

SBI Cards and Payment Services

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IPO Price: Rs750-755

Issue Opens: 02-Mar-20

Issue Closes: 05-Mar-20

Unique proposition, robust profitability and a low free float

The Rs100bn+ IPO of SBI Cards represents a unique proposition for investors in multiple ways viz. a) first credit cards/payments company to get listed (only proxy to the fast-growing digital payments space), b) company is the 2nd largest credit card issuer with 18% market share in cards outstanding and spends, c) demonstrated faster business growth than industry (card spends grew 54% v/s industry's 36% over F17-19) without dilution in asset quality and profitability metrics, aided by a diversified cards portfolio and tapping potent acquisition channels/markets (co-branding and SBI branches/ Tier 3-4 locations and non-salaried customers), d) ability to deliver 6% RoA and 30% RoE with a conservative Tier-1 capital ratio of 16-17%, and e) strong promoter SBI (69.5% stake post-issue) and a low free-float of 14.5% (rest 16% held by Carlyle Group).

A multi-year growth story, disruption in credit cost cycle is the key risk

SBI Cards is a solid business having a large multifaceted distribution franchise, sophisticated and scalable core technology systems (data analytics used for customer acquisition, product design/marketing, underwriting and risk monitoring) and a mature and capital efficient revenue profile (non-interest income share at 49% of operating income). Being a proxy consumption play, we would prefer P/E as a valuation basis; wherein SBI cards is being offered at 45x FY20 (post-money) and 26x FY22 multiples. A 25% growth rate appears self-sustainable on current RoE and dividend payout. Asset quality cycle has been benign for nearly a decade now, thus any disruption in credit cost cycle could significantly impact valuation and sustainable growth rate.

Credit Cards - Substantial headroom for growth

Credit Card spends witnessed a CAGR of 32% over FY15-19 to reach Rs6tn; and is expected to reach Rs15tn by FY24, according to CRISIL Research. Cards outstanding are forecasted to grow by 23% p.a. over the next five years. The growth in card base and spends is expected to be driven by banks' focus on cross-selling cards to existing customers, card issuers entering into co-branding partnerships, issuance of cards in smaller cities, a booming ecommerce sector, increasing organized retail penetration, growth in payments infrastructure and increased use of cards for various purposes. Credit card spending accounted for ~5.4% of PFCE in FY19, compared to ~2.3% in FY14. Going forward, according to CRISIL Research, it is estimated to reach 7.6% of PFCE by FY24. Credit cards represents additional value propositions over e-wallets and UPI, due to an interest-free line of credit for up to 50 days and international acceptance.

Exhibit 1: Financial summary

Y/e 31 Mar	FY18	FY19	FY20E	FY21E	FY22E
Op. Income (Rs mn)	46,587	62,696	85,709	114,084	150,335
% Growth	58.3	34.6	36.7	33.1	31.8
PPOP (Rs mn)	17,194	24,793	36,528	48,584	64,238
PAT (Rs mn)	6,011	8,627	15,593	20,628	27,137
% Growth	61.2	43.5	80.7	32.3	31.6
EPS (Rs)	7.7	10.3	16.6	22.0	28.9
BVPS (Rs)	28.3	41.0	57.4	76.3	101.0
P/E (x)	98.6	73.3	45.5	34.4	26.1
P/adj.BV (x)	26.7	18.4	13.1	9.9	7.5
ROE (%)	31.6	29.1	34.1	31.9	31.7
ROA (%)	4.5	4.8	6.6	6.5	6.5
CAR (%)	18.3	20.0	22.3	22.1	22.1

Source: Company, YES Sec - Research

Issue details

Face value (Rs)	10
Issue Size*	Rs103.5bn
Offer for sale*	Rs98.5bn
Fresh Issue	Rs5bn
Post-issue M-cap*	Rs709bn
Issue type	100% Book building *At upper price band

Shareholding pattern (%)

	Pre-IPO	Post-IPO
Promoter	74.0	69.5
Non-Promoter	26.0	30.5

Share reservation (of net offer)

QIB	Not more than 50%
Non-institutional	Not less than 15%
Retail	Not less than 35%

Issue Manager

BRLM	Kotak, Axis, BofA, HSBC
Registrar	Link Intime India Pvt. Ltd.
Listing	NSE, BSE

Company management

Rajnish Kumar	Non-executive Chairman
Hardayal Prasad	MD & CEO
Nalin Negi	CFO
Aparna Kuppuswamy	CRO

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BUSINESS OVERVIEW

SBI Cards is the second-largest credit card issuer in India, with a 18.1% market share of the Indian credit card market in terms of the number of credit cards outstanding as of November 30, 2019, and a 17.9% market share of the Indian credit card market in terms of total credit card spends in the 8M FY20, according to the RBI. The company offers an extensive credit card portfolio to individual cardholders and corporate clients which includes lifestyle, rewards, travel and fuel, shopping, banking partnership cards and corporate cards covering all major cardholder segments in terms of income profiles and lifestyles.

The company is a subsidiary of SBI, India's largest commercial bank in terms of deposits, advances and number of branches as of H1 FY20, according to the RBI. SBI Cards started its operations in 1998, and since then SBI's parentage and highly trusted brand have allowed it to quickly establish a reputation of trust, reliability and transparency with its cardholders.

SBI Cards has a broad credit card portfolio that includes SBI Card-branded credit cards as well as co-branded credit cards that bear both the SBI Card brand and the company's co-brand partners' brands. The company offers four primary SBI Card-branded credit cards: SimplySave, SimplyClick, Prime and Elite, each catering to a varying set of cardholder needs. It is also the largest co-brand credit card issuer in India according to the CRISIL Report, and has partnerships with several major players in the travel, fuel, fashion, healthcare and mobility industries, including Air India, Apollo Hospitals, BPCL, Etihad Guest, Fbb, IRCTC, OLA Money and Yatra, among others. It issues credit cards in partnership with the Visa, MasterCard and RuPay payment networks.

The company has a diversified customer acquisition network that enables it to engage prospective customers across multiple channels. It deploys a sales force of 32,677 outsourced sales personnel as of 9M FY19, operating out of 145 Indian cities and which engages prospective customers through multiple channels, including physical points of sale in bank branches, retail stores, malls, fuel stations, railway stations, airports, corporate parks and offices, as well as through tele-sales, online channels, email, SMS marketing and mobile applications.

SBI Cards is the leading player in open market customer acquisition in India according to the CRISIL Report. The company had a presence in 3,190 open market points of sale across India as of 9M FY20. In addition, its partnership with SBI provides the company with access to SBI's extensive network of 21,961 branches across India, which enables it to market its credit cards to SBI's vast customer base of 446mn customers as of 9M FY20. The extensive physical customer acquisition network is complemented by the digital sales and marketing capabilities which includes the company's website, mobile application and online, email and SMS marketing platforms.

The company's business is technology-driven and underpinned by its data analytics capabilities, which cut across all aspects of operations. The core technology systems are scalable, modern and sophisticated, with considerable capacity to support future growth. SBI Cards possesses a large database of cardholder demographic and socio-economic data (such as its cardholders' purchase patterns, behaviors and payment histories) derived from the numerous transactions carried out by millions of cardholders each year, which the company analyzes to generate underwriting scorecards, proactively mitigate risks, and reduce losses and delinquencies.

The company has a diversified revenue model whereby it generates both non-interest income (primarily comprised of fee-based income such as interchange fees, late fees and annual fees, among others) as well as interest income on its credit card receivables. The share of revenue from operations that the company derives from non-interest income has steadily increased over the past three fiscal years, from 43.6% in FY17 to 48.9% in FY19.

The company's total income increased from Rs34,710mn in FY17 to 72,868mn in FY19 at a CAGR of 44.9% and its revenues from operations have increased from Rs33,462mn in FY17 to Rs69,991mn in FY19 at a CAGR of 44.6%. The net profit increased from Rs3,729mn in FY17 to Rs8,627mn in FY19 at a CAGR of 52.1%. ROAE has remained stable at 28.5% in FY17 and 28.4% in FY19, while ROAA increased from 4.0% in FY17 to 4.8% in FY19.

Key Competitive Strengths

- ✓ Second largest credit card issuer in India with deep industry expertise and a demonstrated track record of growth and profitability
- ✓ Diversified customer acquisition capabilities
- ✓ Support of a strong brand and pre-eminent promoter - SBI
- ✓ Diversified portfolio of credit card offerings
- ✓ Advanced risk management and data analytics capabilities
- ✓ Modern and scalable technology infrastructure
- ✓ Highly experienced and professional management team

Company Strategies

- ✓ Expand the company's customer acquisition capabilities to grow its cardholder base
- ✓ Tap into new cardholder segments by broadening its portfolio of credit card products
- ✓ Stimulate growth in credit card transaction volumes
- ✓ Continue to optimize the company's risk management processes
- ✓ Enhance cardholder experience
- ✓ Continue leveraging technology across operations

Key Risks

- ✓ The company derives substantial benefits from its existing relationship with its promoter, and a loss or reduction in the level of support it receives from its promoter could adversely affect the company. In FY19, new accounts acquired from its promoter's customer base accounted for 55.2% of the company's total new accounts. The promoter has extended working capital loans and non-convertible debentures to the company, out of which Rs102,562mn remained outstanding as of 9M FY20
- ✓ The company is involved in an appeal against an order given by National Consumer Disputes Resolution Redressal Commission regarding charging interest rate in excess of 30% per annum from credit card holders. If the Supreme Court of India upholds the order of the National Commission, this may adversely impact the company and all credit card issuing companies by capping of the interest rate charged from credit card holders, thereby having a negative impact on the revenue lines of the company.

FINANCIALS

Exhibit 2: Balance Sheet

Y/E March 31 (Rs mn)	FY17	FY18	FY19	9M FY20
Equity and Liabilities				
Equity Share Capital	7,850	7,850	8,372	9,323
Other Equity	6,638	15,681	27,445	38,190
Shareholders fund	14,488	23,531	35,817	47,513
Financial Liabilities	86,758	125,901	153,828	195,059
Derivative financial instruments	0	29	1,095	323
Payables	1,191	5,296	6,651	852
Debt Securities	75,098	29,489	40,793	67,150
Borrowings (Other than Debt Securities)	2,197	74,659	83,744	106,162
Subordinated Liabilities	5,389	9,980	11,968	12,465
Other Financial Liabilities	2,883	6,449	9,577	8,107
Non-Financial Liabilities	6,404	7,429	12,751	17,362
Current tax liabilities (net)	17	104	762	38
Provisions	4,952	3,924	6,284	12,484
Deferred tax liabilities (net)	0	0	0	0
Other non-financial liabilities	1,434	3,400	5,705	4,840
Total Liabilities + Equity	107,650	156,860	202,396	259,935
Assets				
Financial Assets	104,008	147,829	190,127	246,492
Cash and Cash Equivalents	1,747	3,119	7,335	4,528
Bank balances	1,082	1,608	433	550
Derivative financial instruments	0	0	1	0
Receivables	1,325	1,507	2,950	1,773
Loans	99,829	140,455	179,087	239,332
Investments	0	0	15	15
Other Financial Assets	25	1,139	306	295
Non- Financial Assets	3,642	9,031	12,269	13,443
Current tax assets (Net)	0	0	0	0
Deferred tax assets (Net)	1,292	880	1,665	1,374
Property, Plant and Equipment	17	419	575	572
Capital WIP	0	133	43	183
Intangible assets	0	657	804	884
Right-of-use Assets	222	1,559	1,643	1,711
Other Non-Financial Assets	2,112	5,383	7,538	8,719
Total Assets	107,650	156,860	202,396	259,935

Exhibit 3: Income statement

Profit & Loss Account	FY17	FY18	FY19	9M FY20
Income from Operations	33,462	51,870	69,991	68,431
Interest expense	(5,284)	(7,115)	(10,172)	(9,664)
Net interest income	28,178	44,755	59,819	58,767
Non-interest income	1,248	1,832	2,877	3,971
Total op income	29,426	46,587	62,696	62,738
Total op expenses	(18,390)	(29,393)	(37,903)	(35,531)
Op profit (pre-prov)	11,036	17,194	24,793	27,207
Impairment losses & bad debts	(5,320)	(8,001)	(11,477)	(11,021)
Profit before tax	5,716	9,193	13,316	16,187
Taxes	(1,988)	(3,182)	(4,689)	(4,575)
Net profit	3,729	6,011	8,627	11,612

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