

DIVERSIFIED FINANCIALS

30 September 2022

Credit card spends robust; new measures consumer friendly

- Credit card spends clocked in at Rs 1tn for each of the five months of FY23 – a positive surprise; outlook strong
- Brisk growth in cards outstanding over FY17-FY22; new consumer protection rules to provide better clarity on cards in circulation
- RBI rules such as tokenisation and card limit checks to come in from 1 October

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Spends strong; FY23 YTD data a positive surprise: Per RBI, credit card spends clocked a 26% CAGR over FY16-FY22 to Rs 9.7tn. Over this period, monthly spends reached Rs 1tn only twice (Oct'21 and Mar'22). In FY23 YTD, however, sector spends clocked in at Rs 1tn in each of the first five months from April to August. Going forward, we expect a strong festive season as the pandemic has ebbed and it is business as usual across the country.

Card dynamics positive; ample opportunity to cross-sell: Spends per card per month increased in FY23 YTD after staying flat over the last five years (at Rs 10k-11k), barring FY21. Spends per transaction, which were flat over FY18-FY21, increased in FY22 before holding steady in FY23 YTD. The credit-to-debit card ratio was 8.3% at end-Aug'22 as compared to 4.4% in FY18, indicating huge opportunity to cross-sell.

New regulations raising volatility in cards outstanding: Credit cards outstanding posted a robust 20% CAGR over FY16-FY22 to 73.6mn. However, volumes fell 3% MoM to 78mn in Aug'22 from 80mn in Jul'22, possibly because the RBI guidelines that came into effect in Jul'22 require that a card be deactivated if unused for over a year.

New RBI measures to protect consumers: New RBI measures to prevent fraud and raise customer protection will come into effect from 1 October. Key rules: (i) Many organisations retain card data (card number, expiration date) for convenience which raises the risk of card information being stolen or misused. They must now move to a tokenisation system which is the replacement of actual card details with an alternative code, referred to as a "token". (ii) Credit card issuers cannot increase the credit card limit of a customer without approval from the cardholder. (iii) Issuers must first obtain one-time-password (OTP) based consent if a cardholder hasn't activated his card for more than 30 days from the issued date.

Recommendation snapshot

Ticker	Price	Target	Rating
SBICARD IN	914	1,227	BUY

Price & Target in Rupees | Price as of 30 Sep 2022

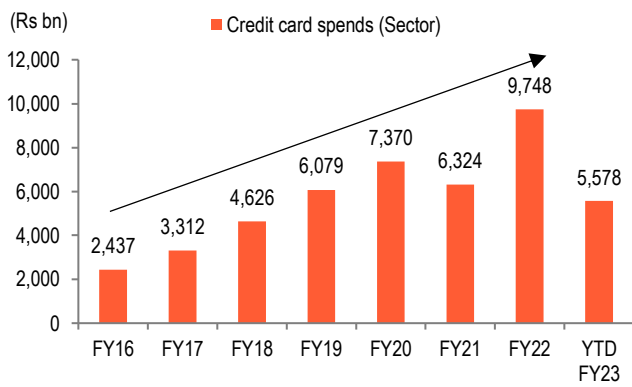


Monthly card spends consistently hit Rs 1tn

Per RBI data, credit card spends in India clocked a 26% CAGR over FY16-FY22 to Rs 9.7tn. Over this period, monthly spends reached Rs 1tn only twice – in Oct'21 and Mar'22. In FY23 YTD, however, sector spends clocked in at Rs 1tn in each of the first five months (April to August) – a key positive, especially as the festive season is yet to kick in.

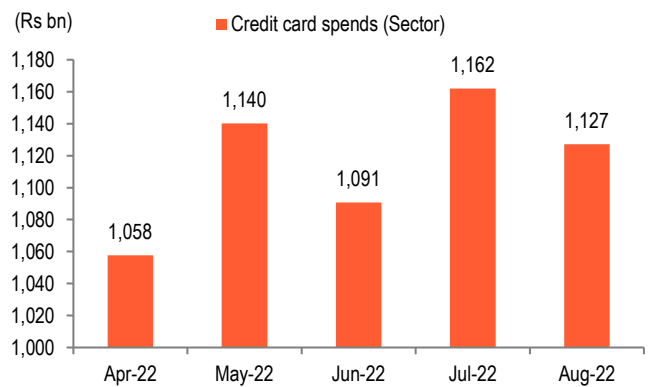
Going forward, we expect a strong festive season as the pandemic has ebbed and it is business as usual across the country. Higher online (ecommerce) spends also continue to drive growth in credit card spends. The top 4 players have further strengthened their position with combined market share increasing from 60.9% at end-FY16 to 73.8% at end-5MFY23.

Fig 1 – Strong growth in credit card spends



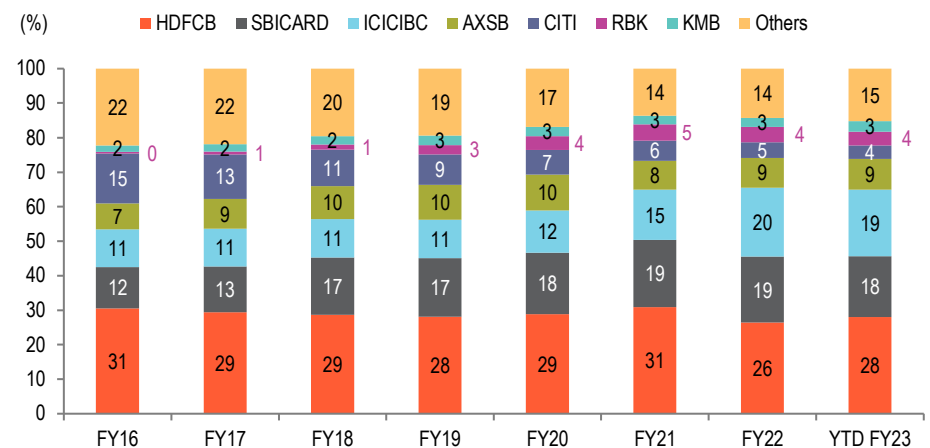
Source: RBI, BOBCAPS Research

Fig 2 – Monthly sector spends crossed Rs 1tn mark during Apr-Aug'22



Source: RBI, BOBCAPS Research

Fig 3 – Market share: Top 4 players' share has increased



Source: RBI, BOBCAPS Research

Growth in cards outstanding but expect volatility ahead

Credit cards outstanding have posted a robust 20% CAGR over FY16-FY22 to 73.6mn. Of the top 4 players, three have grown above the sector average, thus expanding market share. Apart from regular multipurpose credit cards, customers are also showing interest in co-branded cards that reward usage for a specific reason.

Fig 4 – Credit cards outstanding have grown at a swift pace

No. of credit cards (mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Aug-22
HDFC Bank	7.3	8.5	10.7	12.5	14.5	15.0	16.5	16.4
SBI Card	3.6	4.6	6.3	8.3	10.5	11.8	13.8	14.8
ICICI Bank	3.7	4.3	5.0	6.6	9.1	10.6	13.0	13.9
Axis Bank	2.4	3.3	4.5	6.0	7.0	7.1	9.0	8.9
Citibank	2.4	2.5	2.7	2.7	2.8	2.6	2.6	2.6
Ratnakar Bank	0.1	0.3	0.8	1.7	2.7	3.0	3.7	4.0
Kotak Mahindra Bank	0.7	1.0	1.5	2.0	2.3	2.4	3.2	4.1
Sector	24.5	29.8	37.5	47.1	57.7	62.0	73.6	78.0
No of credit cards – Market share (%)								
HDFC Bank	29.7	28.6	28.5	26.5	25.1	24.2	22.5	21.1
SBI Card	14.8	15.3	16.7	17.6	18.3	19.1	18.7	19.0
ICICI Bank	14.9	14.3	13.3	14.1	15.8	17.1	17.6	17.9
Axis Bank	9.8	11.2	12.0	12.7	12.1	11.5	12.3	11.4
Citibank	9.8	8.5	7.1	5.8	4.8	4.2	3.5	3.3
Ratnakar Bank	0.6	0.9	2.1	3.6	4.6	4.8	5.0	5.2
Kotak Mahindra Bank	3.0	3.5	3.9	4.3	4.0	3.9	4.3	5.3
Combined market share	82.6	82.3	83.7	84.5	84.8	84.7	83.9	83.1

Source: RBI, BOBCAPS Research

New RBI rule to lend clarity on cards in circulation

In a break with past trends, credit cards outstanding fell from 80mn in Jul'22 to 78mn in Aug'22, a decline of 3% MoM. This is possibly because of a new RBI guideline that came into effect on 1 July 2022, which states that if a credit card has not been used for over a year, the process to close the card shall be initiated after intimating the cardholder. If no reply is received from the cardholder within a period of 30 days, the card issuer must close the card account, subject to payment of all dues by the cardholder. Thus, we could see volatility in card outstanding numbers in coming months, although we expect this to be offset by attractive offers to bolster active card volumes.

Fig 5 – Sector witnessed MoM decline in cards outstanding in Aug’22

(mn)	Jul-22	Aug-22	MoM (%)
HDFC Bank	17.9	16.4	(8.5)
SBI Card	14.5	14.8	2.0
ICICI Bank	13.7	13.9	1.5
Axis Bank	9.9	8.9	(10.6)
Citibank	2.5	2.6	0.6
Ratnakar Bank	4.0	4.0	1.0
Kotak Mahindra Bank	4.1	4.1	1.4
Sector	80.3	78.0	(2.8)

Source: RBI, BOBCAPS Research

Spends per card on the rise

Collating RBI data, we find that spends per card per month increased in FY23 YTD after staying flat over the last five years (at Rs 10k-11k), barring FY21. At end-FY22, monthly spend per card was at Rs 11,033 for the sector vs. Rs 10,285 in FY18 (Rs 8,494 in FY21). Spends per transaction, which were flat over FY18-FY21, increased in FY22 before holding steady in FY23 YTD.

Fig 6 – Spend per card per month has increased in FY23 YTD...

(Rs)	FY18	FY19	FY20	FY21	FY22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
HDFC Bank	10,325	11,373	12,200	10,879	12,953	17,324	18,336	16,856	18,356	19,806
SBI Card	10,256	10,468	10,395	8,656	11,302	14,077	15,033	13,182	13,348	13,244
ICICI Bank	8,593	8,439	8,238	7,270	12,540	15,803	16,403	16,031	17,027	14,419
Axis Bank	8,234	8,681	9,164	6,181	7,709	9,930	10,125	10,427	10,157	11,652
Citibank	15,242	16,360	15,677	11,650	14,362	16,682	17,762	16,498	16,525	16,822
Ratnakar Bank	7,225	7,983	9,180	8,329	9,850	11,193	12,014	11,299	11,703	11,538
Kotak Mahindra Bank	6,153	6,897	7,132	5,556	6,649	8,334	9,098	8,530	9,001	9,315
Sector	10,285	10,759	10,636	8,494	11,033	14,070	14,832	13,857	14,478	14,452

Source: RBI, BOBCAPS Research

Fig 7 – ...while spends per transaction held steady

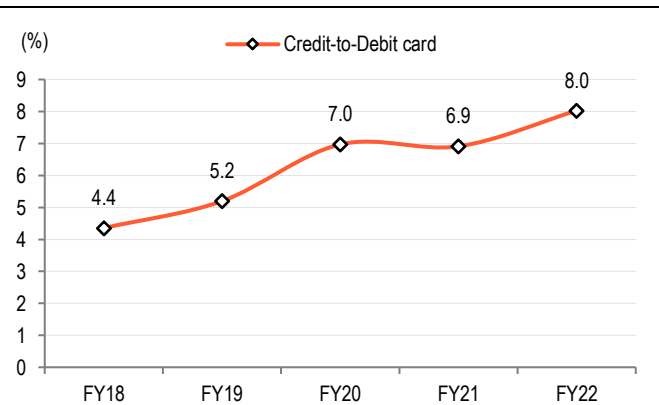
(Rs)	FY18	FY19	FY20	FY21	FY22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
HDFC Bank Limited	3,273	3,504	3,481	3,868	4,436	5,168	5,216	5,156	5,519	5,300
SBI Card	3,635	3,716	3,377	3,515	4,210	4,679	4,801	4,498	4,631	4,439
ICICI Bank Limited	2,724	2,795	2,780	3,218	4,612	4,798	4,785	4,984	5,050	4,328
Axis Bank Limited	3,453	3,695	3,853	3,481	3,811	3,763	3,657	3,819	3,769	3,512
Citibank	2,236	2,227	2,285	2,743	3,060	3,310	3,368	3,373	3,460	3,317
Ratnakar Bank Limited	3,729	3,815	3,361	3,689	4,448	4,502	4,616	4,646	4,799	4,596
Kotak Mahindra Bank Limited	3,026	2,835	2,829	3,258	4,059	4,073	4,124	4,246	4,498	4,443
Sector	3,274	3,430	3,353	3,568	4,340	4,731	4,782	4,771	4,933	4,591

Source: RBI, BOBCAPS Research

Large cross-selling opportunity

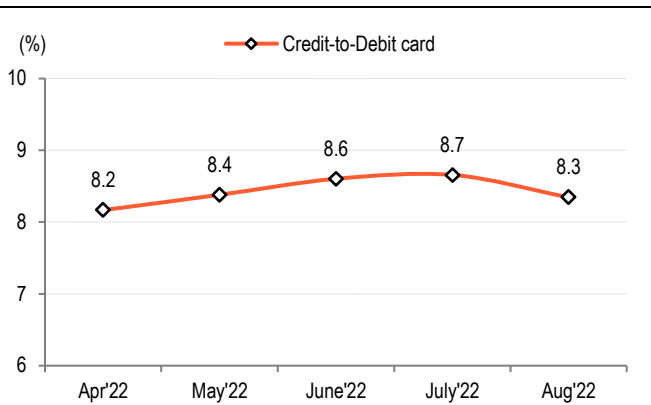
We see a large opportunity in cross-selling credit cards to debit card customers. Although not all debit card customers are likely to be eligible for a credit card, we believe this is an area that can be better tapped. The credit-to-debit card ratio was 8.3% at end-Aug'22 as compared to 4.4% in FY18.

Fig 8 – Credit-to-Debit card ratio witnessed an uptick...



Source: RBI, BOBCAPS Research

Fig 9 – ...and maintained in YTD'FY23



Source: RBI, BOBCAPS Research

New RBI fraud protection rules kicking in

Tokenisation positive for customers

In order to increase the security of card transactions, RBI will introduce tokenisation rules for credit and debit cards effective 1 October 2022.

- Prevents misuse of card details:** Many organisations retain card data (card number, expiration date) for convenience which raises the risk of card information being stolen or misused. Thus, RBI has disallowed all online merchants, payment aggregators, and wallet companies from storing any credit or debit card data of customers on their company servers, mandating that the 16-digit card number stored thus far be replaced with an alternative code or token. These tokens will have to be used for all online transactions.
- No further deadline extension likely:** After multiple extensions, we believe the industry is largely prepared for the implementation of tokenisation and hence expect RBI to stick to the October rollout. The central bank announced that 350mn cards have already been tokenised. Further, 40% of card transactions executed in September were through tokens. Paytm announced in the third week of September that it has tokenised over 52mn cards across Visa, MasterCard, and RuPay.

Card limit checks

Credit card issuers will not be permitted to increase card limits of a customer at their own discretion. This must be preapproved by the cardholder in writing and he must also be notified once the limit is raised. Earlier, cardholders merely received messages regarding limit increases with no permission sought.

OTP-based consent

Credit card issuers must obtain OTP-based consent if a cardholder hasn't activated his card for more than 30 days from the issued date. If no consent is received for activation, card issuers shall close the credit card account without any cost to the customer within seven working days from the date of seeking consent. For a renewed or replaced card, closure shall be subject to payment of all dues by the cardholder.

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Note: Recommendation structure changed with effect from 21 June 2021

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