

DIVERSIFIED FINANCIALS

01 March 2023

Credit cards on a strong growth path

- **Differentiated value proposition vis-à-vis UPI behind sustained growth in credit cards; spends logged a 25% CAGR over 9MFY18-9MFY23**
- **Cards outstanding crossed 81mn at end-9MFY23 (18% CAGR); spends per card and per transaction also on the rise**
- **HDFCB (28% of sector spends) remains in pole position with SBICARD and ICICIB neck and neck for second place**

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Differentiated model, robust growth: Despite the surging popularity of UPI in India, we believe credit cards will continue to post robust growth given their clear value proposition over prepaid transactions. Aggregate credit card spends have increased at a strong 25% CAGR over 9MFY18-9MFY23 to Rs 10.5tn (20% CAGR over FY18-FY22 to Rs 9.7tn). Notably, the sector has clocked Rs 1tn of spends in each of the months over Apr-Dec'22. The top 7 players constitute over 80% market share, with HDFCB retaining pole position at 28% market share, followed by SBICARD and ICICIB jostling for second place.

Receivables portfolio posts strong growth: Aggregate receivables (loans on balance sheet) have logged a CAGR of 23% over 9MFY18-9MFY23 to Rs 1.8tn. Loans as a percentage of spends have been rangebound at 14-17%, with the exception of Covid-hit FY21 which saw an increase to 21%. For SBICARD, the only listed pureplay credit card business, the loan-to-spends ratio has been at 16-17% over FY19-FY22, with the exception of FY21 (19%). At end 9MFY23, the ratio stood at 19.6%. Revolvers in the receivables mix remained low compared to pre-Covid levels, though Q3 earnings commentary indicates that EMIs soared.

Momentum in cards outstanding intact despite new norms: Credit cards outstanding have increased at a strong 18% CAGR over 9MFY18-9MFY23 to 81.1mn (18% CAGR over FY18-FY22 to 73.6mn). ICICIB was the biggest gainer with a 330bps increase over FY18-9MFY23, followed by RBK at 310bps. HDFCB has ceded the most ground, dropping 760bps to 21%, but still maintained its top spot. Despite the RBI's new rule effective Jul'22 mandating the closure of cards inactive for over a year, we note that Q3FY23 cards outstanding was net positive. Also, after stagnating over FY18-FY21, monthly spends per card and per transaction both increased in FY22 and 9MFY23.

Large cross-selling opportunity: Debit card o/s are currently 12x of credit cards in India. The ratio of credit-to-debit cards has risen from 4.4% at end-FY18 to 8.6% at end-9MFY23 but remains low. Even if only 1% of existing debit cardholders are converted to credit cards, it will result in 10-12% growth annually.

Recommendation snapshot

Ticker	Price	Target	Rating
SBICARD IN	750	1,034	BUY

Price & Target in Rupees | Price as of 28 Feb 2023

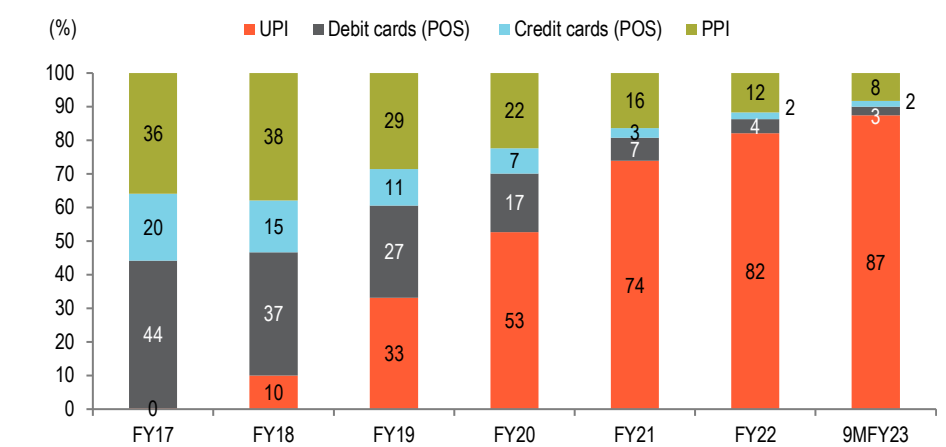


Credit cards vs. UPI: Room for both

India's payment systems (ex-cash) primarily consist of debit cards, credit cards, unified payments interface (UPI), buy now pay later (BNPL), and other prepaid instruments. UPI has cornered significant market share over the last few years at 87% volume and 90% value share as of end-9MFY23 vs. 33% and 38% respectively at end-FY19. Despite UPI's surging popularity, we believe credit cards offer a differentiated value proposition and will continue to post robust growth.

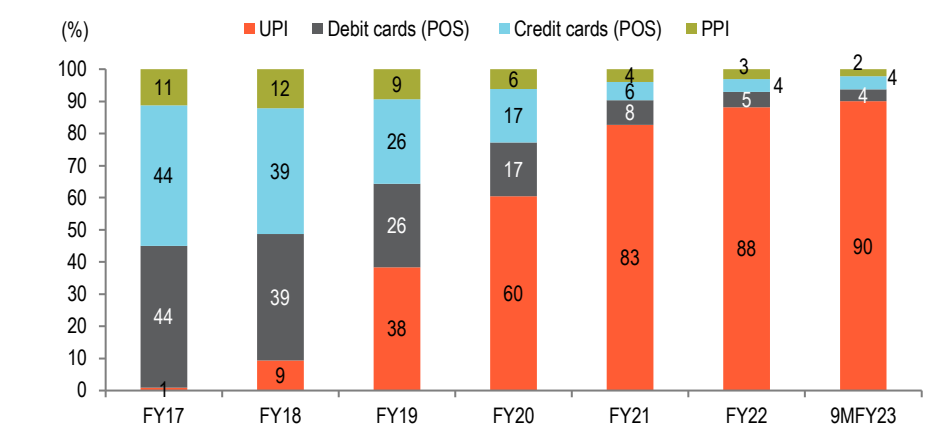
- **Prepaid vs. postpaid:** UPI-based transactions are prepaid, in that customers must have money in a linked bank account vs. credit card transactions which offer up to 50 days of interest-free credit. While the government has allowed credit cards to operate via the UPI mode, this facility is restricted to 'Rupay' cards and only a few players.
- **Reward points:** Credit cards offer reward points on every eligible transaction whereas UPI transactions remain inconsistent. Further, points for credit card transactions are generally higher than those for UPI-based purchases.
- **No customer benefit due to zero MDR in UPI:** Zero merchant discount rate (MDR - a fee paid by the merchant to its bank for accepting payments through various modes like UPI, debit cards, credit cards) is beneficial to the merchants whereas the customers are not given any extra benefit.

Fig 1 – UPI has gained high volume market share...



Source: Company, BOBCAPS Research | Note: POS = Point of Sale

Fig 2 – ...and high value share too



Source: Company, BOBCAPS Research | Note: POS = Point of Sale

Credit card growth trends

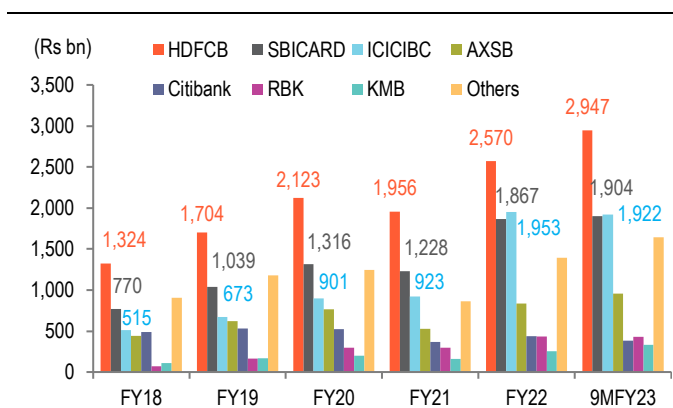
We examine growth trends in India's credit card industry over the last few years and discuss the performance highlights of top players.

Robust growth in spends

Aggregate credit card spends have increased at a strong 25% CAGR over 9MFY18-9MFY23 to Rs.10.5tn (20% CAGR over FY18-FY22 to Rs 9.7tn). Notably, the sector has clocked Rs 1tn of spends in each of the months over Apr-Dec'22. The top 7 players constitute over 80% market share, with ICICI Bank (ICICIB: +700bps) gaining the most share over FY18-9MFY23 followed by RBL Bank (RBK: +260bps). Citibank was the biggest loser, ceding 700bps to 3.6%.

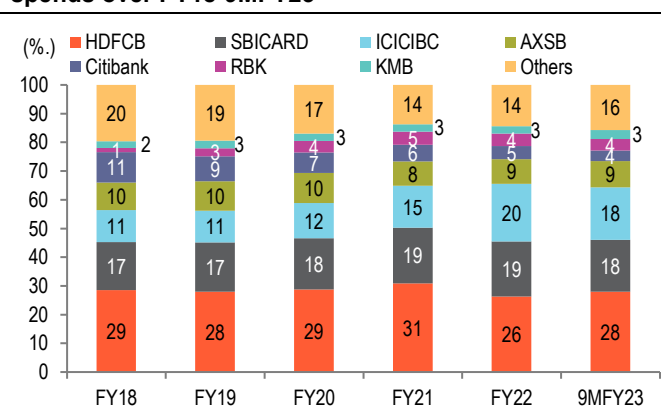
With Axis Bank (AXSB) acquiring Citibank, the combined entity will be the fourth largest player in the industry. HDFC Bank (HDFCB) remains at the top with 28% market share (flattish over FY18-9MFY23), followed by SBICARD and ICICIB neck and neck in second place.

Fig 3 – Spends growth for top players commendable



Source: RBI, BOBCAPS Research

Fig 4 – Top 3 combined gained 800bps market share in spends over FY18-9MFY23

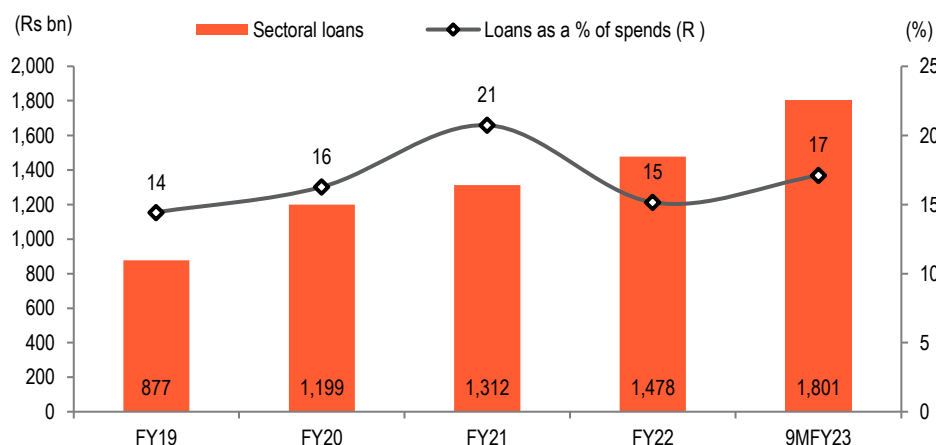


Source: RBI, BOBCAPS Research

Receivables portfolio expands

Receivables (loans on balance sheet), which comprise unpaid dues from transactions as well as revolving balances and conversion of spends to installment loans, logged a CAGR of 23% over 9MFY18-9MFY23 to Rs 1.8tn. Loans as a percentage of spends have been rangebound at 14-17%, with the exception of Covid-hit FY21 which saw an increase. For SBICARD, the only listed pureplay credit card business, the loan-to-spends ratio has been at 16-17% over FY19-FY22, with the exception of FY21. At end 9MFY23, the loan-to-spends ratio stood at 19.6%.

Fig 5 – Loans have grown at a steady rate



Source: RBI, BOBCAPS Research

Fig 6 – Loans-to-spends ratio; average balance per card higher for HDFCB and RBK vs. sector

Particulars	FY19	FY20	FY21	FY22	9MFY23
Sector					
Spends (Rs bn)	6,079	7,370	6,324	9,748	10,525
Loans (Rs bn)	877	1,199	1,312	1,478	1,801
Loans/ spends (%)	14.4	16.3	20.7	15.2	17.1
Card o/s (mn)	47.1	57.7	62.0	73.6	81.2
Avg balance per card (Rs)	18,621	20,766	21,143	20,073	22,182
HDFCB					
Spends (Rs bn)	1,704	2,123	1,956	2,570	2,947
Loans (Rs bn)	466	576	647	768	833
Loans/ spends (%)	27.4	27.1	33.1	29.9	28.3
Card o/s (mn)	12.5	14.5	15.0	16.5	17.0
Avg balance per card (Rs)	37,343	39,708	43,157	46,416	48,973
SBICARD					
Spends (Rs bn)	1,039	1,316	1,228	1,867	1,904
Loans (Rs bn)	179	228	235	302	374
Loans/ spends (%)	17.2	17.3	19.1	16.2	19.6
Card o/s (mn)	8.3	10.5	11.8	13.8	15.9
Avg balance per card (Rs)	21,651	21,628	19,844	21,927	23,517
ICICIB					
Spends (Rs bn)	673	901	923	1,953	1,922
Loans (Rs bn)	123	157	173	251	345
Loans/ spends (%)	18.3	17.4	18.7	12.8	18.0
Card o/s (mn)	6.6	9.1	10.6	13.0	13.5
Avg balance per card (Rs)	18,514	17,182	16,355	19,310	25,537
RBK					
Spends (Rs bn)	164	295	296	435	433
Loans (Rs bn)	53	106	126	136	157
Loans/ spends (%)	32.2	36.0	42.6	31.2	36.3
Card o/s (mn)	1.7	2.7	3.0	3.7	4.2
Avg balance per card (Rs)	30,803	39,607	42,627	36,939	37,135

Source: Company, BOBCAPS Research | Note: For HDFC Bank, FY22 onwards, the loans are for payment products as the bank doesn't provide data for credit cards separately.

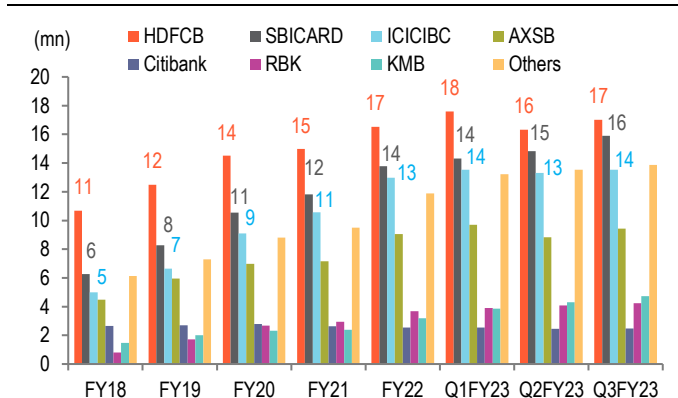
Momentum in cards outstanding intact despite new norms

Credit cards can be broadly classified into two types: (a) retail and (b) corporate. While retail usage is spread across a variety of transactions, corporate cards are used for vendor payments, better working capital management, and redemption of reward points to lower expenses.

Credit cards outstanding have increased at a strong 18% CAGR over 9MFY18-9MFY23 to 81.1mn (18% CAGR over FY18-FY22 to 73.6mn). Four of the top 7 players have increased their market share over FY18-9MFY23. Here too, ICICIB was the biggest gainer with a 330bps increase followed by RBK at 310bps. HDFCB has ceded the most ground, dropping 760bps to 21%, but maintained its top spot.

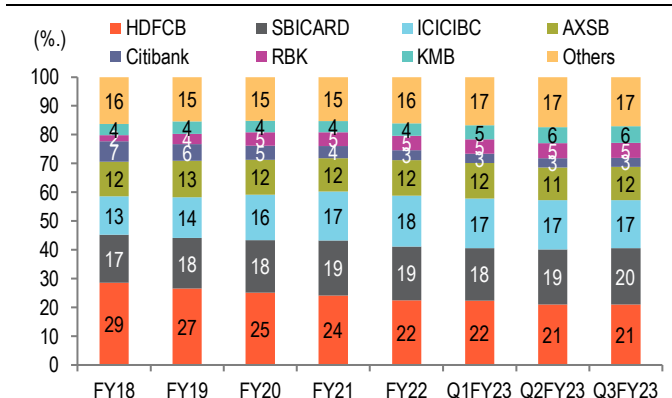
In our [note of 23 Nov 2022](#), we had pointed to potential volatility on account of new RBI guidelines effective Jul'22, mandating account closure for cards inactive for over a year. Thus, at end-Q2FY23, cards outstanding totalled 77.7mn (78.7mn in Q1FY23). However, Q3FY23 witnessed the entire sector including the top 7 players being net positive QoQ.

Fig 7 – Aggregate cards outstanding have doubled over FY18-FY22 to 74mn



Source: Company, BOBCAPS Research

Fig 8 – SBICARD and ICICIB's market share has increased over FY18-9MFY23



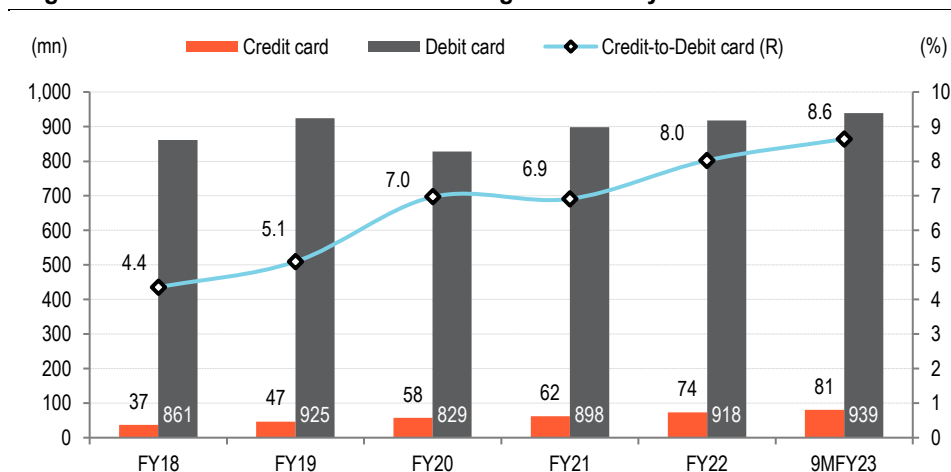
Source: Company, BOBCAPS Research

Large cross-selling opportunity

Debit cards outstanding are currently 12x of credit cards in India. We note that credit cards outstanding have increased by 44mn over FY18-9MFY23 whereas debit cards have grown by 78mn. The ratio of credit-to-debit cards has risen from 4.4% at end-FY18 to 8.6% at end-9MFY23 but remains low. While not all debit card customers can be given credit cards, even if 1% of existing debit cardholders are converted, it will result in 10-12% growth annually in credit cards outstanding, implying a large cross-selling opportunity for banks.

For top players such as ICICIB, HDFCB and AXSB, the ratio of credit-to-debit cards remains in excess of 30%, but we see a significant opportunity for SBICARD whose corresponding ratio is in single digits and well below the sector average.

Fig 9 – Credit-to-debit card ratio increasing consistently



Source: RBI, BOBCAPS Research

Fig 10 – Credit-to-debit card ratio lowest for SBICARD

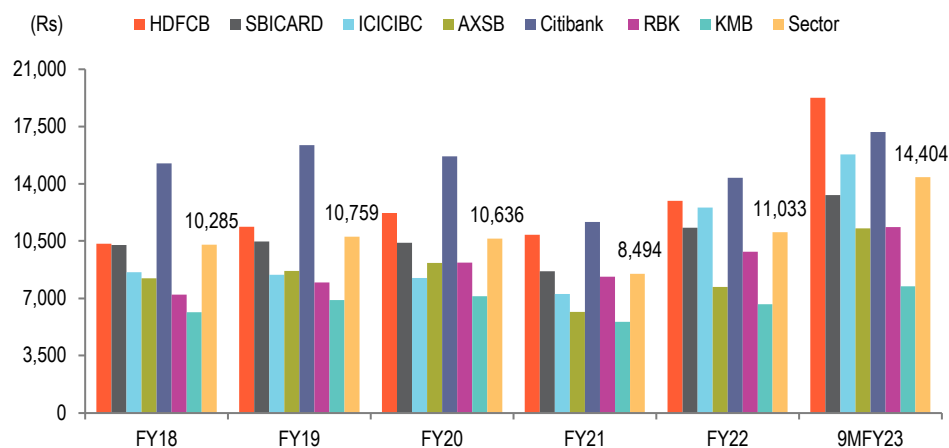
Particulars	FY18	FY19	FY20	FY21	FY22	9MFY23
Credit card o/s (mn)						
HDFCB	11	12	14	15	17	17
SBICARD	6	8	11	12	14	16
ICICIBC	5	7	9	11	13	14
AXSB	4	6	7	7	9	9
Citibank	3	3	3	3	3	2
RBK	1	2	3	3	4	4
KMB	1	2	2	2	3	5
Sector	37	47	58	62	74	81
Debit card o/s (mn)						
HDFCB	24	27	32	37	43	49
SBICARD	278	316	278	293	276	273
ICICIBC	41	45	46	39	37	33
AXSB	22	25	24	24	28	29
Citibank	2	2	2	2	1	1
RBK	1	1	1	1	1	2
KMB	8	12	15	18	24	27
Sector	861	906	829	898	918	939
Credit-to-debit card ratio (%)						
HDFCB	43.9	46.3	45.2	40.8	38.4	34.4
SBICARD	2.2	2.6	3.8	4.0	5.0	5.8
ICICIBC	12.0	14.8	19.8	27.1	35.4	41.6
AXSB	20.1	24.3	28.5	30.0	32.6	32.8
Citibank	165.4	167.5	164.8	159.1	178.1	194.0
RBK	95.5	245.6	279.1	236.5	281.4	275.6
KMB	17.8	16.2	15.5	13.5	13.6	17.5
Sector	4.4	5.2	7.0	6.9	8.0	8.6

Source: RBI, BOBCAPS Research

Spends per card inching up

Spends per card per month were stagnant for the sector over FY18-FY20. After dipping in FY21, we saw an increase in FY22 and 9MFY23. Only three players of the top 7 had average monthly spends per card above the sector average.

Fig 11 – Spends per card per month have increased from FY22

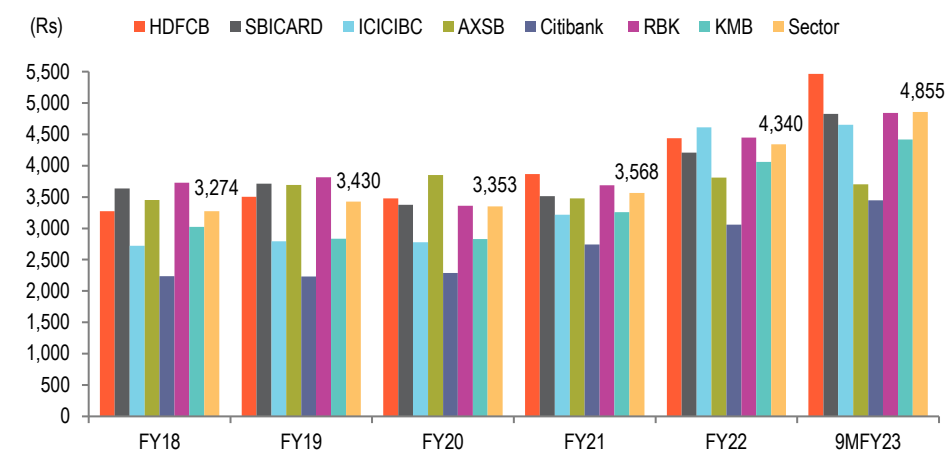


Source: RBI, BOBCAPS Research

Improving momentum in per-transaction spends as well

Spends per transaction also grew in FY22 and 9MFY23 after being rangebound over FY18-FY21. HDFCB had the highest spends per transaction among larger players as at end-9MFY23 and even outperformed the sector average – the only player among the top 7 to do so.

Fig 12 – Spends per transaction also rising



Source: RBI, BOBCAPS Research

Salaried class forms a bulk of the customer base

Our study of SBICARD and RBK's customer data indicates the following:

- RBK's salaried customers constituted 69% of the bank's cards in force (CIF) as of 9MFY23, whereas the remaining were self-employed. SBICARD too has a higher share of the salaried class.
- At end-9MFY23, 54% of SBICARD's CIF was held by customers in the age group of 31-45 years vs. 62% for RBK.
- In terms of locations, tier-1 cities constituted 41% of CIF for SBICARD at end-9MFY23 whereas tier-2&3 combined formed 45%. For RBK, these numbers are at 56% and 44% respectively.

Q3FY23 earnings commentary positive

- Credit card majors mentioned that revolving balances were only at 65-70% of pre-Covid levels. Almost all banks reiterated that revolving accounts were still muted.
- Equated monthly instalment (EMI) receivables, an important constituent of interest-earning assets, have increased significantly during Q3.
- Companies continue to focus on growth in retail spends and quality over quantity in the corporate segment. Retail spends remain a key growth driver on the back of festival and event-related transactions as well as online discount offers by large players.
- E-commerce continues to provide significant growth opportunities. For instance, AXSB issued over 3mn Flipkart Axis Bank credit cards in 9MFY23, making it one of the fastest growing co-branded cards.
- Credit card players are looking to raise market share in cards outstanding by introducing new cards and variants. For instance, during Q3FY23 RBK launched a new LazyPay credit card in partnership with PayU, apart from two new card variants with existing partners, BookMyShow and PaisaBazaar.

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