9.1
>50Y	74.6	14.3	5.4	5.7
Total	67.4	17.4	7.4	7.8

Source: CRIF

Comparison with the US market

We have tried to understand how India's credit card industry stacks up against that of a developed and mature market like the US. We note that the US market's five-year CAGR on card spends was ~5% (FY17-FY22) while India grew 24%. Similarly, in terms of credit cards outstanding, the US market clocked a 3% CAGR to ~530mn, whereas India posted a higher 20% growth rate but on a comparatively lower base.

Fig 69 – India vs. US credit card market – A comparison

Particulars	India (FY22)	USA (CY21)
Credit card spends (US$ mn)	1,29,968	41,00,000
Credit card balances (US$ mn)	19,704	8,56,000
Credit card outstanding (mn)	74	532
CAGR spends (FY17-FY22) (%)	24	5
CAGR balances (FY17-FY22) (%)	23	2
CAGR credit card outstanding (FY17-FY22) (%)	20	3

Source: Company, Bloomberg, BOBCAPS Research | Note: Values of US credit card spends is approximate

India's credit card penetration is low as income levels, though rising, are on the lower side. The US has a deeper market driven by high income levels, as seen from the large percentage of population filing income tax returns. Please refer to the Appendix for a **detailed analysis on the US market.**

Fig 70 – Credit card penetration in India comparatively very low

Particulars	India (FY22)	USA (CY21)
No. of credit cards outstanding (mn)	74	532
Total population (mn)	1,390	332
Cards owned per 1000 population	53	1,602
No. of individual income tax returns filed (mn)	58.9	157.0
% of individuals filing income tax returns	4.2	47.3

Source: Company, BOBCAPS Research | Note: The number of individual IT returns filed is FY21 for India and CY20 for the US

Scenario analyses

We have conducted two scenario analyses to study the potential impact of (i) a reduction in interest rates charged to revolvers – to align to competition, and (ii) a cut in MDR (merchant discount rate) – as proposed from time-to-time by the RBI.

Capping interest rates

SBI Card greatly depends on credit receivables from the revolver category. Our scenario analysis shows that if interest rates charged to revolvers were to be reduced by 250bps and 500bps in FY24, profitability would drop by 8% and 16% respectively. We assume a yield of 40% p.a. on average loans taken by revolvers at end-FY24 (base case); the bear case carries a yield of 37.5%/35%. We assume revolver share in receivables at 30% for FY24, term loan receivables (EMI) at 36% and transactors at 34%.

Fig 71 – Profitability drops 8%/16% for 250/500bps change in revolver yields

Particulars		Change (%)
FY24E PAT (Rs mn)	30,012	
250bps reduction in yield	27,514	(8.3)
500bps reduction in yield	25,201	(16.0)
Receivables mix (%)		
Transactor (Pay on time)	34	
Term Loan (EMI)	36	
Revolver (Carry forward)	30	

Source: BOBCAPS Research

MDR reduction

Given talk of an MDR reduction for the industry, we have undertaken a sensitivity analysis for declines of 10bps and 20bps. The MDR interchange-based fee is an important source of revenue generation and any reduction is a risk to growth. However, we do believe that if such a decision is taken, levers such as reduced processing and card transaction charges can be used to partly mitigate the negative impact.

Our analysis of historical data for FY20/FY21 shows that if MDR had been reduced by 10bps of spends and the company had correspondingly cut processing and card transaction charges by 10bps (of spends), then the decline in net profit would have been limited to 4%/4.9%. Similarly, a repeat of this exercise for FY23/FY24 (forward-looking) shows a 4.4%/4.0% dip in profit. Had these cost levers been absent, the decline in profitability would have been much higher.

Fig 72 – Historical analysis of MDR change

(Rs mn)	FY20	FY21
MDR fees earned by SBI Card (%)	1.56	1.44
Operating expenses		
Processing charges (% of spends)	0.30	0.29
Card transaction charges (% of spends)	0.17	0.18
Total as a % of spends	**0.47**	**0.47**
10bps reduction in MDR fees		
Absolute decline in income	(1,309)	(1,224)
Absolute decline in expenses	615	581
New PAT	11,949	9,367
Old PAT	12,448	9,845
Increase/Decline (%)	(4.0)	(4.9)
20bps reduction in MDR fees		
Absolute decline in income	(2,618)	(2,448)
Absolute decline in expenses	1,229	1,162
New PAT	11,449	8,889
Old PAT	12,448	9,845
Increase/ Decline (%)	(8.0)	(9.7)

Source: Company, BOBCAPS Research

Fig 73 – MDR decline would hurt profits but can be partly offset by reduced expenses

(Rs mn)	FY22P	FY23E	FY24E
MDR fees earned by SBI Cards (%)	1.40	1.41	1.42
Operating expenses			
Processing charges (% of spends)	0.25	0.24	0.24
Card transaction charges (% of spends)	0.16	0.15	0.15
Total as a % of spends	**0.40**	**0.39**	**0.40**
10bps reduction in MDR fees			
Absolute decline in income	(1,864)	(2,235)	(2,663)
Absolute decline in expenses	753	879	1,052
New PAT	15,335	22,050	28,808
Old PAT	16,161	23,064	30,012
Increase/Decline (%)	(5.1)	(4.4)	(4.0)
20bps reduction in MDR fees			
Absolute decline in income	(3,727)	(4,471)	(5,325)
Absolute decline in expenses	1,506	1,757	2,104
New PAT	14,509	21,035	27,603
Old PAT	16,161	23,064	30,012
Increase/Decline (%)	(10.2)	(8.8)	(8.0)

Source: BOBCAPS Research | Note: P is Provisional

Valuation

We remain positive on credit card growth in India given the government's push for digital transactions and growing internet reach. Demonetisation and Covid-19 have also lent a fillip to the cashless mode of transactions. 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 believe revenue from interest income and varied fee streams will gather pace as economic activity picks up.

In our view, pandemic-led pressure on financials is largely behind us and hence we expect the company to clock a strong 32% EPS CAGR over FY22-FY25. We also model for improvement in ROAA/ROAE to 6.0%/26.2% in FY23 and 6.4%/26.9% in FY24. The stock is currently trading at attractive valuations of 24x FY24E P/E. We value SBI Card at ~36x FY24E P/E which yields a TP of Rs 1,137, and initiate coverage with a BUY rating for a potential upside of 47%. Our residual income model yields a similar target price.

Fig 74 – Residual income model: Key assumptions

Parameter	(%)
Risk-free rate	7.3
Cost of equity	11.8
Terminal growth rate	5.5

Source: Company, BOBCAPS Research

Fig 75 – Residual income model: Valuation summary

Business (Rs mn)	
PV of Residual Income	**10,08,170**
Current Book Value	77,527
Estimated Market Value	**10,85,697**
Shares	951
Estimated Price Per Share (Rs)	**1,142**

Source: BOBCAPS Research

There are no direct listed domestic peers in this space. Hence, we have chosen global listed peers such as Discover Financial Services and American Express for comparison.

Fig 76 – Global peer comparison

Company	P/B (x)		P/E (x)		ROE (%)	ROA (%)
	CY22E	CY23E	CY22E	CY23E	Avg (last 5Y)	Avg (last 5Y)
Discover Financial	2.3	2.1	7.4	7.7	26.0	2.7
American Express	5.6	5.0	17.3	15.1	24.9	2.9
SBI Card*	7.5	5.9	31.9	24.5	25.7	4.8

Source: Bloomberg, BOBCAPS Research | *Data for FY23E and FY24E

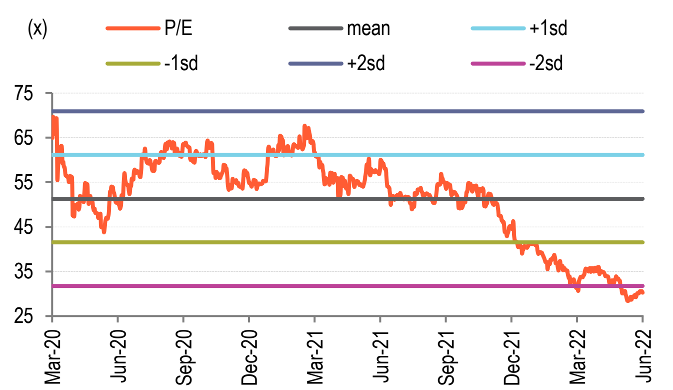
Although not peers in the truest sense, if we look at other domestic NBFCs that trade at a premium, we can see that companies with higher ROE not only command higher valuations, but the street also expects the implied multiple to be higher.

Fig 77 – Implied multiple higher for high-ROE generating companies

Company	P/E (current price)		P/E (implied)		ROE (%)	ROA (%)
	FY23E	FY24E	FY23E	FY24E	Avg (last 5Y)	Avg (last 5Y)
Bajaj Finance	34.1	26.9	45.9	36.1	18.6	3.4
HDFC AMC	26.6	23.0	34.2	29.6	33.3	30.9
CAMS	37.1	32.7	43.5	38.3	38.2	24.3
CDSL	38.2	33.5	44.3	38.8	21.6	18.1

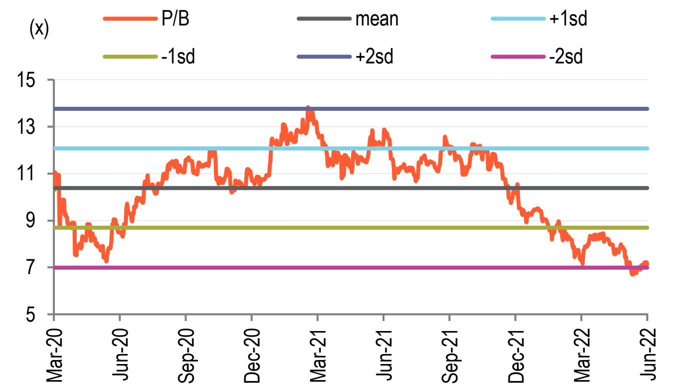
Source: Bloomberg, BOBCAPS Research

Fig 78 – SBI Card: 1Y fwd P/E



Source: Company, BOBCAPS Research

Fig 79 – 1Y fwd P/B



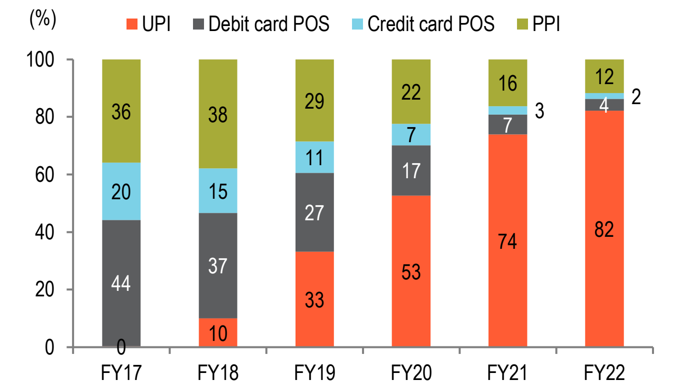
Source: Company, BOBCAPS Research

Key risks

UPI gaining market share

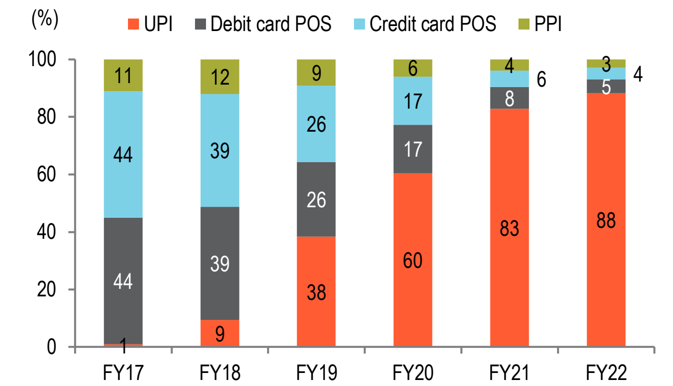
Digital payments have gained market share over the last few years owing to their ease of use and secure process, with the usage of cards, UPI (unified payment interface) and wallet-based payment systems rising considerably. UPI's market share (by value) has soared from 1% in FY17 to 88% at end-FY22, proving to be a challenge to the credit card business which saw its share decline from 19.9% at end-FY17 to 2% at end-FY22. UPI has been highly popular as there are no 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.

Fig 80 – Volume-based market share for UPI increasing…



Source: Company, BOBCAPS Research | Note: UPI – Unified Payment Interface, PPI – Prepaid Payment Instruments, POS – Point of Sale

Fig 81 – …and value share too



Source: Company, BOBCAPS Research

MDR overhang

RBI has sporadically raised the issue of lowering the merchant discount rate (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.

Static per card spends

Spends per card per month have remained broadly static for the industry – growing from Rs 10,285 in FY18 to Rs 10,636 in FY20 (but down to Rs 8,494 in FY21 which was an aberration) and Rs 11,033 in FY22. SBI Card showed similar trends, growing from Rs 10,256 in FY18 to Rs 10,395 in FY20 (Rs 8,656 in FY21) and Rs 11,302 in FY22.

Other risks

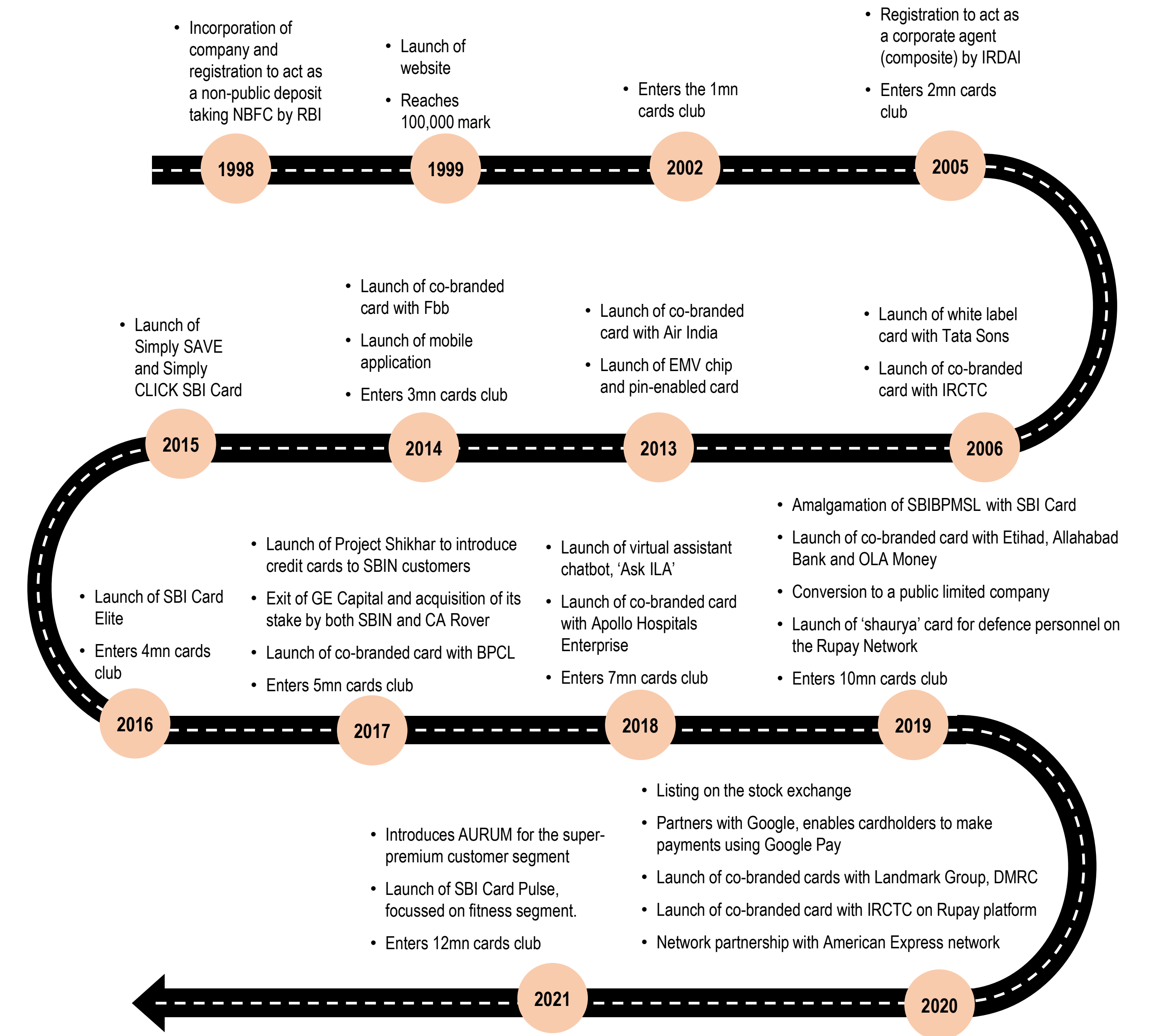
- Any modification of terms with the parent or SBIN lowering its stake further could be detrimental to growth. SBI Card is required to pay a royalty fee of 2% of PAT or 0.2% of total income, whichever is higher, to SBIN within two months of the end of every financial year.
- Technology plays an important 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 very 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 get resolved eventually, there could be business losses in the interim.

Company and Management

Background

Headquartered in Gurgaon (Haryana), SBI Card and Payment Services was incorporated in Oct'98 by State Bank of India and GE Capital. In Dec'17, GE Capital's stake was acquired by SBIN and Carlyle Group, the former holding 74% and the latter 26%. SBI Card is a prominent player in a highly competitive credit card industry where it provides credit card services and offers payment products to corporate and retail customers. The company was listed on the stock exchanges in Mar'20, with SBIN selling ~4% whereas Carlyle sold ~10%. Subsequently, Carlyle sold out its entire stake phased manner.

Fig 82 – Key events



Source: Company, BOBCAPS Research

Management

- **Rama Mohan Rao Amara – Managing Director and Chief Executive Officer**, was appointed effective Jan'21. He is an engineering graduate and also has financial accreditations from CFA and FRM and is a Certified Associate of Indian Institute of Bankers (CAIIB). He has three decades of experience working with SBIN, including as Chief General Manager, Bhopal Circle, where he looked after two states, namely, Madhya Pradesh and Chhattisgarh. Prior to that he served as the Chief General Manager, Financial Control, at SBI Corporate Centre in Mumbai. At the international level, he managed key assignments for SBIN in markets like Singapore and the US.

- **Richhpal Singh – Chief Operating Officer**, joined the company in Dec'17. He has done his B.A. from Maharshi Dayanand University, Rohtak. He was associated with the erstwhile SBIBPMSL (previously known as GE Capital Business Process Management Services) since Dec'17, which was amalgamated with SBI Card in 2018. He was previously associated with Jio Payments Bank and SBIN.

- **Aparna Kuppuswamy – Executive VP and Chief Risk Officer**, holds a Master's degree in Finance and Control from the University of Delhi. She was associated with GE Money Financial Services for a year and transferred to SBI Card in Apr'09. She was previously associated with American Express Financial Advisors, Bank of America and ABN AMRO Bank.

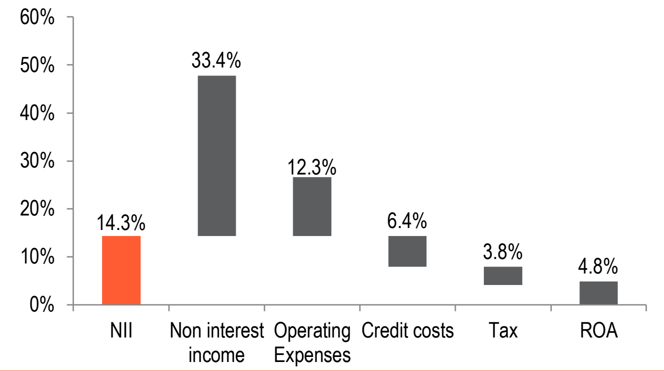
- **Manish Dewan – Executive VP and Chief Sales Officer**, holds a Bachelor's degree in Engineering (Mechanical) from Panjab University and a Postgraduate Diploma in Management from Indian Institute of Management Society, Lucknow. He was associated with the erstwhile SBIBPMSL (previously known as GE Capital Business Process Management Services) for five years and was transferred to the company in Oct'11. Prior to that he was associated with Standard Chartered Bank and American Express Bank.

- **Dinesh Kumar Khara – Chairman**, holds Bachelor's and Master's degrees in Commerce and a Master's degree in Business Administration. He is also a Certified Associate of Indian Institute of Bankers (CAIIB). He is the Chairman of SBIN and has held several key positions in the bank such as MD (Global Banking & Subsidiaries), MD (Associates & Subsidiaries), MD & CEO (SBI Mutual Funds) and Chief General Manager – Bhopal Circle. He was also posted in Chicago for an overseas assignment.

Appendix

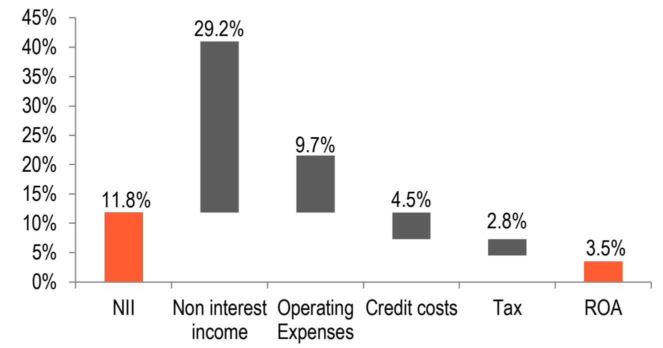
ROAA

Fig 83 – SBI Card's ROAA, FY19



Source: Company RHP, BOBCAPS Research

Fig 84 – Credit card industry had average 3.5% ROAA, FY19



Source: Company RHP, BOBCAPS Research

Digital payment options

Fig 85 – Different payment options – A comparison (FY19)

Particulars	E-wallets	UPI	PPI	Debit card	Credit card
Description	A service that allows users to make payments for online transactions	An instant real-time payments system facilitating inter-bank transactions.	Tied directly to value stored on such instruments paid by the holder	Tied directly to an individual's bank account	Provides a line of credit that an individual can access through the card
KYC requirement	Minimum KYC requirement up to Rs 10k; full KYC required above Rs 10k	Full KYC required	Minimum KYC requirement up to Rs 10k; full KYC required above Rs 10k	Full KYC required	Full KYC required
Limit	Load wallets with amount user is willing to spend	No need to load any amount as the transaction directly goes through the bank balance	Load instruments with amount user is willing to spend	No need to load any amount as transaction directly goes through the bank balance	Amount gets deducted from the limit provided to the cardholder
Usage	Payments for online transactions	Payments for online transactions	Payments for online transactions, cash withdrawal at ATMs, POS terminals	Payments for online transactions, cash withdrawal at ATMs, POS terminals	Payments for online transactions, cash withdrawal at ATMs, POS terminals
Average transaction amount*	~Rs 450	~Rs 1,700	~Rs 630	~Rs 1,300	~Rs 3,400
Credit	Credit through EMI facility provided in some cases but has no interest-free period	No credit facility provided	No credit facility provided	Credit through EMI facility provided in some cases but has no interest-free period	Credit facility with interest-free period (up to 50 days)
Rewards	Discounts / cashback on transactions made	Discounts / cashback on transactions made	Discounts / cashback on transactions made	Discounts / reward points on amount spent	Discounts / cashback and reward points on spends
Transaction dispute management	Money is blocked / instantly deducted from customer account	Money is blocked / instantly deducted from customer account	Money is blocked / instantly deducted from customer account	Money is blocked / instantly deducted from customer account	Money is not blocked but is instantly deducted from customer credit limit

Source: Company, BOBCAPS Research | *Average transaction amount for credit and debit cards excludes ATM transactions.

Credit card co-branding

Fig 86 – Co-branded partners – A comparison (FY19)

Company	Number of co-branded partners	Travel	Shopping / Entertainment	Payments	Lending	Healthcare	Others
SBICARD	**18**	7	3	-	-	1	7
ICICIBC	**12**	8	1	-	-	-	3
RBK*	**8**	1	1	-	2	1	4
HDFCB	**6**	3	1	-	1	-	1
AXSB	**4**	2	1	1	-	-	-
Citibank	**3**	1	1	1	-	-	-
Amex	**1**	1	-	-	-	-	-
IIB	**1**	1	-	-	-	-	-

Source: Company RHP, BOBCAPS Research | *RBK has the same co-brand offering a different card under the travel and other category

New RBI guidelines

RBI recently announced that banks, except Regional Rural Banks (RRB), with a minimum net worth of Rs 1bn and above will be permitted to undertake the credit card business either independently or in a tie-up arrangement. Similarly, Urban Cooperative Banks (UCB) with a net worth of more than Rs 1bn can issue cards subject to certain guidelines. Moreover, the central bank has come up with strict guidelines effective 1 Jul 2022 for the following:

- **Co-branded cards:** A co-branded credit card should indicate that it has been issued under a co-branding arrangement and the co-branding partner cannot market the card as its own. Such a partner is limited to marketing and distributing the cards, and to providing access to the goods and services. Similarly, in all marketing material, the name of the card issuer should be shown. Under a co-branding arrangement, the co-branding entity shall not be permitted to access any details of customer accounts that may violate the card issuer's secrecy obligations.
- **Issue of unsolicited facilities:**
  - Issuers cannot unilaterally upgrade credit cards and increase credit limits without the explicit consent of the customer. No unsolicited loans can also be granted without explicit consent.
  - No card issuer can send an unsolicited card to a customer unless it's a replacement or a renewal. A replacement card in lieu of a blocked card will also be issued with the explicit consent of the customer. The same applies for the renewal of cards as well.
  - Any charges on an unsolicited card without the consent of the customer will be reversed and an additional penalty twice the charged value will be paid by the issuer.
- **EMI conversions:** When credit card transactions are converted to EMIs, card issuers need to provide clear details about principal, interest and discount provided to make it no cost, and also include details in the card statement. Any EMI conversion which has an interest conversion cannot be camouflaged as zero-interest/no-cost EMI.

- **Closure within seven days:** Credit cards should be closed within seven working days of any request, provided all dues are cleared by the cardholder. Failure to comply will result in a penalty of Rs 500 per day of delay till the account is closed.
- **Interest rates:** Card issuers will quote Annualised Percentage Rates (APR) on credit cards for each different situation, such as retail purchases, balance transfer, cash advances, non-payment of minimum amount due, late payment, etc., if different.
- **Other rules:**
    - Issuers need to provide a one-page Key Fact statement along with the credit card application with thorough details about the card. They must also send the Most Important Terms and Conditions (MITC) during important communications.
    - Card issuers can introduce an insurance cover for lost cards. But to provide this to a customer they need the explicit consent of the cardholder, either through writing or an equivalent digital mode.
    - The issuer should seek OTP-based consent for the activation of cards if they haven't been activated more than 30 days post-issuance.
    - No card issuer shall report any credit information relating to a new credit card account to Credit Information Companies prior to activation of the card.
    - Card issuers shall ensure prudence while issuing credit cards and independently assess the credit risk, taking into account the financial means of applicants.

Understanding the US market

Classification of customers based on credit score

Customer category	Credit score
Superprime	720 and above
Prime	660 to 719
Near-prime	620 to 659
Subprime	580 to 619
Deep subprime	579 and less

Source: CFPB

Credit cards in the US market can be broadly classified into two categories: (i) General purpose credit cards, which refer to cards that can transact over a network accepted by a wide variety of merchants, including Visa, Mastercard, American Express, and Discover. (ii) Private label, which refers to cards that can only be used at one merchant or a small group of related merchants.

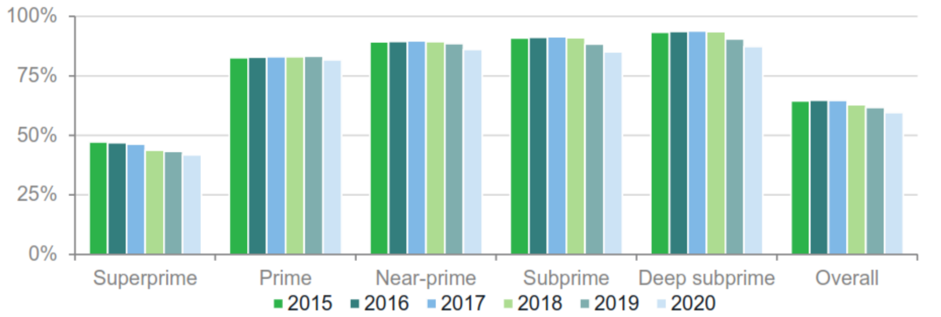
We outline key performance highlights of the US credit card market from a Consumer Financial Protection Bureau (CFPB) report dated September 2021.

Revolving rates

Over the past two years, a decreasing share of general-purpose accounts revolved a balance from one month to the next. The decline in revolver activity from 2018 to 2020 was true for every credit tier except prime. For cardholders with lower scores, this trend is particularly noteworthy as the share of revolving subprime and deep-subprime general-purpose accounts fell 6% and 7% respectively from 2018 levels. The decrease in revolver activity is a significant shift in payment behaviour that predates but may have been accelerated by the pandemic.

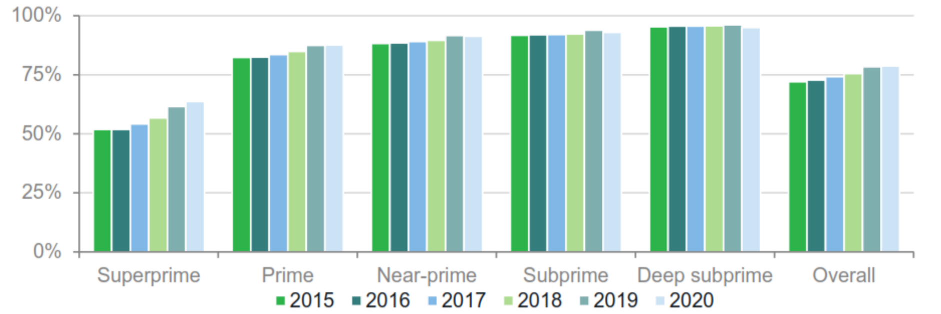
In contrast to general purpose, the overall share of private label accounts that revolve increased in 2019 and remained at an elevated level in 2020. An increase in revolver activity by consumers with near-prime scores or higher drove the expansion in the total share of revolving accounts. There was no significant change in revolving rates for subprime and deep subprime accounts from 2018 levels.

Fig 87 – General purpose – Share of revolving accounts declined in subprime and deep subprime over 2018-20



Source: CFPB, BOBCAPS Research

Fig 88 – Private label – Share of revolving accounts >75% ex-superprime category



Source: CFPB, BOBCAPS Research

Interest rates

The interest rate charged in the US increased in 2019 before reducing in 2020. Both non-promotional retail annual percentage rates (APR) and effective interest rates (EIR) on consumer credit cards followed this pattern. In 2020, the average APR for general purpose and private label cards fell to 19.2% and 25.7% respectively. EIRs for general purpose cards with revolving balances increased roughly 70bps from 15.6% in 2018 to 16.3% in 2019, before falling 60bps to 15.7% in 2020.

Note: Annual Percentage Rate (APR) refers to the interest applied during a given billing cycle. Effective Interest Rate (EIR) is computed by annualising the total of all interest charges consumers paid divided by those consumers' cycle-ending balances.

Fees

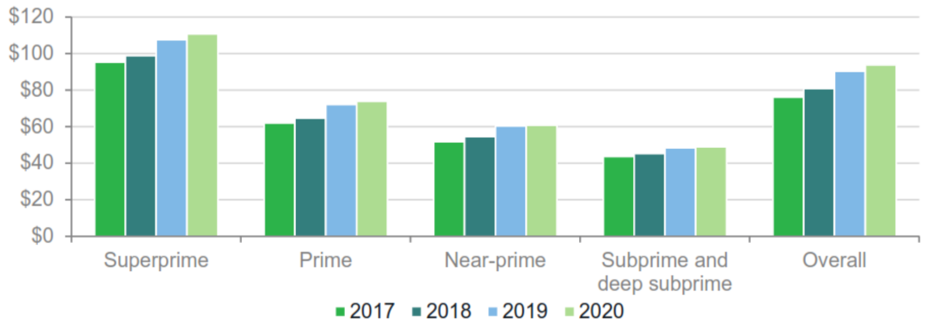
Late and annual fees are the two most important fees which account for 70-75% of total fees in the US market (general purpose). The other fees, i.e., balance transfer, cash advance, debt suspension and others, are less than 10% on an individual basis.

Fig 89 – General purpose – Type of fees charged

Source: CFPB

Since 2018, average late fees have continued to increase, from ~US$ 28 to US$ 31 in 2020.This remains low as compared to pre-Covid levels and the highs of US$ 33 in 2008. Annual fees averaged US$ 94 per card in 2020. In particular, annual fee accounts held by consumers with superprime scores averaged US$ 111 in 2020, reflecting increased prevalence in the past two years of richer-reward credit cards that carry higher annual fees.

Fig 90 – Average annual fees charged for general purpose cardholders

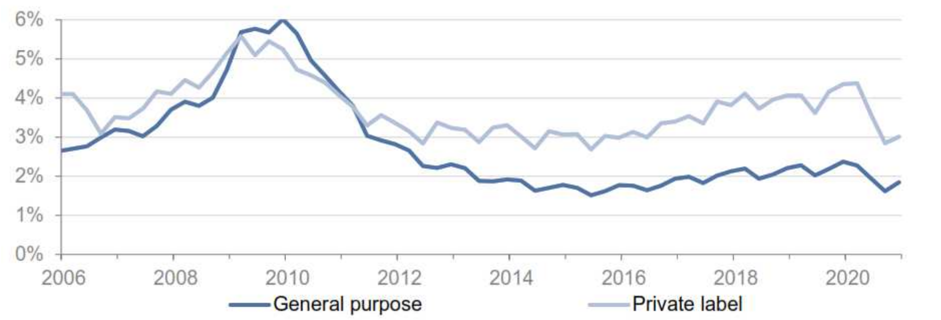


Source: CFPB

Delinquency

The share of balances 60 or more days delinquent decreased in 2020, although general purpose card balances exhibited a sharper decline than that of private label. Private label balance delinquency rates was under 3% by Q3CY20, undoing three years of upward trends. General purpose balance delinquency rates also peaked in 2019, albeit at a lower rate of 2.4%, and then fell to 1.6% by Q3CY20, a low not seen since 2016.

Fig 91 – Delinquency declined in 2020



Source: CFPB

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
Net interest income	**39,033**	**38,387**	**47,999**	**61,277**	**76,090**
NII growth (%)	10.2	(1.7)	25.0	27.7	24.2
Non-interest income	43,498	58,112	69,075	81,374	94,091
Total income	97,136	1,13,015	1,39,088	1,70,152	2,03,484
Operating expenses	47,079	58,462	68,104	82,118	97,979
PPOP	39,623	44,280	56,731	69,983	83,387
PPOP growth (%)	8.0	11.8	28.1	23.4	19.2
Provisions	26,386	22,558	25,896	29,859	34,136
PBT	13,237	21,722	30,835	40,123	49,251
Tax	3,392	5,560	7,770	10,111	12,411
Reported net profit	**9,845**	**16,161**	**23,064**	**30,012**	**36,839**
Adjustments	0	0	0	0	0
Adjusted net profit	**9,845**	**16,161**	**23,064**	**30,012**	**36,839**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
Equity capital	9,405	9,432	9,432	9,432	9,432
Reserves & surplus	53,615	68,095	88,783	1,15,468	1,48,029
Net worth	63,020	77,527	98,215	1,24,900	1,57,461
Debt securities	59,329	71,063	87,530	1,05,409	1,23,021
Borrowings	1,06,635	1,46,801	1,80,818	2,17,751	2,54,133
Other liab. & provisions	41,144	51,093	57,143	61,432	64,137
Total liab. & equities	**2,70,129**	**3,46,484**	**4,23,705**	**5,09,492**	**5,98,751**
Cash & bank balance	7,201	11,064	11,551	11,645	14,143
Investments	9,576	12,972	16,231	20,132	24,309
Advances	2,34,591	3,01,873	3,73,278	4,51,290	5,28,770
Fixed & Other assets	18,761	20,576	22,646	26,425	31,529
Total assets	**2,70,129**	**3,46,484**	**4,23,705**	**5,09,492**	**5,98,751**
Total debt growth (%)	2.8	28.5	24.4	20.4	16.7
Advances growth (%)	2.8	28.7	23.7	20.9	17.2

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22P	FY23E	FY24E	FY25E
EPS	10.4	17.0	24.3	31.6	38.8
Dividend per share	0.0	2.5	2.5	3.5	4.5
Book value per share	66.4	81.6	103.3	131.4	165.6

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22P	FY23E	FY24E	FY25E
P/E	74.5	45.4	31.9	24.5	20.0
P/BV	11.6	9.5	7.5	5.9	4.7
Dividend yield (%)	0.0	0.3	0.3	0.5	0.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22P	FY23E	FY24E	FY25E
Net interest income	14.9	12.5	12.5	13.1	13.7
Non-interest income	16.6	18.8	17.9	17.4	17.0
Operating expenses	18.0	19.0	17.7	17.6	17.7
Provisions	10.1	7.3	6.7	6.4	6.2
ROA	3.8	5.2	6.0	6.4	6.6
Leverage (x)	4.5	4.4	4.4	4.2	3.9
ROE	16.9	23.0	26.2	26.9	26.1

Ratio Analysis

Y/E 31 Mar	FY21A	FY22P	FY23E	FY24E	FY25E
YoY growth (%)					
Net interest income	10.2	(1.7)	25.0	27.7	24.2
Pre-provisioning profit	8.0	11.8	28.1	23.4	19.2
EPS	(21.4)	64.0	42.5	30.1	22.7
Profitability & Return ratios (%)					
Net interest margin	15.9	13.1	13.1	13.7	14.4
Fees / Avg. assets	16.6	18.8	17.9	17.4	17.0
Cost-Income	54.3	56.9	54.6	54.0	54.0
ROE	16.9	23.0	26.2	26.9	26.1
ROA	3.8	5.2	6.0	6.4	6.6
Asset quality (%)					
GNPA	5.0	2.2	3.0	2.8	2.3
NNPA	1.2	0.8	1.0	0.9	0.8
Slippage ratio	12.6	9.0	7.0	5.0	4.0
Credit cost	11.4	8.4	7.7	7.2	7.0
Provision coverage	77.9	65.3	68.5	71.1	69.5
Ratios (%)					
Loans to Total debt	129.8	130.0	129.2	129.7	130.2
CAR	24.8	23.8	23.9	24.6	26.2
Tier-1	20.9	21.0	21.5	22.7	24.6

Source: Company, BOBCAPS Research

Disclaimer

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

BUY – Expected return >+15%

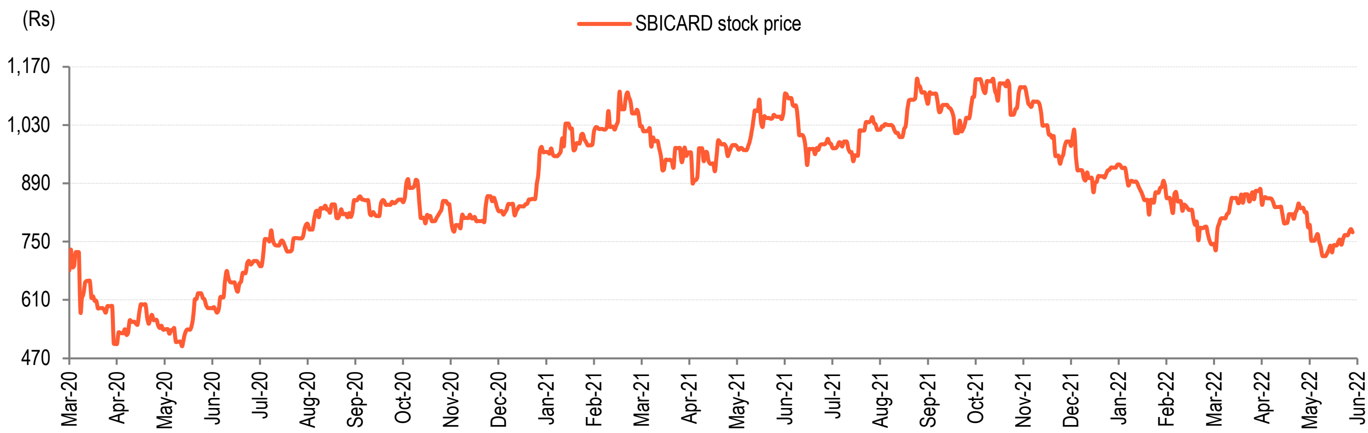
HOLD – Expected return from -6% to +15%

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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