

**Rating: SUBSCRIBE**

### Issue Offer

Fresh Issue of Equity shares upto Rs 500 Cr and IPO offering 10% of Promoter's stake & 4% of P/E Investor's stake

#### Issue Summary

Price Band (Rs)	750-755
Face Value (Rs)	10
Implied Market Cap (Rs Cr)	70,000
Market Lot	19
Issue Opens on	March 2, 2020
Issue Close on	March 5, 2020
No. of share pre-issue	93,23,34,278
No. of share post issue	93,90,00,944
Listing	NSE / BSE

#### Issue Break-up (%)

QIB Portion	50
NIB Portion	15
Retail Portion	35

#### Book Running Lead Managers

Kotak Investment Banking

Axis Capital

BofA Securities/DSP Merrill Lynch

HSBC Securities & Capital Markets

Nomura Financial Advisory

SBI Capital markets

#### Registrar

Link Intime India Private Limited

#### Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	74%	70%
Public & Others	26%	30%

SBI Card & Payment Services Limited was incorporated on May 15 1998 by its promoter SBI to keep separate the Credit Card business from its parent bank. The company is the largest pure play credit card issuer in India founded in 1998 with registered office in Gurugram and an active cards base of 10.03 million as of Dec 2019. SBI Cards & Payment Services (SBI Cards), a credit card subsidiary of State Bank of India (SBI) will raise Rs 500 crore through fresh issue of shares and up to Rs 9,854 crore through offer for sale of existing shares. After the IPO, SBI's shareholding will fall to 70% from 74% and that of CA Rover Holdings will reduce to 16% from 26%. The offer will be an OFS of 13,05,26,798 shares by SBI and CA Rover Holdings (Carlyle Group). It also consists of a fresh issue of shares worth Rs. 500 cr. The object of the offer is to achieve the benefits of listing on stock exchange, carry out the OFS by selling share and to enhance visibility and create corporate brand image.

#### Performance Highlights

**Tremendous growth over last few years:** SBI Cards has increased its active credit card base at an average of 33.1% over last 3 years ended Sept 2019 and has grown to 10.03 million active credit cards by Dec 2019.

**SBI's 43 Cr huge customer base to drive growth:** The company had earlier grew by acquiring customers from open market distribution channels but maintains strategy to use the vast base of 43 Cr customers of SBI who are mostly PSU employees with good credit scores. The company has increased acquiring customers through bank distribution channel from 35.2% (FY17) to 55.2% (FY19) and intends to do the same.

**Stable Asset Quality to continue going ahead:** SBI Cards has a GNPA/NNPA ratio at 2.47%/0.83% as of Dec 2019 and has been at similar levels over the last few years with similar guidance by the company.

**Income oriented Business Model:** SBI Cards does not offer any credit card with zero annual maintenance charges for the customers. Hence, customers with both eligibility as well as requirement are the ones with SBI Credit Card and somehow the company believes that the AMC charges will drive them to spend more using an SBI Credit Card.

**Largest Co-Branding and Corporate Cards:** SBI cards has issued 18 co-branded credit cards which is the highest in the Credit Card industry in India. Also, the company's revenue from corporate cards is among the highest in the industry.

#### Valuation & View

We are positive on the growth story of SBI Cards owing to its association with parent bank SBI and its vast number of branches across the nation. Considering the equity after IPO and annualizing the net profit in the nine-month to December 2019, the company demands P/E multiple of nearly 45. It has no listed peers in India. A look at more mature markets such as the US reveals that American Express, which derives over half of the revenue from consumer services including credit cards, trades at a trailing P/E of around 17 with RoE of nearly 30%. While SBI Cards' valuation looks aggressive, it reflects the faster growth in the Indian market as well as the company's growth momentum. **Therefore, we recommend investor's to SUBSCRIBE for the issue.**

## Key Financials

Particulars (Rs Cr)	FY17	FY18	FY19	9MFY19	9MFY20
Revenue from Operations	3,346	5,187	6,999	5,084	6,843
Other Income	125	183	288	195	397
Total Income	3,471	5,370	7,287	5,279	7,240
Total Expenses	2,899	4,451	5,955	4,331	5,621
PBT	572	919	1,332	948	1,619
Taxes	199	318	469	333	457
PAT	373	601	863	615	1,161
EPS	4.75	7.40	9.43	6.76	12.45
<b>Balance Sheet Figures</b>					
Loans	9,983	14,046	17,909	17,240	23,933
Debt Securities	7,510	2,949	4,079	3,518	6,715
Borrowings (other than debt securities)	220	7,466	8,374	8,645	10,616
Shareholder's Fund	1,449	2,353	3,582	3,422	4,751
Total Assets	10,765	15,686	20,240	19,099	25,993
<b>Asset Quality</b>					
GNPA	241	412	453	465	612
NNPA	77	135	152	152	202
GNPA (%)	2.34%	2.83%	2.44%	2.60%	2.47%
NNPA (%)	0.76%	0.94%	0.83%	0.87%	0.83%
<b>Return Ratios</b>					
RoE	25.74%	25.55%	24.09%	17.96%	24.44%
RoA	3.46%	3.83%	4.26%	3.22%	4.47%
<b>Valuation (Price=750)</b>					
P/E	NA	NA	79.5	110.9	60.2

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

## Peers

There are no listed companies engaged in similar lines of business to SBI Cards. The company is a pure Credit Card company separate from its parent bank while all other Credit Card players are subsidiaries/segment/associated with a Bank/NBFC/Foreign Banks.

## Management

SBI Cards draws experience in its top management from the management team of parent SBI. The key members include:

Board of Directors:	Designation	Other Directorships
Mr Rajnish Kumar	Non-Executive Chairman (Nominee of SBI)	SBI (Chairman), SBI Life, SBI CAP, SBI GI, IIBF, ECGC, NCGTCL
Mr Dinesh Kumar Khara	Non-Executive Director (Nominee of SBI)	SBI, SBI CAP, SBI DFHI, SBI Funds Management, SBI Life, SBI GI, SBI Infra
Mr Hardayal Prasad	MD & CEO	Nil

## Active number of Credit Cards

Credit Card Company/Bank (Number of subscribers in Mn)	Sep-19	Sep-18	Sep-17	Sep-16	Sep-15	Sep-14	Sep-13	Sep-12	Sep-11
HDFC Bank Ltd	13.3	11.8	9.6	8.1	6.6	5.5	5.0	6.0	5.4
State Bank Of India	9.5	7.0	5.3	4.0	3.4	2.9	2.7	2.4	2.1
ICICI Bank Ltd	7.9	5.6	4.5	4.0	3.4	3.3	3.0	2.8	3.0
Axis Bank Ltd	6.6	5.0	3.8	2.8	2.0	1.5	1.2	0.9	0.7
Citi Bank	2.7	2.7	2.6	2.4	2.4	2.4	2.4	2.3	2.3
Ratnakar Bank Limited	2.3	1.2	0.5	0.2	0.1	0.1	0.0	0.0	0.0
Kotak Mahindra Bank	2.1	1.7	1.2	0.9	0.6	0.5	0.4	0.3	0.2
American Express	1.6	1.3	1.1	0.9	0.8	0.7	0.6	0.6	0.6
Standard Chartered Bank	1.3	1.3	1.2	1.0	1.0	1.1	1.4	1.3	1.1
Indusind Bank Ltd	1.2	0.9	0.7	0.5	0.4	0.3	0.3	0.2	0.2
All Others	4.0	3.2	2.9	2.0	1.9	1.6	1.6	1.5	2.1
Total (in Mn)	52.6	41.8	33.3	26.9	22.6	19.9	18.6	18.4	17.6

## Market Share of Credit Card companies

Credit Card Company/Bank (Market Share in %)	Sep-19
HDFC Bank Ltd	25.3%
State Bank Of India	18.0%
ICICI Bank Ltd	15.0%
Axis Bank Ltd	12.6%
Citi Bank	5.2%
Ratnakar Bank Limited	4.4%
Kotak Mahindra Bank Ltd	4.1%
American Express	3.1%
Standard Chartered Bank Ltd	2.5%
Indusind Bank Ltd	2.3%
All Others	7.6%
Total (in Mn)	100.0%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

## Key Risks to Investments:

The major risks to investment include:

- **Relation with parent SBI and its brand:** SBI Cards valuations may vary with the image and events that happen with parent SBI
- **Highly Competitive Industry:** SBI Cards has been outperforming several banking peers in the credit card segment. However, such lucrative business and margins attract a lot of competition from players both foreign as well as domestic banks/NBFCs.
- **Delinquency rates going higher:** Despite NPA levels contained at stable levels, an economic recession/slowdown can drag delinquencies higher from retail portfolio.
- **Over-expected growth in Future:** Till now the credit card companies are penetrating the urban market for customer acquisition, vis-à-vis is a niche market for a product like Credit Card. However, going ahead, the credit card companies will have to tap the sub-urban & tier 2&3 cities where the credit-worthiness, unavailable credit data history and new to credit card use, etc. pose a risk to the business and its valuations.
- **Regulatory risks on interest rates and charges:** The Credit Cards business is highly exposed to regulatory risk on charges & interest rates received from the customers. Since the government is poised on encouraging digital payments and Credit Card transactions are mostly digital/POS, a risk on the high interests charged on the unsecured lending amount being cut down is not unlikely. The interest rate charged is way low in the advanced economies.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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