

# SBI Cards

Recommendation: **SUBSCRIBE**



BFSI

SBI Cards is a systemically important non deposit taking NBFC with an extensive credit card portfolio spread across individual and corporate card holders with a market share of 18.1% of the Indian credit card market in terms of the number of credit cards outstanding as of November 30, 2019, and 17.9% market share of the Indian credit card market in terms of total credit card spends in the eight months ended November 30, 2019. The company deploys a sales force of 32,677 outsourced sales personnel, operating out of 145 Indian cities. They also have presence in 3,190 open market points of sale across India. In addition, the partnership with SBI provides access to SBI's extensive network of 21,961 branches across India and customer base of 445.5 million.

Issue Snapshot	
Issue Open:	02-Mar-20
Issue Close:	05-Mar-20
Price Band	INR 750 - 755
Issue Size	INR 98548 mn
Market Cap	INR 704218 mn - 708912 mn

Particulars	
Fresh Issue	INR 5000 mn
OFS Issue	INR 98548 mn
QIBs	50% of Net Issue
Non-institutional	15% of Net Issue
Retail	35% of Net Issue

Capital Structure	
Pre Issue Equity	INR 9323 mn
Post Issue Equity	INR 9389 mn
Bid Lot	19
Minimum Bid Amount @ 750	INR 14250
Minimum Bid Amount @ 755	INR 14345

Shareholding Pattern (%)	Pre Issue (%)	Post issue (%)
Promoters	74.0%	69.5%
Public	26.0%	30.5%

Particulars	
Face value	INR 10
Book Value (31st Dec 2019)	51.73
EPS Annualised, Diluted (31st Dec 2019)	16.50

## Objects of the issue

- Augment capital base
- Meet future capital requirements

## Investment Rationale

### Second largest market share

SBI cards is the second-largest credit card issuer in India both in terms of numbers of credit cards outstanding and amounts of credit card spends, with 9.83 million credit cards outstanding as of November 30, 2019 and INR 1,032.65 billion in total of credit card spends in fiscal 2019. The company has a diversified revenue model whereby they generate 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 credit card receivables. The share of revenue from operations derived from non-interest income has steadily increased over the past three fiscal years, from 43.6% in fiscal 2017 to 48.9% in fiscal 2019.

### Co-brand Partnerships

SBI cards is the largest co-brand credit card issuer in India, with 21 co-brand partners, including partnerships with several major retailers, airlines, railway operators, department stores, banks, specialty retailers and mass merchandisers, among others. It has 12 non-bank co-brand partners and nine bank co-brand partners. The highest in the industry compared to other players, followed by ICICI Bank at 12 and RBL Bank at 8. SBI Card is the only player who has a tie up with IRCTC which provides offers on railway ticket booking.

### Credit Analysis for New Cardholders

The credit decisioning strategies and policies are encoded into the credit risk decision engines and are largely automated. In fiscal 2019, 45% of the credit card applications were decisioned by the credit decision engines without human intervention. The IT backbone and IP's related to it are developed in-house and owned by the company - this substantially aids the company in managing delinquencies.

### Outlook and Valuation

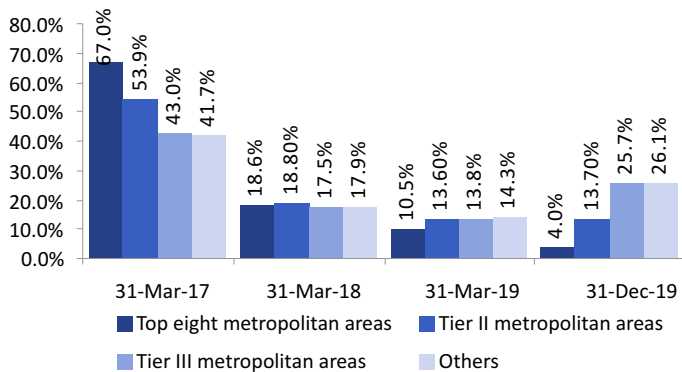
The income stream is evenly spread across spends based fees and subscription based fees. The customer addition and usage growth has been robust over the last 3-4 years driven by increased mobile internet penetration, digitization impetus of the GOI and substantial inroads made by e-commerce and e-wallets. Strong parentage substantially protects the company incase of an abrupt buildup of NPA's, which is normal in the credit card business, for a short to medium term. Strong return ratios and well managed delinquencies alongwith 18% market share reposes faith in the company's ability to grow and maintain the business even with below industry average banca customer acquisition support. The company has registered a topline CAGR of ~ 37% from FY2014-2019. The issue price discounts FY20E earnings at ~46x. We believe it's a unique franchise, with strong parentage, with most major growth levers probably behind us but with low penetration levels within the industry and SBI cards being one of the proven leaders in the space, we recommend to subscribe to the issue as a good long term investment.

## Investment Rationale

### Urbanization

Urbanization is a big growth driver for India as this leads to fast infrastructure development, job creation, development of modern consumer services and the city's ability to mobilize savings. The share of urban population as a percentage of total population has been consistently rising over the years and stood at approximately 31.0% in 2011 and is expected to reach 35.0% by 2021. However, urbanization in India is comparatively lower compared to global economies, such as Indonesia, China and Germany, which have an urban population of 56.0%, 60.0% and 77.0% respectively. SBI cards on an average has acquired ~40-50% of its new customers from the top 8 metropolitan areas of the country while including the tier 2 and 3 cities the share of customer acquisition goes upto ~ 75%, hence further urbanization growth should aid healthy growth in new customer additions in future as well.

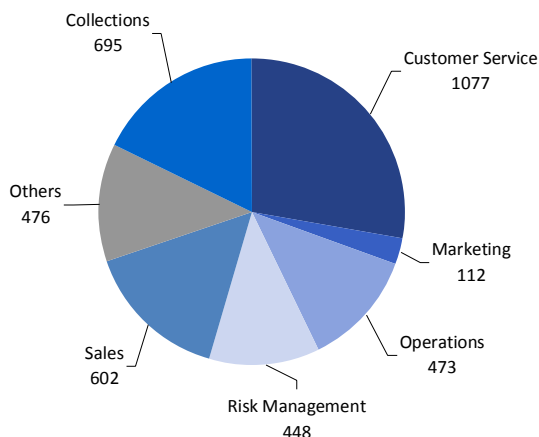
### Regionwise breakup of customers acquired



### Strong open market acquisition channel

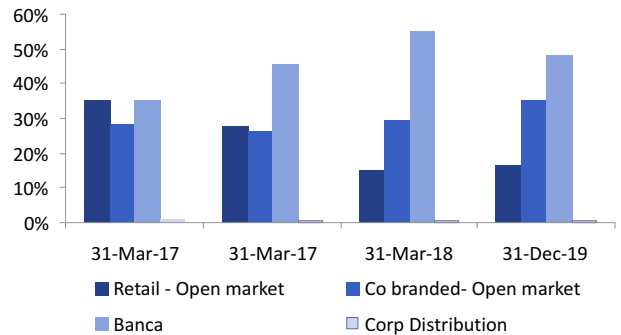
This segment is a stronghold for the company as it gets roughly 50-60% of its new clients from this segment vis-à-vis the industry average of ~30% while the balance being through banca. The

### Workforce Distribution



ratio has declined for SBI cards over the last 24 months to ~50% as they pursued customer acquisition through the parent database.

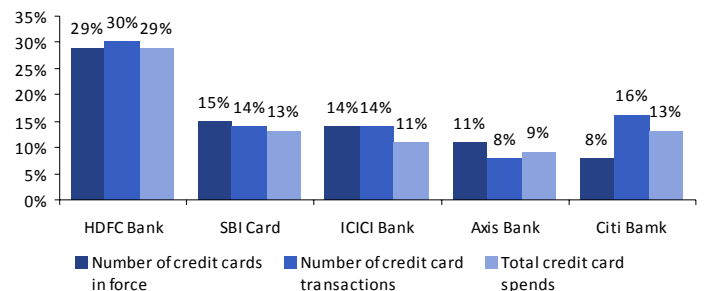
### Channel wise break up of customers acquisition



### Ecommerce and E wallets to drive demand

The introduction of JAM in fiscal 2014 to integrate the infrastructure and increase digital financial inclusion and ubiquitous availability of the mobile internet, the rise of digital commerce, innovation in payments technology, such as through artificial intelligence, blockchain, the Internet of Things, real-time payments and the introduction of mobile point of sale devices are further expected to boost the digital payments landscape. Digital prepaid wallet operators have gained widespread adoption in recent times and have been able to build substantial consumer base. Starting with basic services like online recharge and bill payments, these firms provide convenience to its customers. The Indian e-commerce industry has managed to attract consumers and has grown nearly two times since fiscal 2016 on the back of rising internet penetration. 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.

### Share in Credit cards in force, transactions and spends



## Financials

### Income Statement

Y/E (INR mn)	FY17	FY18	FY19	9MFY20
Interest Income	18882	27600	35757	34931
Income from fees and services	13116	21773	30720	30193
Total Operating income	33462	51870	69991	68431
Growth (%)		55.01%	34.94%	
Interest Expended	5284	7115	10172	9664
Operating and other expenses	17319	27119	33046	31412
Total Expenses	28994	44508	59552	56215
Oth Income	1248	1832	2877	3971
Net Income	5716	9193	13316	16187
Tax	1988	3182	4689	4575
PAT	3729	6011	8627	11612
Extra-ordinary Items	0	0	0	0
APAT	3729	6011	8627	11612
Growth (%)	-	61.22%	43.51%	
EPS (INR)	4.75	7.66	10.30	12.45

### Balance Sheet

Y/E (INR mn)	FY16	FY17	FY18	Dec-18
<b>Source of Funds</b>				
Equity Share Capital	7850	7850	8372	9323
Reserves	6638	15681	27445	38190
Total Shareholders Funds	14488	23531	35817	47513
Borrowings	85567	120577	146082	193884
Growth (%)		40.91%	21.15%	32.72%
Other Current Liabilities	7594	12753	20497	18537
<b>Total Liabilities</b>	<b>107650</b>	<b>156860</b>	<b>202396</b>	<b>259935</b>
<b>APPLICATION OF FUNDS</b>				
Current Assets	2432	4254	3705	2632
Cash & cash Equivalents	1747	3119	7335	4528
Loans	99829	140455	179087	239332
Growth (%)		40.70%	27.50%	33.64%
Non -Financial Assets	3642	9031	12269	13443
<b>Total Assets</b>	<b>107650</b>	<b>156860</b>	<b>202396</b>	<b>259935</b>

### Key Ratios

Y/E	FY16	FY17	FY18	Dec-18
<b>Per Share Data (INR)</b>				
EPS	4.75	7.66	10.30	12.45
BVPS	18.46	29.98	42.78	50.96
ABVPS	18.45	29.97	42.77	50.94
DPS	1.00	0.00	1.00	0.00
<b>Profitability Ratios</b>				
Yield on Loans	21.30%	22.20%	21.60%	21.50%
Cost of Fund	7.40%	7.20%	8.10%	8.00%
Net Interest Margin	15.30%	16.50%	15.50%	15.60%
RoA	4.00%	4.50%	4.80%	6.70%
RoE	28.50%	31.0%	28.40%	36.50%
<b>Balance Sheet Ratios</b>				
Debt/Equity (x)	5.91	5.12	4.08	4.08
<b>Capital Adequacy Ratio (CAR)</b>				
Tier I	11.28%	12.41%	14.74%	15.42%
Tier II	4.41%	5.87%	5.26%	3.76%
<b>Asset Quality Ratios</b>				
Gross NPA	2.34%	2.83%	2.44%	2.47%
Net NPA	0.76%	0.94%	0.83%	0.83%
Provision Coverage Ratio	67.90%	67.33%	66.48%	66.96%

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