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Expert call – Bright outlook for credit card industry

SUMMARY
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- Rapid rise in India's credit card spends and cards outstanding over the last five years; millennials to form the next leg of growth
- MDR review unlikely to entail harsh caps considering the need to balance customer protection and industry risk
- Reduction in revolver segment has resulted in sharper industry focus on low-risk EMI segment

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Daily macro indicators

Indicator	21-Nov	22-Nov	Chg (%)
US 10Y yield (%)	3.83	3.76	(7bps)
India 10Y yield (%)	7.32	7.29	(3bps)
USD/INR	81.85	81.67	0.2
Brent Crude (US\$/bbl)	87.5	88.4	1.0
Dow	33,700	34,098	1.2
Hang Seng	17,656	17,424	(1.3)
Sensex	61,145	61,419	0.4
India FII (US\$ mn)	18-Nov	21-Nov	Chg (\$ mn)
FII-D	48.1	(359.7)	(407.8)
FII-E	33.3	(149.3)	(182.6)

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



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Mohit Mangal
research@bobcaps.in

Key takeaways from our call with Shailendra Singh, MD & CEO of BOB Financial Solutions (BOB Financial, unlisted), a wholly owned subsidiary of Bank of Baroda.

Swift growth but RBI keeping close tabs: Credit card spends in India clocked a 24% CAGR over FY17-FY22 to Rs 9.7tn and crossed Rs 1tn in each of the first six months of FY23 (April to September). Similarly, credit cards outstanding grew at a 20% CAGR to 73.6mn and remain strong even after accounting for the drop induced by the Jul'22 RBI guidelines (mandating closure of cards that have been inactive for over a year). BOB Financial expects millennials to drive growth, being fairly well educated and digital savvy.

Industry does not expect harsh MDR curbs: With respect to the RBI's proposed reduction in merchant discount rate (MDR), interactions between the credit card industry and central bank are ongoing. The industry does not anticipate harsh MDR curbs considering that this fee helps the industry mitigate risks due to the unsecured nature of credit cards. That said, any capping of MDR would impact spend-related reward points and other cost outflows.

EMIs take centerstage as revolvers decline: Covid-19 has induced several changes in the industry, including tighter credit limits in the context of credit scores or income criteria. This has driven down revolvers in the industry from 35-40% of receivables to late-20% levels, in line with the conscious efforts of issuers. Thus, card companies are banking on EMI customers who opt to pay in equated monthly installments spread over a 6/12-month period. Assuming 25-30% of the receivables base is EMI-based and is charged an APR plus modest processing fee, the segment delivers a yield of 21-22%, which has a lower risk than the revolver segment.

BOB Financial on a strong growth path: BOB Financial has expanded its market share in cards outstanding from 0.4% at end-FY17 to 1.9% at end-H1FY23, with the banking distribution channel playing an important role. Apart from targeting the parent bank's customer base, the company also collaborates with various partners to offer co-branded cards.

Recommendation snapshot

Ticker	Price	Target	Rating
SBICARD IN	799	1,139	BUY

Price & Target in Rupees | Price as of 22 Nov 2022



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

BUY – Expected return >+15%

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

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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