

RETAIL EQUITY RESEARCH

SBI Cards & Payment Services Ltd.

NBFC (Non-Deposit taking)

Sensex: 39,889

Nifty: 11,679

SUBSCRIBE

Price Range Rs. 750 - Rs.755

The drive to go digital ...

SBI Cards & Payment Services (SBI Cards) is the leading issuer of credit cards in India. Incorporated in October 1998 as a joint venture between State bank of India and GE Capital. Later in December 2017 State Bank of India and Carlyle Group acquired GE Capital's stake in the company. Company offers Indian consumers access to a wide range of world-class, value added payment products and services. At present SBI cards operates through a footprint of more than 130 cities in India.

- SBI cards is the second largest credit card company in India with a market share of 18%, accounting for more than 1cr cards.
- India's largest PSU Bank, SBI, is its promoter with 74% holding followed by largest private equity firm Carlyle group which holds 26% stake.
- SBI Cards is the largest co-branded credit card issuer with partnerships with leading companies in India like IRCTC, Yatra, Big Bazaar.
- It acquires majority of its customers through its strong partnership with national brands, compared to bancassurance route by other leading players.
- The penetration of credit cards in India is relatively low, at 3% compared to 42% in Asian peers like China, which indicates potential for long-term growth.
- The outlook for business is healthy with 35% & 54% CAGR in credit card spending and outstanding during FY17-FY19.
- SBI Cards total revenue grew at CAGR of 46% and Net profit grew 52% CAGR during FY17-FY19. ROE is robust at 31% which is in-line with best international standards.
- At the upper price band of Rs 755, SBI Cards is available at P/E of 46x FY20, Valuation looks justified taking into consideration the historical high growth rate.
- Given strong parentage and sustainability of growth rate with huge potential for digital payments in India, we recommend 'SUBSCRIBE' to the issue with a long-term perspective.

Purpose of IPO

At the upper price band, total issue size stands at Rs 10,355cr. The issue comprises offer for sale (OFS) of Rs9,855cr wherein, Promoter SBI is diluting 3.72cr shares and Carlyle group diluting 9.32cr shares. The issue also constitutes a fresh issue of Rs500cr which will be used to strengthen company's capital base and ensure compliance with RBI directives.

Special Reservations for Shareholder & Employees

- IPO will remain exclusively open for retail investors (including employees & shareholders) on 05th March 2020.
- SBI shareholder who held shares as on 18th February 2020 is eligible to apply under shareholder category with maximum limit being Rs 2,00,000.
- SBI employees can apply in the employee category with maximum limit of Rs 5,00,000 with a discount of Rs 75 per share.

Key Risks

- Competition from other leading credit card players.
- Any change in Charge rates and fees due to regulatory actions.
- High borrowing cost being an NBFC.

Issue Details				
Date of Opening		02 th March, 2020		
Date of Closing		05 th March, 2020		
Total no. of Shares offered(cr)		13.71		
Post Issue No. of shares (cr)		93.89		
Price Band		Rs. 750- 755		
Face Value		Rs. 10		
Bid Lot		19 shares		
Minimum application for retail (upper price band for 1 lot)		Rs. 14,345		
Maximum application for retail (upper price band for 13 lot)		Rs. 186,485		
Listing		BSE & NSE		
Lead Manager		Axis Capital, Kotak Mahindra Capital, HSBC Securities, Nomura, SBI Capital Markets		
Registrars		Link Intime India Private Limited		
Issue size (upper price)		Rs. Cr		
Fresh Issue		500		
OFS		9,855		
Total Issue		10,355		
Shareholding (%)		Pre Issue	Post Issue	
Promoters		74	69.5	
Others		26	30.5	
Total		100	100	
Issue structure		Allocation %	Size Rs.cr	
Retail		35	3,624	
Shareholder's Reservation		9.5	983	
Employees Reservation		1.5	155	
Others		24	2,486	
Non -Institutional		15	1,553	
QIB		50	5,177	
Total		100	10,355	
Y.E March (Rs cr)		FY18	FY19	FY20*
NII		2,048	2,559	3,361
Growth (%)		51%	25%	31%
NIM (%)		16.5	15.5	15.6
PAT Adj		601	863	1,544
Growth (%)		61%	44%	79%
EPS		7.7	10.3	16.6
P/E (x)		99	73	46
P/BV (x)		25.2	17.6	10.8
Adj.P/BV (x)		26.7	18.4	11.2
RoE (%)		31.6%	29.1%	28.7%
RoA (%)		4.5%	4.8%	5.1%

*Annualized

Company Description

SBI Cards & Payment Services Ltd started their operations in 1998, and since then SBI's parentage and highly trusted brand have allowed to quickly establish and gain market share. SBI Cards is currently the second-largest credit card issuer in India. Company offers four primary SBI Card-branded credit cards: SimplySave, SimplyClick, Prime and Elite, each catering to a varying set of cardholder needs. SBI Card has 18 co-branded partnerships, the highest in the industry compared to other players, followed by ICICI Bank at 12 and RBL Bank at 8. In the travel and fuel category, SBI Card and ICICI Bank both have 8 co-branded partnerships. SBI Card is the only player who has a tie up with IRCTC which provides offers on railway ticket booking. The company deploy a sales force of 32,677 outsourced sales personnel (as of December 31, 2019) operating out of 145 Indian cities. In addition to open market customer acquisitions platform, partnership with SBI provides the company with access to SBI's extensive network of 21,961 branches across India, which enables to market its credit cards to SBI's vast customer base of 44.55cr customers (as of December 31, 2019).

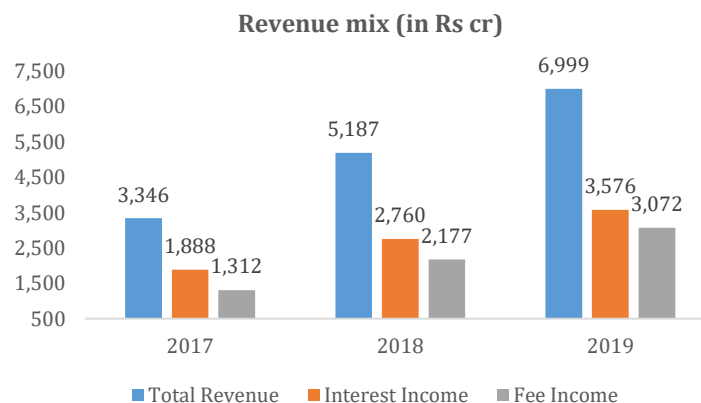
Revenue mix

SBI Card's revenue from operations is comprises of (i) Interest income, (ii) Income from fees and services, (iii) Service charges, (iv) Business development incentive income, (v) Insurance commission income, and (vi) Net gain on fair value changes.

Revenue breakup	For the 9 months ended Dec' 31,		For the year ended March 31,		
in Rs cr	2019	2018	2019	2018	2017
Interest Income	3,493	2,626	3,576	2,760	1,888
Income from fees and services	3,019	2,159	3,072	2,177	1,312
• Subscription-based fees	446	310	435	326	211
• Spends-based fees	1,541	1,131	1,643	1,174	695
• Instance-based fees	1,033	717	994	678	406
Service Charges	82	81	126	80	53
Business development incentive income	240	143	217	163	88
Insurance commission income	8	6	9	7	5
Net gain on fair value changes	-0.1	68.2	0.1	-	-
Total Revenue from Operations	6,843	5,084	6,999	5,187	3,346

Source: RHP, Geojit Research

- **Interest income:** Interest income primarily relates to income derived from interest-earning assets, which are mainly comprised of revolving credit card balances and term loans (primarily relating to equated monthly instalments). Interest income comprised 51.0% and 51.7 % of the total revenue from operations for the nine months ended December 31, 2019 and 2018, respectively, and 51.1% for fiscal 2019, 53.2% for fiscal 2018 and 56.4% for fiscal 2017.
- **Income from fees and services:** income from fees and services primarily relates to the various types of credit card fees and charges that generate from operations. Income from fees and services is comprised of subscription based fees, spend-based income and instance-based fees. Income from fees and services as a proportion of revenue from operations comprised 44.1% and 42.5% for the nine months ended December 31, 2019 and 2018, respectively, and 43.9% for fiscal 2019, 42.0% for fiscal 2018 and 39.2% for fiscal 2017.
- **Service charges:** service charges primarily comprise commission from selling of third-party products (like card protection plans), share of accelerated reward points cost recovered from partners, brand association fee charged to partners, transaction revenue from aggregators.



Source: RHP, Geojit Research

Key highlights of the company...

Second largest credit card issuer with strong growth prospects...

SBI Card had 18% market share in number of outstanding credit cards at Sep 2019 and 17%/18% share number of credit card transactions/value of credit card transactions in H1FY20. Market share of SBICard in most of these parameters have increased over the years. SBICard is the second biggest issuer in India after HDFC Bank. SBICards outstanding card base has grown at 28% CAGR over FY15-H1FY20 with market share increasing from 15% at FY15 to 18% at H1FY20. A major driver of increase in credit card growth and increase in market share for SBI Cards has been increased sourcing from its parent SBI. New credit card sourced from SBI has grown at 60% CAGR in FY17-H1FY20 vs ~42% CAGR from other sources. Also, outstanding credit cards of SBI Cards are only 3% of debit cards outstanding of SBI vs 31% for private sector banks. Low credit penetration in SBI customers, strong brand name and distribution, the company has strong potential to grow its core base at ~23% CAGR over the next 5 years leading to market share of ~22.5% by FY2024.

Robust market share growth across key operating parameters (in cr)							
	FY15	FY16	FY17	FY18	FY19	Market share as of FY19	CAGR Growth
No of outstanding cards	0.32	0.36	0.46	0.63	0.83	18%	24%
No of credit card transactions	7.8	11.0	15.5	21.2	28.0	16	34%
Value of credit card transactions	21,284	29,332	43,854	77,023	1,03,835	17%	44%

Source: RHP, Geojit Research

Supported by a strong brand and pre-eminent promoter...

SBI Cards started their operations in 1998, and since then SBI's parentage and highly trusted brand have allowed them to quickly establish a reputation of trust, reliability and transparency with their cardholders. SBI currently owns 74% of the total outstanding equity share capital. Its relationship with SBI provides them with access to SBI's extensive branch network of 22,007 branches across India and enables them to market their credit cards to SBI's largely untapped customer base comprising 43.6cr customers as of March 31, 2019.

Diversified customer acquisition capabilities...

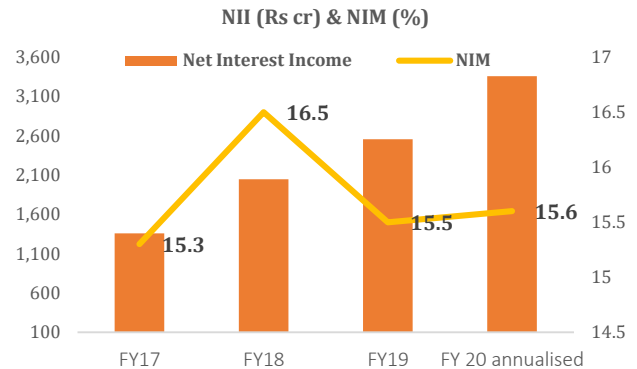
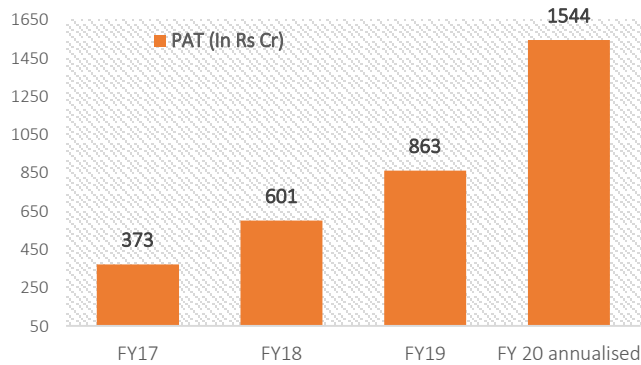
SBI Cards has a diversified customer acquisition network that allows them to engage prospective customers across multiple platforms, which is a key strength and competitive advantage for them. As of December 31, 2019 it deploys a sales force of 33,086 outsourced sales personnel operating out of 145 Indian cities which engages prospective customers through multiple channels, including physical points of sale, telesales and online. Collectively with their co-brand partners, SBI Cards is present in 3,190 open market physical points of sale in India, retail stores, malls, fuel stations, railway stations and airports.

SBI Card has the highest market share in terms of incremental cards in force across different periods

SBI Card has the highest market share in terms of incremental cards in force across different time periods with 45.0% market share in the last one month (1M), 27.0% in the past six months (6M) and approximately 23.0% in the past 12 months (12M), 24 months (24M) and 36 months (36M) from July 2019. SBI Card has been able to continuously gain market share in terms of incremental cards in force in the industry over the years. This is followed by ICICI Bank which grew at a similar pace to that of SBI Card. RBL Bank, Kotak Mahindra Bank and Standard Chartered Bank saw a decline in the number of cards in force as of July 2019 compared to June 2019 and hence have shown a negative share of 8.0%, 11.0% and 3.0% respectively. American Express and IndusInd Bank both account for approximately 3.0% of the market.

Robust growth...strong financial performance...healthy RoE...

The company has posted consistent growth in profits in the last three years. From March 31, 2017 to March 31, 2019, total credit card spends grew at a 54.2% CAGR (as compared to a 35.6% CAGR for the Indian credit card industry, according to the RBI) and the number of credit cards outstanding grew at a 34.5% CAGR (as compared to a 25.6% CAGR for the Indian credit card industry, according to the RBI). During that same period, revenues from operations increased from Rs 33,46.20cr in fiscal 2017 to Rs 69,99.11cr in fiscal 2019 at a CAGR of 44.6%, while net profit increased from Rs 3,72.81cr in fiscal 2017 to Rs 8,62.72cr in fiscal 2019 at a CAGR of 52.1%. Over FY17-H1FY20, SBI Card's PAT CAGR was 65% driven by 38% CAGR in balance sheet during this period and RoA expanding from 4% in FY17 to 6.5% in H1FY20. The key drivers of RoA expansion between FY17 and H1FY20 have been improvement in key operational efficiency with cost-to-asset ratio decreasing from 22.2% in FY18 to 20.5% and rise in fee income.



Source: RHP, Geojit Research

Industry Outlook

Retail credit growth to continue on a strong footing...

According to CRISIL Research, retail credit, including domestic bank and non-bank credit, is expected to continue its momentum in India, which will double over the next five years to Rs. 117.0 trillion as of fiscal 2024. This growth in retail credit will be propelled by an increase in private consumption with a steady rise in disposable income, an attitudinal shift in consumers being increasingly open to taking on debt, a continuing trend of urbanization and nuclearization, an increased availability of data from credit bureaus, as well as non-traditional data and financiers leveraging technology and data analytics to serve their target markets in a more efficient manner.

Unsecured loans expected to grow at a faster pace than retail credit growth...

Unsecured loans, which comprise of credit cards, personal and consumer durables loans, is a strong growth driver of retail credit. Compared to retail credit, unsecured loans have grown at a faster pace in India at a CAGR of 28.0% to reach approximately 5.0 trillion unsecured loans as of fiscal 2019. Going forward, CRISIL Research expects the unsecured loan market in India to continue expanding to reach approximately Rs. 14.4 trillion by fiscal 2024. The key factors driving growth in the unsecured loan market include, a steady rise in discretionary spending, which has grown at a CAGR of approximately 12.0% between fiscals 2014 and 2019; increasing credit penetration due to higher data availability and a larger share of formal sector employment; increasing usage of alternative data sources such as payments and behavioural data in credit decision-making, enhancing the comfort level of lenders; a steady rise in organized retail penetration; and the strong growth of the e-commerce industry, which has grown at a CAGR of 32.0% between fiscals 2014 and 2019.

Credit cards expected to grow at the fastest rate as part of the unsecured loans market...

According to CRISIL Research, credit cards outstanding is forecast to grow at the fastest pace of 23.0% CAGR over the next five years, driven by the rising issuance of cards in smaller cities, increasing organized retail penetration and growth in payments infrastructure. Personal loans and consumer durables are also expected to log strong growth of 20.0% to 22.0% and 19.0% to 21.0% over the next five years, respectively.

Credit cards and other digital payment services fuel the e-commerce business...

The e-commerce industry in India is estimated to be Rs. 2,905.0 billion for fiscal 2019 and is expected to grow at 23.0% to 28.0% CAGR to reach Rs. 9,025.0 billion by fiscal 2024, according to CRISIL Research. Credit cards and other electronic modes of payment, such as e-wallets and UPI, make payment functioning easier and play an important role in the cycle of increased consumption and production by offering merchants a guaranteed method of payment and providing convenience to consumers. According to CRISIL Research estimates, as of fiscal 2019, credit cards account for 30.0% to 35.0% of overall ecommerce payment value. This has increased over the years as e-commerce players look at ways to reduce cash-on-delivery proportions, which account for around 50.0% to 60.0% in terms of volume, by introducing card-on-delivery option for its customers.

Key growth drivers of the credit card industry

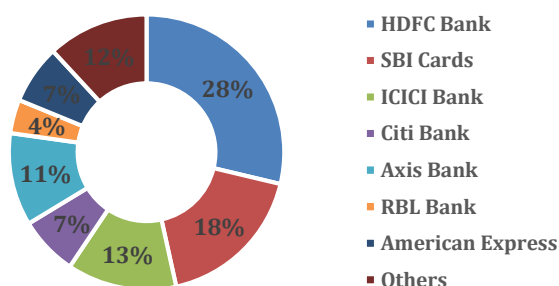
- Headroom for growth given an under-penetrated credit card market
- Number of customers are expected to rise because of the low credit card penetration in smaller cities.
- Organized retail penetration (including e-commerce) to increase
- Continuous improvement in payment infrastructure
- Credit cards have additional value proposition over e-wallets and UPI

Competitive Scenario in the Credit card industry...

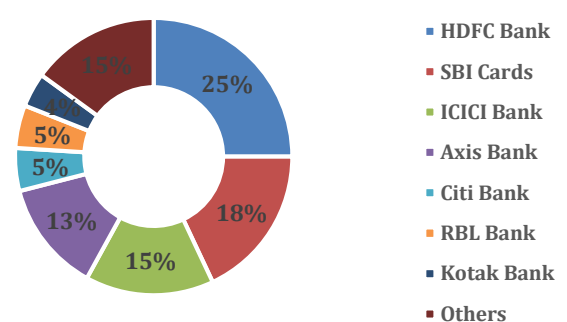
Concentrated market – top 4 players account for two-thirds of credit card spends:

- There are a total of 74 players offering credit cards in India, with the top three private banks (HDFC Bank, Axis Bank and ICICI Bank) and SBI Card, as the leading pure-play credit card issuer, dominating the credit card business with a total of ~72.0% market share by number of outstanding credit cards as of March 2019 and ~66.0% market share by credit card spends in FY19.
- HDFC Bank is the market leader and has maintained its market share in the number of outstanding credit cards at approximately 27.0% over the years, followed by SBI Card at 18.0%, ICICI Bank at 14.0% and Axis Bank at 13.0%.
- The market share of SBI Card in terms of total outstanding cards has continuously increased over the years from 15.0% in FY14 to 18.0% in FY19.
- New players such as RBL Bank have been emerging strongly mainly on the back of co-branded cards.
- Foreign players such as Citi Bank has been losing market share over the years from 13.0% in FY14 to 5.0% in FY19 owing to aggressive growth from private banks and new players in the market.

Market Share: Amount of Transactions



Market Share : No of cards



Source: RBI, company, Geojit Research

Promoter and promoter group

Promoter of Company is SBI and it currently holds (along with its nominees) 689,927,363 Equity Shares, constituting to 74.00 % of the pre-Offer issued, subscribed and paid-up Equity Share capital of the company.

Brief Biographies of Directors

The board of directors comprises of the following:

- Mr. Rajnish Kumar is the non-executive Chairman of Company. He is a nominee Director of SBI on Board, appointed pursuant to Section 35A of the SBI Act. He holds a master's degree in physics from the Meerut University. He joined the central board of SBI on May 26, 2015 and is currently the chairman of SBI with effect from October 7, 2017.
- Mr. Dinesh Kumar Khara is a non-executive nominee Director of SBI on Board, appointed pursuant to Section 35A of the SBI Act. He holds a bachelor's and a master's degree in commerce and a master's degree in business administration from the University of Delhi. He is also an associate of Indian Institute of Bankers.
- Mr. Hardayal Prasad is the Managing Director and Chief Executive Officer of company. He is a nominee Director of SBI on Board, appointed pursuant to Section 35A of the SBI Act. He holds a master's degree in chemistry from Agra College and is a certified associate of Indian Institute of Bankers.

Standalone Financials

Profit & Loss Account

Y.E March (Rscr)	FY17	FY18	FY19	FY20(9M)
Interest Income	1,888	2,760	3,576	3,493
Interest Expense	528	712	1,017	966
Net Interest Income	1,360	2,048	2,559	2,527
% change	-	51%	25%	-
Non-Interest Income	1,583	2,610	3,711	3,747
Total income	2,943	4,659	6,270	6,274
Pre-Prov. Profit	1,104	1,719	2,479	2,721
Provisions	532	800	1,148	1,102
PBT	571.6	919	1,332	1,619
Tax	199	318	469	457
Tax Rate%	35%	35%	35%	28%
Reported PAT	372.9	601	863	1,161
Adj.	-	-	-	-
Adj. PAT	372.9	601	863	1,161
% change	-	61%	44%	35%
No. of shares (cr)	78.50	79	84	93
Adj EPS (Rs)	4.75	7.66	10.31	12.46
% Change	-	61%	35%	21%

Balance Sheet

Y.E March (Rscr)	FY17	FY18	FY19	FY20(9M)
Liabilities				
Capital	785	785	837.2	932.3
Reserves & Surplus	663.8	1568	2,744.5	3819
Deposits	0.2	11.3	3.6	6.2
Borrowings	8,268.4	11,413	13,650.5	18,577.7
Provision & Other liabilities	1,047.5	1,908.8	3,003.8	2,657.9
Total Liabilities	10,765	15,686	20,240	25,993
Assets				
Fixed Assets	1.7	41.9	57.5	57.2
Investments	0.0	0.0	1.5	1.5
Advances	9,983	14,046	17,909	23,933
Other Assets	477	1,199	1,372	1,411.5
Cash & Balances	175	312	733.5	453
Def. Tax Assets	129.2	88.0	166.5	137.4
Total Assets	10,765	15,686	20,240	25,993

Ratios

Y.E March	FY17	FY18	FY19	FY20(9M)
Per share data (Rs)				
EPS	4.75	7.7	10.3	12.5
BV	18.5	30	42.8	51
ABV	17.5	28.3	41	48.9
Spread (%)				
NIM	15.3	16.5	15.5	15.6
Yield on funds	18.9	23	22.4	16.7
Cost of Borrowing	6.4	7.2	8.1	6
Interest Spread	12.5	15.7	14.3	10.7
Capital (%)				
CAR	15.7	18.3	20	20
Tier I	1151.6	1828	2754	3799
Tier II	450.3	863.7	982.3	926.7
Asset Quality %				
GNPA	2.3	2.8	2.4	2.5
NNPA	.76	.94	.83	.83
Return Ratios (%)				
RoE	-	31.6	29.1	27.9
RoA	-	4.5	4.8	5
Valuations (x)				
P/E (x)	159	99	73	61
P/BV (x)	40.9	25.2	17.6	14.8
P/ABV (x)	43.2	26.7	18.4	15.5

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

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- (ii) It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

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