

DIVERSIFIED FINANCIALS

27 September 2023

Credit card spends buoyant

- Sectoral credit card spends grew at robust 27% YoY in 5MFY24; top 4 players constituted 75% share
- Cards outstanding crossed 90mn in August (17% CAGR, FY21-FY23); spends per card and per transaction also moved up
- HDFCB remains in first place (28% of sector spends), followed by SBICARD and ICICIBC

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Robust growth over Apr-Aug: India's credit card spending has risen 27% YoY to Rs 7tn in FY24 YTD (Apr-Aug'23), with the top 4 players holding over 75% of the market compared to 73.8% in the year-ago period. Axis Bank (AXSB: +325bps YoY) gained the most market share, HDFC Bank (HDFCB: -15bps) and SBI Card (SBICARD: +23bps) held firm, and ICICI Bank (ICICIBC: -190bps) ceded the most ground.

Expect a bumper festival season: Last year, the three big festive months surrounding Diwali, Christmas and Independence Day clocked 3-8% higher card spends than the FY23 monthly average, and we anticipate similar momentum this year as well.

Receivables post strong growth: Aggregate receivables (loans on balance sheet) grew 36% YoY to Rs 2.1tn in Q1FY24. Loans as a percentage of spends have fallen from 21% in FY21 to 13.5% in FY23 and 12.7% at the end of June. SBICARD, the only listed pure-play credit card business, has shown a similar trend in loans-to-spends ratio. Revolver accounts in the receivables mix were low compared to pre-Covid levels and the focus remains on tapping customers who avail of EMIs.

Momentum in cards outstanding continues...: Credit cards outstanding have logged a brisk 17% CAGR over FY21-FY23 to 85.3mn and climbed further to 91.2mn in August. We had pointed to the likelihood of **volatility due to the new RBI standards** effective July last year that mandated card closures in certain instances. Post implementation, the number of cards outstanding had decreased from 78.7mn at the end of Q1FY23 to 77.7mn at end-Q2. However, from Q3 onward, we have seen a net positive QoQ performance for the sector, including for the top 4 players.

...with monthly spends climbing steadily: Monthly purchases per card and spends per transaction have both shown a consistent increase since FY21. During FY24 YTD, two of the top four players – HDFCB and ICICIBC – have reported industry-beating average monthly spends per card, whereas HDFCB and SBICARD outpaced the sector average on spends per transaction.

Recommendation snapshot

| Ticker | Price | Target | Rating |
|------------|-------|--------|--------|
| SBICARD IN | 786 | 1,011 | BUY |

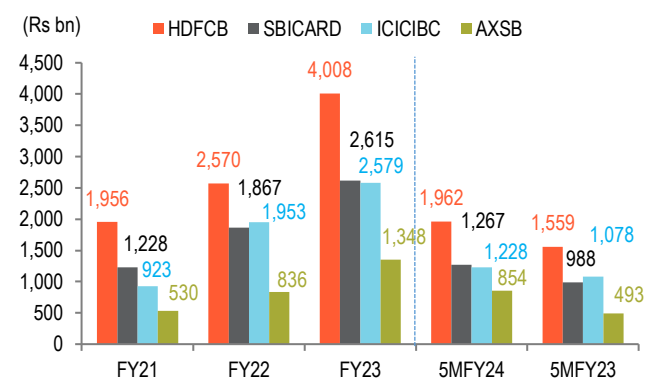
Price & Target in Rupees | Price as of 26 Sep 2023



Credit card spends continue to grow

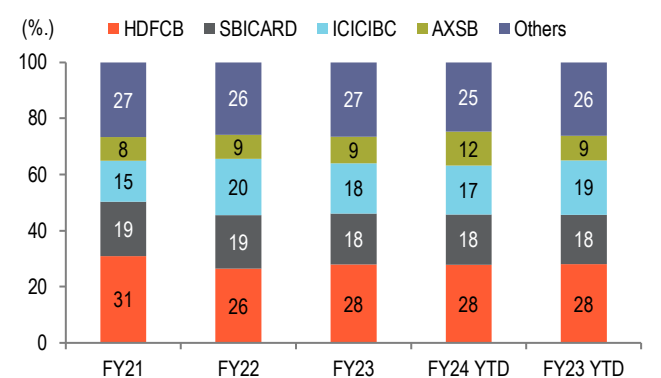
India's credit card spending has risen 27% YoY to Rs 7tn in FY24 YTD (Apr-Aug'23), with the top 4 players holding 75.2% of the market compared to 73.8% in the year-ago period. Axis Bank (AXSB: +325bps YoY) gained the most market share thanks principally to the Citi deal. HDFC Bank (HDFCB: -15bps) and SBI Card (SBICARD: +23bps) held their ground, while ICICI Bank (ICICIBC: -190bps) suffered the highest market share loss in the YTD period and slipped from the second to third rank.

Fig 1 – High spends growth for top players



Source: RBI, BOBCAPS Research

Fig 2 – Top 4 combined continue to dominate the market

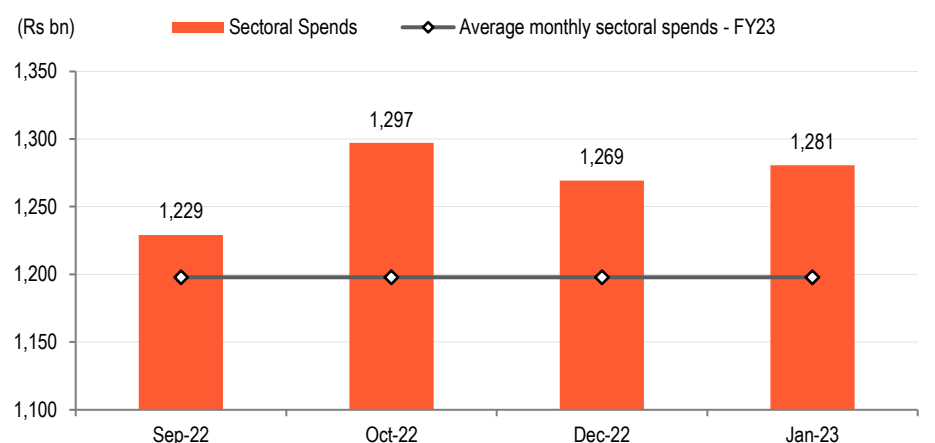


Source: RBI, BOBCAPS Research

Festive bonanza ahead

Last year, the three big festive months surrounding Diwali, Christmas and Independence Day saw a 3-8% rise in card spends over the FY23 monthly average. We anticipate similar momentum this year led by special promotions and discounts offered by e-tailers for credit card purchases.

Fig 3 – Festive months typically a bumper season for credit card players

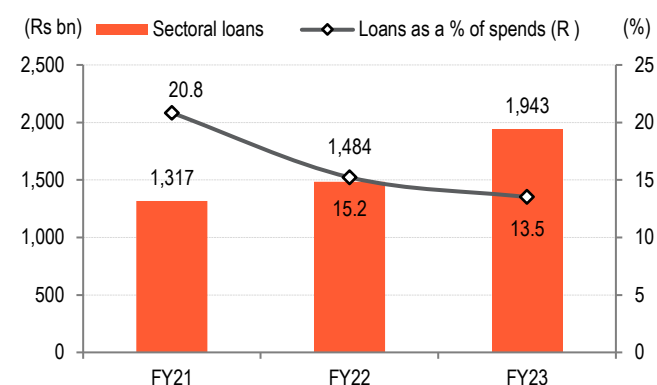


Source: RBI, BOBCAPS Research

Strong growth in receivables

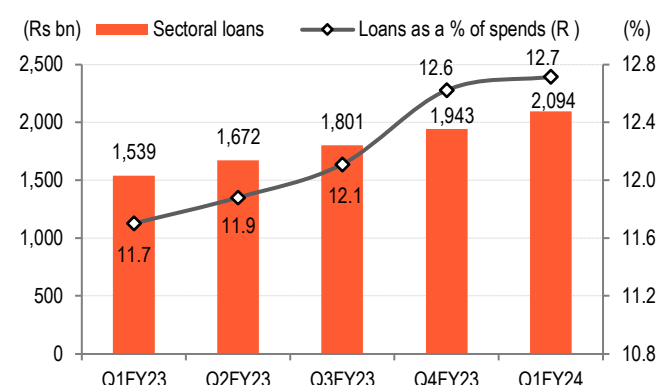
Receivables (loans on balance sheet), which comprise unpaid dues from transactions as well as revolving balances and conversion of spends to installment loans, grew 36% YoY to Rs 2.1tn in Q1FY24. Loans as a percentage of spends have fallen from 21% in FY21 to 13.5% in FY23 and 12.7% at the end of June. For SBICARD, the only listed pure-play credit card business, the loans-to-spends ratio has remained similar.

Fig 4 – Loans have shown robust growth over FY21-FY23...



Source: Company, BOBCAPS Research

Fig 5 – ...with a consistent uptick in recent quarters



Source: Company, BOBCAPS Research | Note: Data for loans as a % of spends is annualised

Fig 6 – Loans-to-spends ratio; average balance per card higher for Top 4 vs. sector

| Particulars | FY21 | FY22 | FY23 | Q1FY24* | Q1FY23* |
|---------------------------|--------|--------|--------|---------|---------|
| Sector | | | | | |
| Spends (Rs bn) | 6,324 | 9,748 | 14,373 | 4,117 | 3,289 |
| Loans (Rs bn) | 1,317 | 1,484 | 1,943 | 2,094 | 1,539 |
| Loans/Spends (%) | 20.8 | 15.2 | 13.5 | 12.7 | 11.7 |
| Card o/s (mn) | 62.0 | 73.6 | 85.3 | 88.7 | 78.7 |
| Avg balance per card (Rs) | 21,226 | 20,158 | 22,775 | 23,610 | 19,551 |
| HDFCB | | | | | |
| Spends (Rs bn) | 1,956 | 2,570 | 4,008 | 1,172 | 904 |
| Loans (Rs bn) | 647 | 768 | 861 | 904 | 801 |
| Loans/Spends (%) | 33.1 | 29.9 | 21.5 | 19.3 | 22.2 |
| Card o/s (mn) | 15.0 | 16.5 | 17.5 | 18.4 | 17.6 |
| Avg balance per card (Rs) | 43,157 | 46,416 | 49,102 | 49,281 | 45,521 |
| SBICARD | | | | | |
| Spends (Rs bn) | 1,228 | 1,867 | 2,615 | 732 | 598 |
| Loans (Rs bn) | 235 | 302 | 394 | 418 | 321 |
| Loans/Spends (%) | 19.1 | 16.2 | 15.1 | 14.3 | 13.4 |
| Card o/s (mn) | 11.8 | 13.8 | 16.8 | 17.3 | 14.3 |
| Avg balance per card (Rs) | 19,844 | 21,927 | 23,482 | 24,109 | 22,408 |
| ICICIB | | | | | |
| Spends (Rs bn) | 923 | 1,953 | 2,578 | 703 | 643 |
| Loans (Rs bn) | 173 | 251 | 378 | 407 | 280 |
| Loans/Spends (%) | 18.7 | 12.8 | 14.7 | 14.5 | 10.9 |
| Card o/s (mn) | 10.6 | 13.0 | 14.5 | 14.8 | 13.5 |
| Avg balance per card (Rs) | 16,355 | 19,310 | 26,172 | 27,509 | 20,700 |

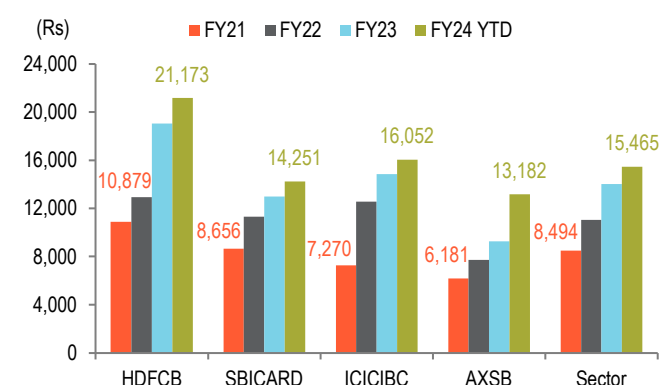
| Particulars | FY21 | FY22 | FY23 | Q1FY24* | Q1FY23* |
|---------------------------|--------|--------|--------|---------|---------|
| AXSB | | | | | |
| Spends (Rs bn) | 530 | 836 | 1,348 | 499 | 289 |
| Loans (Rs bn) | 134 | 158 | 317 | 347 | 180 |
| Loans/Spends (%) | 25.2 | 19.0 | 23.5 | 17.4 | 15.6 |
| Card o/s (mn) | 7.1 | 9.0 | 12.1 | 12.5 | 9.7 |
| Avg balance per card (Rs) | 18,725 | 17,540 | 26,126 | 27,763 | 18,594 |

Source: Company, BOBCAPS Research | Note: For HDFCB, loans from FY22 onwards are for payment products as the bank does not provide data for credit cards separately | *Data for loans as a % of spends is annualised

Spends per card and per transaction moving up

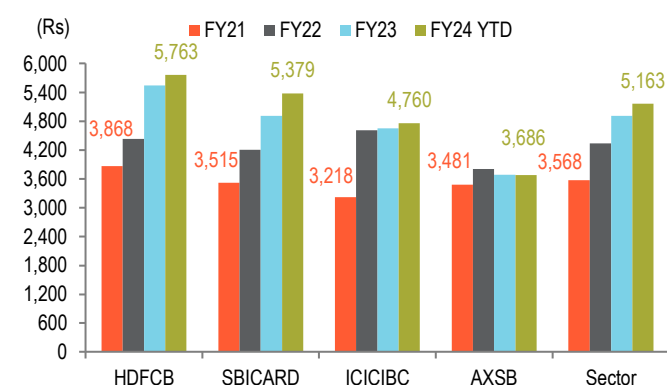
Monthly spends per card has been climbing from FY21 onward. Of the top 4 players, HDFCB and ICICIBC have clocked average monthly spends per card above the sector average in FY24 YTD. Spends per transaction have shown an uptrend since FY21. HDFCB had the highest per transaction spends among the larger players over Apr-Aug'23 and outperformed the sector average along with SBICARD.

Fig 7 – Spends per card per month continue to rise...



Source: RBI, BOBCAPS Research

Fig 8 – ...as do spends per transaction



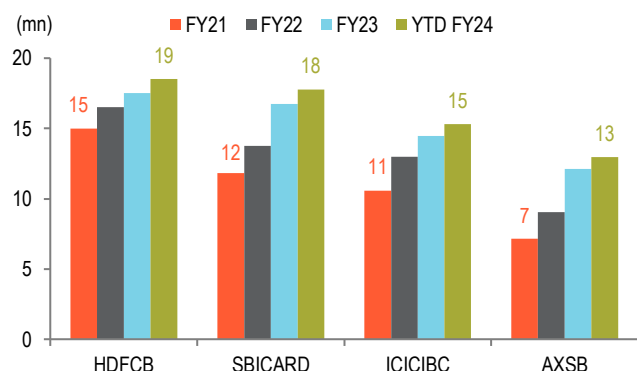
Source: RBI, BOBCAPS Research

Momentum in cards outstanding intact despite new norms

Credit cards can be broadly classified into two types: retail and 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.

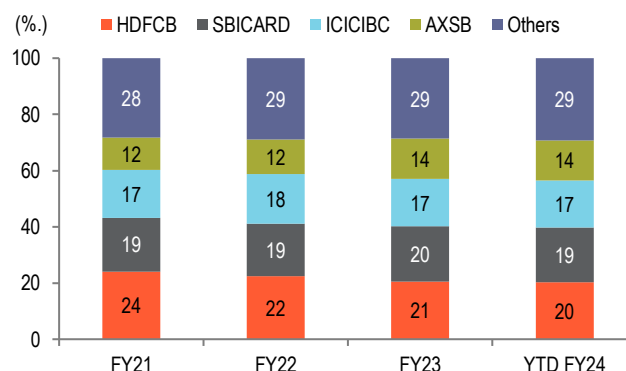
Credit cards outstanding have increased at a strong 17% CAGR over FY21-FY23 to 85.3mn and further to 91.2mn at the end of Aug'23. In our [note of 23 Nov 2022](#), we had pointed to potential volatility on account of the new RBI guidelines effective Jul'22 that mandated, among others, account closure for cards inactive for over a year. Subsequently, cards outstanding fell to 77.7mn at end-Q2FY23 from 78.7mn in Q1FY23. However, from Q3FY23 onwards, we have seen a net positive QoQ performance for the sector, including for the top 4 players.

Fig 9 – Aggregate cards outstanding have been growing at a strong pace



Source: Company, BOBCAPS Research

Fig 10 – Top 4 market share largely maintained at >70%



Source: Company, BOBCAPS Research

Earnings commentary positive

Pertinent takeaways from the Q1FY24 commentary of financial majors:

- **Customer profile:** Most players acknowledged that lower revolvers stem from easy access to credit and that revolver accounts as a percentage of receivables are unlikely to revert to the desired levels soon. Equated monthly instalment (EMI) receivables, a key component of interest-earning assets, have expanded rapidly and have outpaced the revolver book across players.
- **Cross-sales:** Business models are changing for banks in a way that allows diverse lines of products to be cross-sold to the same clients digitally or in a bundled fashion.
- **New launches:** Credit card providers are looking to raise market share in cards outstanding by introducing new cards and variants. For instance, during Q1FY24, Kotak Mahindra Bank (KMB) launched a co-branded card with Myntra targeting millennials and Gen Z customers.
- **UPI on credit card:** Many players agree that UPI (unified payments interface) on credit card is a smart idea, with some rolling out enabled products in Q1FY24.

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Note: Recommendation structure changed with effect from 21 June 2021

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