BUY
TP: Rs 1,227 | ⮝ 32%

SBI CARD | NBFC | 28 July 2022

Ticks most boxes; maintain BUY

- **Q1 credit card spends grew 79% YoY and cards in force 19% YoY, with strong asset quality**
- **Expect earnings to log a 35% CAGR over FY22-FY25, aiding ~7% ROAA and 27-29% ROAE in the medium term**
- **We raise FY23-FY25 EPS by 7-12%, yielding a higher TP of Rs 1,227 vs. Rs 1,137; maintain BUY given structural story and strong fundamentals**

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Strong traction in card spends/cards in force: SBI Card's Q1FY23 credit card spends grew 79% YoY to Rs 597bn, with retail constituting 76% share and growing by 68%. Corporate spends grew 130%. Online spends formed 55% of the total. The credit card industry has clocked a record Rs 1tn in monthly spends. The company's cards in force grew 19% YoY to 14mn with new card addition up 48%. We revise card spends for SBI Card upwards by ~15% to end FY23/FY24/FY25 at Rs 2.6tn/Rs 3.1tn/Rs 3.5tn. Management remains positive on Rupay credit card usage on the UPI platform as it has over 1mn cards on the Rupay platform.

Asset quality strong: Credit cost which averaged at 6% during FY16-FY19 and deteriorated during the Covid era came in at 5.8% for Q1FY23 vs. 11.1% in Q1FY22, which indicates business as usual. We lower credit cost estimates to 7.0%/6.8%/6.5% for FY23/FY24/FY25 (vs 7.7%/7.2%/7.0%). GNPA/NNPA remained stable at 2.2%/ 0.8% at end-Q1FY23. We expect GNPA/NNPA to be <3%/<1% over FY23-FY25.

Return ratios healthy: Led by growth in fee income and card spends along with lower credit costs, the company has generated ~7% ROAA and ~30% ROAE for two consecutive quarters. The cost-to-income ratio stood at 56.3% for Q1 and we forecast a 54-55% C/I for FY23-FY25. We bake in 7% ROAA and 27-29% ROAE for FY22-FY25.

NIM at 12.7%% in Q1; expected to grow to 14% by FY25: The increase in cost of funds is likely to be more visible in Q2FY23, but management aims to protect margins. Revolvers in the receivables mix increased from 25% in FY22 to 26% in Q1FY23. We bake in NIM expansion to 14% by FY25; FY23 could end at ~13%.

Maintain BUY: We raise FY23/FY24/FY25 EPS estimates by 12%/8%/7%to factor in higher card spends and lower credit costs, leading to a new TP of Rs 1,227 (vs. Rs 1,137), based on an unchanged ~36x FY24E P/E (-1sd from the long-term mean). The stock is currently trading at an attractive valuation of 27x FY24E P/E. Maintain BUY for a potential upside of 32%. Our residual income model assumes COE of 11.9% and terminal growth of 5.5%.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SBICARD IN/Rs 929
Market cap	US$ 11.1bn
Free float	30%
3M ADV	US$ 15.5mn
52wk high/low	Rs 1,165/Rs 656
Promoter/FPI/DII	70%/8%/22%

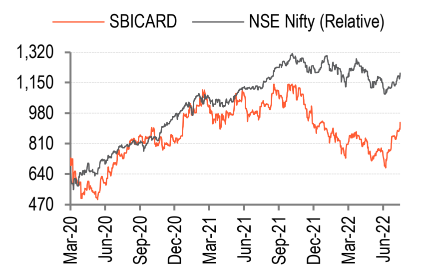
Source: NSE | Price as of 28 Jul 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Net interest income (Rs	38,387	48,008	60,875
NII growth (%)	(1.7)	25.1	26.8
Adj. net profit (Rs mn)	16,161	25,838	32,403
EPS (Rs)	17.0	27.2	34.1
Consensus EPS (Rs)	17.0	24.3	31.4
P/E (x)	54.6	34.2	27.3
P/BV (x)	11.4	8.7	6.8
ROA (%)	5.2	6.7	6.9
ROE (%)	23.0	28.9	28.0

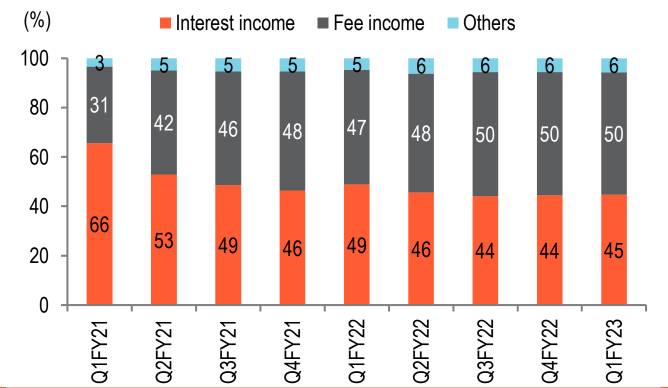
Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



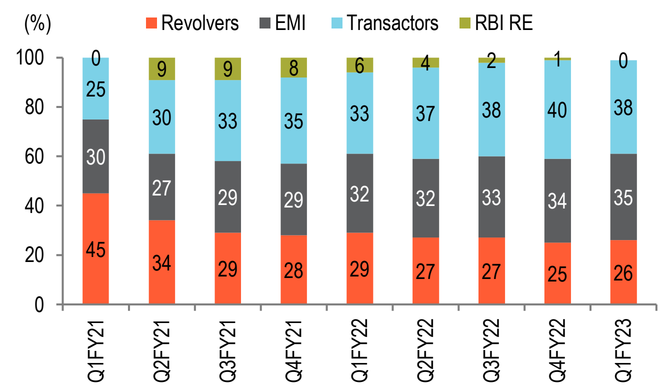
Source: NSE

Fig 1 – Fee income gaining traction in the revenue mix



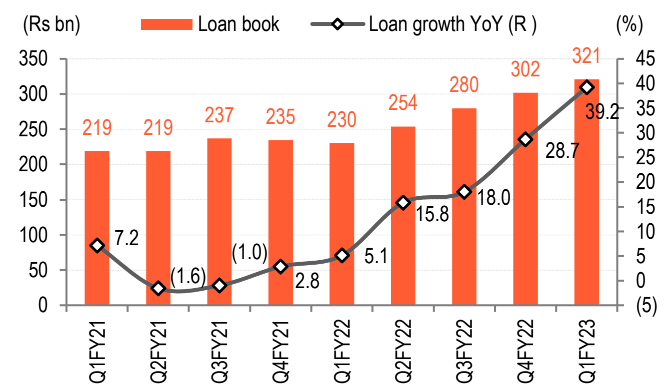
Source: Company, BOBCAPS Research

Fig 2 – Revolvers increased 1ppt QoQ in the revenue mix



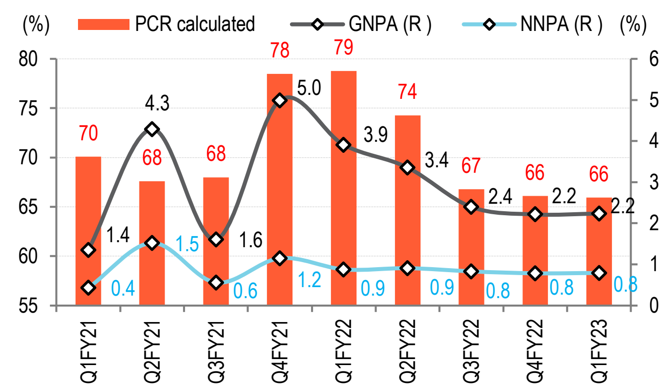
Source: Company, BOBCAPS Research

Fig 3 – Loan book grew 39% YoY



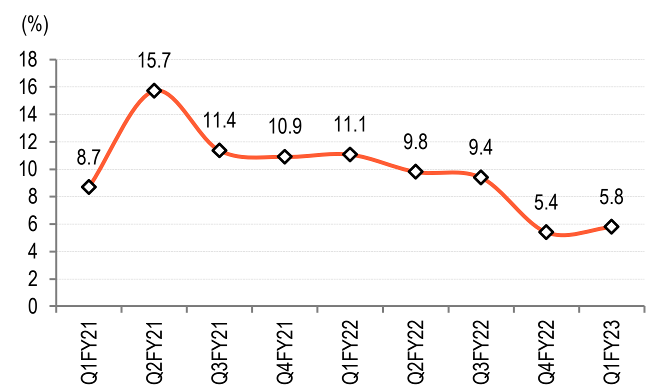
Source: Company, BOBCAPS Research

Fig 4 – Asset quality strong



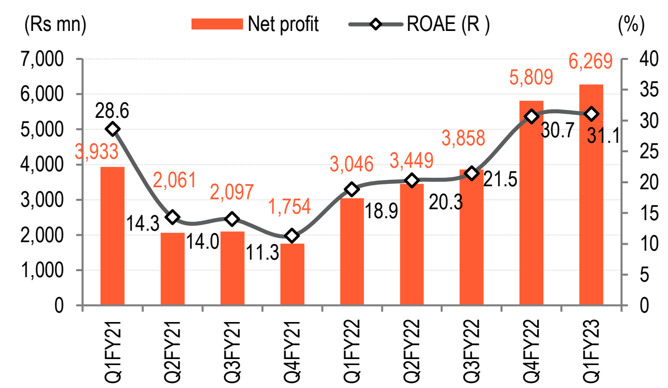
Source: Company, BOBCAPS Research

Fig 5 – Credit costs declined



Source: Company, BOBCAPS Research

Fig 6 – Higher margin business



Source: Company, BOBCAPS Research

Earnings call highlights

- **Card sourcing:** New sourcing of cards by SBIN was low at 32% in Q1FY23 because of audits held at bank branches in April on account of the year end. SBI Card maintains its strategy of sourcing 50% of new cards from the bank and expects to see this mix from Q2. However, management indicated that it has ramped up open market sourcing to make up for the lower SBIN-led acquisition.
- **Card addition:** SBI Card intends to add a minimum of 0.3mn new cards per month. In Q4FY22, the company added ~1mn cards followed by 0.9mn in Q1. It also aims to address the high customer attrition rate.
- **Cost of funding:** The company meets 60-65% of its total debt requirements by borrowing for the short term. In Q2FY23, we could see the cost of funds rising to 5.6-5.8% as higher interest rates kick in.
- **Spends-based fee:** Management does not expect the spends-based fee to reach the erstwhile 160bps as several new categories such as utility, insurance and fuels that increased during the pandemic attract a lower interchange fee. However, travel and lodging have now crossed pre-Covid levels and should see the impact on spends-based fees going forward.
- **Member-based fees:** Member-based fees, which are charged to new customers, have seen a downward trend per card because there are reversal fees once a customer meets certain spending criteria.
- **Revolver mix:** Revolver share in the receivables mix has increased, which is positive as this has come with an increase in customers. Also, the term book has risen to ~35% at end-Q1FY23 vs. 34% QoQ. Interest earning assets (IEA) have moved from 59% in Q4FY22 to 61% in Q1FY23.
- **Spreads:** The company intends to protect spreads but cannot increase the yield due to competitive pressures. However, if an opportunity arises to raise yield on the term book, it will be taken.
- **Risk matrix:** Overall credit cost reduction gives the company an opportunity to recalibrate certain segments. For instance, the share of self-employed clients has been rising in the last few quarters and they have a higher propensity to revolve.
- **Spends:** Spends per active card are similar in the bancassurance and non-banca channels. Revolve rates in banca are lower than non-banca.
- **Commercial spends:** This is not a specific product. Some corporates do B2B spends like vendor payments. However, as these go through various aggregators and it leads to changes in pricing which is not beneficial for SBI Cards, the business has been curtailed currently.
- **Term loan book:** This can be divided into: (1) loans given on top of credit card limit (average is 33-34 months), (2) spends converted into term product (8.5-9 months).
- **Key markets:** Tier-3 & above cities provide 50% of the incremental business for SBI Card. Cost of acquisition here is lower as business is sourced primarily from the

bancassurance channel. The SBI brand is strong in such cities. Online percentage of spends is similar to tier 1 although spends are comparatively lower.

- **Market share:** SBI Card has a strategy to increase market share by boosting technology and enhancing underwriting channels, which will also be margin accretive. However, the company remains mindful of the right customer mix.
- **Co-branded card:** The company has a co-branded card with Aditya Birla Finance – the latter is a regulated entity and hence the card can be offered to many of its customers without any documentation/KYC.
- **UPI Rupay card:** The RBI has allowed Rupay credit cards to be operational on UPI, which is positive for the company as it has 1mn+ such cards and is one of the largest providers of these cards in the industry. The benefits are increased spends and higher usage by customers in smaller towns and cities as they are on the UPI platform. Discussions on merchant discount rate (MDR) are underway at NPCI (National Payments Corporation of India), specifically on lower value transactions.

  However, credit card companies need the MDR as (1) the customer gets a credit-free period of 52 days which entails a cost of funds for the issuer, (2) the customer gets a value proposition and rewards which is a cost for the company, (3) there are certain costs although small at the initial stage because of RBI guidelines such as second-factor authentication and PIN.
- **Online vs. offline:** Profitability from products purchased doesn't vary with the buying medium, but is more customer dependent. In other words, there is no difference in the MDR earned by SBI Card if a customer purchases online or offline.
- **Cards backed by FD:** The company's card offering backed by fixed deposits, and hence secured, has not been successful as customers often look to break their FDs within 6-9 months. Also, the attrition was high in such products and the customer stickiness low, thus impacting profitability.
- **Corporate cards:** These are fewer in number at 50-60k out of a total of ~14mn cards for the company.
- **Restructuring:** The company's RBI restructuring is almost complete with just Rs 1.5bn left. The ECL (Expected Credit Loss) is 3.3% and this signifies a standard provisioning model.

Financial highlights

Fig 7 – P&L account

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
Interest income	13,873	11,535	20.3	12,661	9.6	48,660	49,467	(1.6)
Interest expense	3,084	2,290	34.7	2,674	15.3	10,273	10,434	(1.5)
Net Interest Income (NII)	10,789	9,244	16.7	9,987	8.0	38,387	39,033	(1.7)
Non -interest income	17,130	12,085	41.8	15,842	8.1	58,112	43,498	33.6
-Fee income	15,380	10,987	40.0	14,268	7.8	52,266	39,077	33.8
Revenue from operations	**31,003**	**23,619**	**31.3**	**28,503**	**8.8**	**1,06,773**	**92,965**	**14.9**
Other income	1,626	890	82.6	1,658	(2.0)	6,243	4,171	49.7
Total income	32,628	24,509	33.1	30,161	8.2	1,13,015	97,136	16.3
Operating expenses	16,633	11,680	42.4	15,767	5.5	58,462	47,079	24.2
PPOP	**12,912**	**10,540**	**22.5**	**11,720**	**10.2**	**44,280**	**39,623**	**11.8**
Provisions and contingencies	**4,503**	**6,437**	**(30.1)**	**3,928**	**14.6**	**22,558**	**26,386**	**(14.5)**
PBT	8,409	4,103	105.0	7,792	7.9	21,722	13,237	64.1
Tax	2,140	1,057	102.5	1,984	7.9	5,560	3,392	63.9
PAT	**6,269**	**3,046**	**105.8**	**5,809**	**7.9**	**16,161**	**9,845**	**64.2**

Source: Company, BOBCAPS Research

Fig 8 – Balance sheet

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
Financial assets	3,51,960	2,50,450	40.5	3,29,726	6.7	3,29,726	2,54,133	29.7
Cash and bank balances	10,530	7,140	47.5	11,064	(4.8)	11,064	7,201	53.6
Loans	3,20,790	2,30,410	39.2	3,01,873	6.3	3,01,873	2,34,591	28.7
Other financial assets	20,640	12,900	60.0	16,790	22.9	16,790	12,341	36.1
Non- financial assets	16,630	15,630	6.4	16,758	(0.8)	16,758	15,996	4.8
Deferred tax assets	2,300	3,980	(42.2)	2,185	5.2	2,185	3,951	(44.7)
PP&E, other fixed and intangible	4,540	3,100	46.5	4,537	0.1	4,537	3,182	42.6
Other non-financial assets	9,790	8,550	14.5	10,036	(2.4)	10,036	8,863	13.2
Total Assets	**3,68,590**	**2,66,080**	**38.5**	**3,46,484**	**6.4**	**3,46,484**	**2,70,129**	**28.3**
Financial liabilities	2,72,140	1,83,390	48.4	2,56,828	6.0	2,56,828	1,96,636	30.6
Borrowings including lease liabilities	2,47,920	1,71,900	44.2	2,29,825	7.9	2,29,825	1,78,948	28.4
Other financial liabilities	24,220	11,490	110.8	27,004	(10.3)	27,004	17,688	52.7
Non- financial liabilities	12,710	16,540	(23.2)	12,129	4.8	12,129	10,472	15.8
Provisions	5,030	10,630	(52.7)	4,774	5.4	4,774	4,097	16.5
Other non-financial liabilities	7,680	5,910	29.9	7,355	4.4	7,355	6,376	15.4
Total Liabilities	2,84,850	1,99,930	42.5	2,68,957	5.9	2,68,957	2,07,108	29.9
Equity	**83,732**	**66,150**	**26.6**	**77,527**	**8.0**	**77,527**	**63,020**	**23.0**
Equity share capital	9,432	9,410	0.2	9,432	-	9,432	9,405	0.3
Other equity	74,308	56,740	30.9	68,095	9.1	68,095	53,615	27.0
Total Liabilities and Equity	**3,68,590**	**2,66,080**	**38.5**	**3,46,484**	**6.4**	**3,46,484**	**2,70,129**	**28.3**

Source: Company, BOBCAPS Research

Fig 9 – Ratio analysis

(%)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
Yield	17.8	19.8	(202bps)	17.4	41bps	18.1	21.4	(324bps)
Cost of funds	5.2	5.2	(6bps)	4.9	31bps	5.0	5.9	(88bps)
Spread	12.7	14.6	(196bps)	12.6	10bps	13.2	15.5	(236bps)
Net interest margin (NIM - calculated)	12.7	14.7	(199bps)	12.6	3bps	13.1	15.9	(272bps)
Return on avg. Assets (ROAA)	7.0	4.5	247bps	7.0	5bps	5.2	3.8	148bps
Return on avg equity (ROAE)	31.1	18.9	1223bps	30.7	43bps	23.0	16.9	609bps
Cost to income	56.3	52.6	373bps	57.4	(106bps)	56.9	54.3	260bps
Credit costs	5.8	11.1	(529bps)	5.4	38bps	8.4	11.4	(299bps)
GNPA	2.2	3.9	(169bps)	NA	NA	2.2	5.0	(277bps)
NNPA	0.8	0.9	(10bps)	NA	NA	0.8	1.2	(37bps)

Source: Company, BOBCAPS Research

Fig 10 – Salaried form a higher proportion than self-employed and also have lower delinquency levels

Business	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
New sourcing (%)					
Salaried	83	80	78	76	74
Self employed	17	20	22	24	26
Cards in force (%)					
Salaried	84	85	85	84	84
Self employed	16	15	15	16	16
Cards in force - Indexed 30+ delinquency					
Salaried	0.91	0.92	0.93	0.95	0.96
Self employed	1.53	1.51	1.44	1.33	1.30

Source: Company, BOBCAPS Research

Valuation methodology

We remain positive on credit card growth in India given the government's push for digital transactions and the 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.

In light of the robust Q1FY23 performance, we revise card spends for SBI Card up by ~15% to end FY23/FY24/FY25 at Rs 2.6tn/Rs 3.1tn/Rs 3.5tn. Further, considering the robust asset quality, we reduce our credit cost assumptions by 7-9%. Our EPS estimates thus rise by 12%/8%/7%, translating to a new TP of Rs 1,227 (vs. Rs 1,137), based on an unchanged ~36x FY24E P/E (-1sd from the long-term mean). The stock is currently trading at an attractive valuation of 27x FY24E P/E. We maintain BUY for a potential upside of 32%. Our residual income model assumes a COE of 11.9% and terminal growth of 5.5%, and yields a similar target price.

Fig 11 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Spends	25,74,332	30,59,593	35,48,789	22,35,337	26,62,641	30,92,408	15.2	14.9	14.8
Loans	3,73,278	4,51,290	5,28,770	3,73,278	4,51,290	5,28,770	-	-	-
Total income	1,43,549	1,74,848	2,08,259	1,39,088	1,70,152	2,03,484	3.2	2.8	2.3
PPOP	58,041	71,246	84,586	56,731	69,983	83,387	2.3	1.8	1.4
Credit costs	23,499	27,927	31,872	25,896	29,859	34,136	(9.3)	(6.5)	(6.6)
PAT	25,838	32,403	39,430	23,064	30,012	36,839	12.0	8.0	7.0

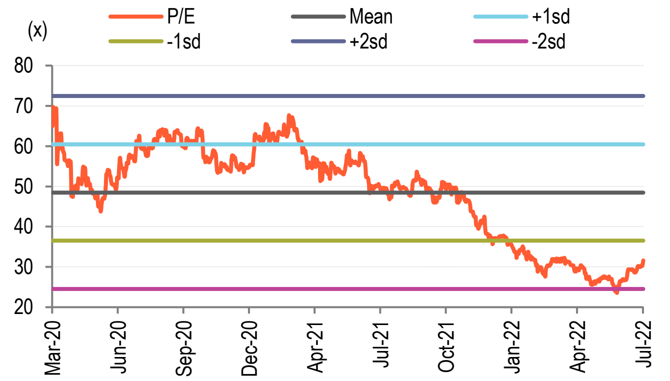
Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

Business (Rs mn)	
Cost of equity (%)	11.9
Terminal growth rate (%)	5.5
PV of Residual Income	10,84,354
Current Book Value	83,740
Estimated Market Value	11,68,094
Shares	951
Estimated Price Per Share (Rs)	1,229

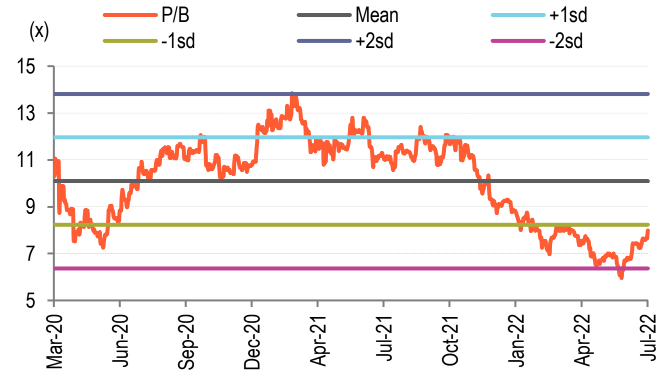
Source: Company, BOBCAPS Research

Fig 13 – SBI Card: 1Y fwd P/E



Source: Company, BOBCAPS Research

Fig 14 – SBI Card: 1Y fwd P/B



Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- **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.

- **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:** (1) 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. (2) 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.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
Net interest income	**39,033**	**38,387**	**48,008**	**60,875**	**75,123**
NII growth (%)	10.2	(1.7)	25.1	26.8	23.4
Non-interest income	43,498	58,112	73,338	86,240	99,558
Total income	97,136	1,13,015	1,43,549	1,74,848	2,08,259
Operating expenses	47,079	58,462	71,064	85,319	1,01,280
PPOP	39,623	44,280	58,041	71,246	84,586
PPOP growth (%)	8.0	11.8	31.1	22.8	18.7
Provisions	26,386	22,558	23,499	27,927	31,872
PBT	13,237	21,722	34,543	43,319	52,714
Tax	3,392	5,560	8,705	10,916	13,284
Reported net profit	**9,845**	**16,161**	**25,838**	**32,403**	**39,430**
Adjustments	0	0	0	0	0
Adjusted net profit	**9,845**	**16,161**	**25,838**	**32,403**	**39,430**

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	91,556	1,20,632	1,56,259
Net worth	63,020	77,527	1,00,988	1,30,064	1,65,691
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**	**4,26,479**	**5,14,656**	**6,06,982**
Cash & bank balance	7,201	11,064	11,797	13,692	18,633
Investments	9,576	12,972	18,692	23,133	27,897
Advances	2,34,591	3,01,873	3,73,278	4,51,290	5,28,770
Fixed & Other assets	18,761	20,576	22,712	26,541	31,682
Total assets	**2,70,129**	**3,46,484**	**4,26,479**	**5,14,656**	**6,06,982**
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	27.2	34.1	41.5
Dividend per share	0.0	2.5	2.5	3.5	4.0
Book value per share	66.4	81.6	106.2	136.8	174.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22P	FY23E	FY24E	FY25E
P/E	89.5	54.6	34.2	27.3	22.4
P/BV	14.0	11.4	8.7	6.8	5.3
Dividend yield (%)	0.0	0.3	0.3	0.4	0.4

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22P	FY23E	FY24E	FY25E
Net interest income	14.9	12.5	12.4	12.9	13.4
Non-interest income	16.6	18.8	19.0	18.3	17.8
Operating expenses	18.0	19.0	18.4	18.1	18.1
Provisions	10.1	7.3	6.1	5.9	5.7
ROA	3.8	5.2	6.7	6.9	7.0
Leverage (x)	4.5	4.4	4.3	4.1	3.8
ROE	16.9	23.0	28.9	28.0	26.7

Ratio Analysis

Y/E 31 Mar	FY21A	FY22P	FY23E	FY24E	FY25E
YoY growth (%)					
Net interest income	10.2	(1.7)	25.1	26.8	23.4
Pre-provisioning profit	8.0	11.8	31.1	22.8	18.7
EPS	(21.4)	64.0	59.7	25.4	21.7
Profitability & Return ratios (%)					
Net interest margin	15.9	13.1	13.0	13.5	14.0
Fees / Avg. assets	16.6	18.8	19.0	18.3	17.8
Cost-Income	54.3	56.9	55.0	54.5	54.5
ROE	16.9	23.0	28.9	28.0	26.7
ROA	3.8	5.2	6.7	6.9	7.0
Asset quality (%)					
GNPA	5.0	2.2	3.0	2.8	2.3
NNPA	1.2	0.8	0.9	0.8	0.8
Slippage ratio	12.6	9.0	7.0	5.0	4.0
Credit cost	11.4	8.4	7.0	6.8	6.5
Provision coverage	77.9	65.3	71.6	71.9	68.6
Ratios (%)					
Loans to Total debt	129.8	130.0	129.2	129.7	130.2
CAR	24.8	23.8	24.4	25.4	27.2
Tier-1	20.9	21.0	22.0	23.5	25.6

Source: Company, BOBCAPS Research

Disclaimer

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

BUY – Expected return >+15%

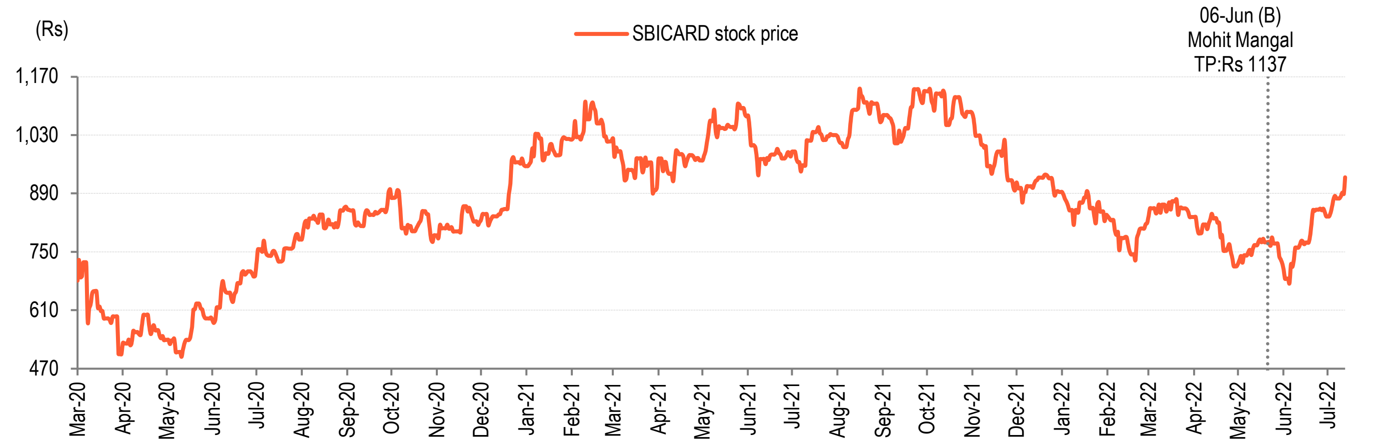
HOLD – Expected return from -6% to +15%

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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