



Choice
Nurturing Financial Excellence

IPO REPORT

**“SUBSCRIBE” to
SBI Cards and Payment Services Ltd.**

Niche product in the consumer oriented business

Salient features of the IPO:

- **SBI Cards and Payment Services Ltd.** (SBI Card), another PSU stock is about to enter equity market with its IPO, which opens on 2nd Mar. and close on 5th Mar. 2020. The price band is Rs. 750 - 755 per share.
- The issue comprises of 137.15 - 137.19mn shares (fresh issue: 6.62 - 6.67; OFS shares: 130.53mn shares) in offering. Total IPO size is Rs. 102,895.1 - 103,547.7mn.
- The company will not receive any proceeds from OFS. Majority of the fresh issue net proceeds, will be utilize by the company to augment the capital base so as to meet the future capital requirement.

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
- Supported by a strong brand and pre-eminent promoter
- Diversified portfolio of credit card offerings
- Advanced risk management and data analytics capabilities
- Modern and scalable technology infrastructure
- Highly experienced and professional management team

Risk and concerns:

- Continued economic slowdown
- Change in government policies and regulations
- Unfavorable interest rate movements
- Unfavorable receivables portfolio-mix
- Unexpected rise in stressed assets
- Competition especially from fintech companies

Peer comparison and valuation: There is no listed peer in the domestic market having similar nature of operations as SBI Cards. For valuation benchmark, we have considered US based credit card companies. At the higher price band of Rs. 755 per share, SBI Card's share is valued at a adjusted P/BV multiple of 15.6x (to its restated FY19 BVPS of Rs. 48.4) as compared to peer average of 2.7x.

Below are few key observations of the issue: (continued in next page)

Industry:

- Credit cards, just like personal loan and consumer durable loans falls under unsecured loan category of retail credit market. According to Crisil Research, unsecured loan market in India expanded by around 28% CAGR over FY14-19 to reach at Rs. 5.3tn in FY19. Of these, personal loans and credit cards outstanding formed around 73% and 22%, respectively. Rest is consumer durables loans.
- Over FY19-24E, the unsecured loan market is likely to grow at 22% CAGR to reach a size of Rs. 14.4tn. The key growth drivers are a steady rise in discretionary spending, increasing credit penetration, increasing usage of alternative data sources such as payments & behavioral data in credit decision-making, a steady rise in organized retail penetration and the strong growth of the e-commerce industry.
- According to Crisil Research, credit card outstanding is expected to grow at a fastest pace of 23% CAGR over the next five years to reach at Rs. 3.3tn in FY24E, driven by the low credit card penetration & credit card spending as percent of GDP, rising issuance of cards in smaller cities, increased credit demand from millennial, increasing organized retail penetration and growth in payments infrastructure. Personal and consumer durables loans are also expected to log a strong growth of 20-22% and 19-21% over the next five years, respectively.
- There are total 74 players offering credit cards in India. Top four players i.e. HDFC Bank, SBI Card, ICICI Bank and Axis Bank dominate the market and hold a share of around 72% of the credit card outstanding in the market as on FY19. These players also have a market share of 66% in the total credit card spend in FY19. HDFC Bank in the market leader in both credit cards outstanding and card spending. Followed by SBI Card, which has a card outstanding market share of 18% and card spends market share of 17% in FY19.

Recommendation	SUBSCRIBE
Price Band	Rs. 750 - 755 per Share
Face Value	Rs. 10
Shares for Fresh Issue	6.62 - 6.67mn Shares
Shares for OFS	130.53mn Shares
Fresh Issue Size	Rs. 5,000mn
OFS Issue Size	Rs. 97,895.1 - 98,547.7mn
Total Issue Size	137.15 - 137.19mn Shares (Rs. 102,895.1 - 103,547.7mn)
Bidding Date	02 nd Mar. - 05 th Mar. 2020 (For QIB bidder, offer closes on 04 th Mar. 2020)
Reserved for SBI Cards Employees (mn Shares)	1.86mn Shares
Reserved for SBI Shareholders (mn Shares)	13.05mn Shares
Net Offer for Sales (mn Shares)	122.23 - 122.28mn Shares (Rs. 91,707.1 - 92,285.1mn)
MCAP at Higher Price Band	Rs. 708,912mn
Book Running Lead Manager	Kotak Mahindra Capital Co. Ltd.; Axis Capital Ltd.; DSP Merrill Lynch Ltd.; HSBC Securities and Capital Markets (India) Pvt. Ltd.; Nomura Financial Advisory and Securities (India) Pvt. Ltd. and SBI Capital Markets Ltd.
Registrar	Link Intime India Pvt. Ltd.
Sector/Industry	NBFC
Promoters	State Bank of India

Pre and post - issue shareholding pattern		
	Pre - Issue	Post - Issue
Promoter & Promoter Group	74.00%	69.51%
Public	26.00%	30.49%
Total	100.00%	100.00%

Retail application money at higher cut-off price per lot

Number of Shares per Lot	19
Discount for Eligible Employees (Rs.)	Rs. 75 per Share on the Offer Price
Application Money	Rs. 14,345 per Lot

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Peer comparison and valuation (Contd...):

Company Name	Currency	CMP (Rs.)	MCAP (Rs. mn)	TTM Total Operating Revenue (Rs. mn)	TTM EBITDA (Rs. mn)	TTM PAT (Rs. mn)	TTM EBITDA Margin (%)	TTM PAT Margin (%)
SBI Cards and Payment Services Ltd.	INR	755.0	708,912	80,073	34,565	14,094	43.2%	17.6%
American Express Company	USD	134.9	108,999	43,556	12,226	6,808	28.1%	15.6%
Discover Financial Services	USD	75.3	23,349	11,459	7,066	2,905	61.7%	25.4%
Synchrony Financial	USD	33.3	20,448	17,170	9,105	3,775	53.0%	22.0%
Average							47.6%	21.0%

Company Name	Currency	TTM EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Total Asset Turnover Ratio	RoE (%)	RoA (%)	P / E (x)	P / B (x)	MCAP / Sales (x)	Earning Yield (x)
SBI Cards and Payment Services Ltd.	INR	15.0	48.4	0.0	0.3	25.8%	4.7%	50.3	15.6	8.9	2.0%
American Express Company	USD	8.4	28.5	1.6	0.2	29.4%	3.5%	16.0	4.7	2.5	6.2%
Discover Financial Services	USD	9.4	38.3	1.7	0.1	25.9%	2.7%	8.0	2.0	2.0	12.4%
Synchrony Financial	USD	6.2	23.3	0.9	0.2	25.8%	3.5%	5.4	1.4	1.2	18.5%
Average			1.4	0.2	27.1%	3.2%	9.8	2.7	1.9	12.4%	1.4

Note: All financials and ratio based on FY19 data or TTM; Data in their respective currency; Source: Choice Broking Research

- All credit card issuers are banks, while SBI Card and BoB Card are the only card issuers, who have a NBFC like structure. These two players have their sole focus on the credit card business which helps them to offer customized products to customers while enabling them to innovate and integrate various processes in the value chain. However, borrowing cost for such NBFCs are higher, unlike banks, due to a lack of availability of low cost funds like deposits.

Company:

- Over FY17-19, SBI Card has demonstrated highest growth in credit card outstanding among top four players. Its market share in card outstanding and card dues increased from 15% and 13%, respectively, in FY17 to 18% and 17% in FY19. The company is also able to continuously gain market share among the incremental credit card outstanding. For instance, it has a market share of 45% in the incremental card addition in the last one month, 27% market share in the past six months and around 23% in the past 12 months. The company has highest growth rate in the total card spends over FY17-19.
- Normally, 30% of the new accounts acquired by the credit card players are from open market. Rest is from Banca distribution channel. With 60% new accounts sourced from the open market channel, SBI card is the leader in open market card holder acquisition.
- The company caters to two categories of customers – personal and corporate customers. Under personal credit cards, it has developed a wide range of products ranging from premium, affluent, mass-affluent, mass and new to credit categories. Personal card formed around 99% of the total credit card outstanding, while in terms of card spend, it represented around 72% of the total card spends in FY19.
- Under corporate card segment, SBI Card offers tailor made services to MNCs, large & mid-sized Indian companies, state owned enterprises and travel management companies. This category formed nearly 0.5% of the total credit card outstanding and around 30% of the total card spends in FY19. Due to ongoing global economic slowdown, currently, business from this category has slowed. This category is highly profitable and has relatively higher return on asset (RoA). With anticipated turnaround in the economy, this could assist the company in maintaining or expanding overall RoA.
- 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 eight. In the travel & fuel category, SBI Card and ICICI Bank both have eight co-branded partnerships. Apart from partnerships with airline companies, they also have partnerships with metros and online hotel booking platforms. SBI Card is the only player who has a tie up with IRCTC which provides offers on railway ticket booking. The company has also tied up with Apollo Hospitals in the healthcare segment. Few of the co-branded partners are Air India, Apollo Hospitals, BPCL, Etihad Guest, Fbb, IRCTC, OLA Money, Yatra etc.
- The NBFC in SBI Card earns the interest income, while the payment service provider earns the fee income. The interest income is on the credit card receivables, while fee income i.e. non-interest income - comprises of fee-based income such as interchange fees, late fees, annual credit card membership fees and other fees. Within the non-interest income, spends based fees accounted for 53.5% followed by instance based fees (31.5%) and subscription based fees (15.1%) over FY17-19. Over FY17-19, non-interest income has expanded by 484bps from 39.5% (of total gross income) in FY17 to 44.3% in FY19. Increasing contribution of non-interest income is positive as it reduces the dependence on interest income, which is associated with interest rate volatility.
- Interest income will increase with the rollover of outstanding amount. Spends based fees is dependent on card spend and outstanding cards. Thus, the outlook for interest fees and spends based fees seems to be positive. While for instance based fees and subscription based fees, we have a neutral to negative view.

Peer comparison and valuation (Contd...):

Financial performance:

- Though the reported financials are of short period (i.e. from post demonetization), SBI Card has reported good set of numbers. On the back of 33.9% CAGR rise in net credit card advances and 31bps increase in the corresponding yield, interest income increased by 37.6% CAGR over FY17-19. To fund the growth in advances, the company reported 28.5% CAGR rise in the borrowings. Additionally, cost of debt increased by 72bps, thereby leading to 38.7% CAGR rise in finance cost over FY17-19. Thus net interest income increased by 37.2% CAGR to Rs. 25,585mn in FY19. Non-interest income increased by 53.2% CAGR, while other income increased by 51.8% CAGR over FY17-19. Accordingly, total income increased by 46% CAGR over FY17-19 to Rs. 62,696.2mn in FY19. Operating expenditure increased by 43.6% CAGR over FY17-19. Consequently, pre-provision profit increased by 49.9% CAGR to Rs. 24,793.4mn in FY19. Reported PAT increased by 52.1% CAGR to Rs. 8,627.2mn in FY19.
- Stressed assets during FY17-19 increased by 37.1% CAGR, whereas average gross NPA stood at 2.5% of total advances. Average net NPA stood at 0.9% over FY17-19. During the same period, provision coverage ratio stood over 67%. Capital adequacy ratio improved from 15.7% in FY17 to 20% in FY19. With high business growth and double digit net profit margin, average return on asset and return on equity stood at 4.5% and 29.3%, respectively.
- During 9M FY20, reported PAT stood at Rs. 11,612.1mn on a total income stood at Rs. 62,737.9. Considering the seasonality in the business, we are forecasting a total income of Rs. 90,632.8mn in FY20E and PAT of Rs. 12,833.1mn. Over FY19-22E, we are anticipating a 26.9% and 27.6% CAGR growth in total income and PAT, respectively. Earning and adjusted book value per share is expected at Rs. 19.2 and Rs. 87.7, respectively, in FY22E as compared to Rs. 9.2 and Rs. 44.6 in FY19.

Key risk and concerns:

- On risk front, since the credit card receivables falls under unsecured lending, any spurt in stress among the customers will increase the credit risk for SBI Card. However, the company has desired underwriting scores and efficient collection mechanism, which would reduce the credit risk challenge.
- Another risk is from the regulatory front. Currently, interest rates charged by the credit card companies are not regulated. Rates are higher for revolver and term loan as compared to normal loan rates in the banking system. Interchange fees on credit cards in also not regulated. Moreover MDR is applicable on debit card and not on credit cards. Thus any move to regulate the sector will have severe impact on the performance. Competition is increasing from UPI. Further any move to allow other NBFCs to issue credit cards will enhance the competitive pressure on the sector.

Valuation:

On valuation front, at higher price band SBI Card is demanding an adjusted P/B multiple of 15.6x, as compared to global peer average of 2.7x. Based on FY22E adjusted P/B, it is demanding a valuation of 8.6x. We firmly believe that SBI Card is not a pure play NBFC, so valuing it on P/E may also make sense. At higher price band, the company is demanding a P/E multiple of 50.3x (to its restated TTM EPS of Rs. 15). Based on FY22E EPS, the demanded P/E comes out to be 39.4x.

Considering the credit card penetration level, growth potential in the domestic market and profitability growth & return ratios, we feel that the demanded premium valuation is justified. Post listing, SBI Card will be the only pure play credit card company on the exchange. Thus there is expected to be huge investor demand for SBI Card, which has niche product in the consumer oriented business.

Thus, considering the above observations - we assign a **“BUY”** rating for the issue.

About the issue:

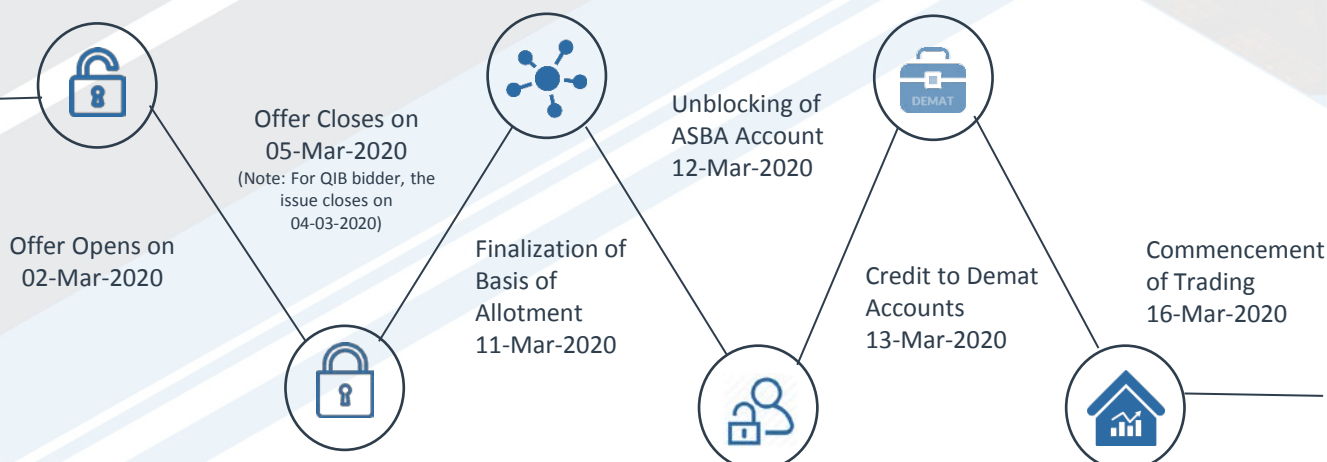
- SBI Cards is coming up with an initial public offering (IPO) with 137.15 - 137.19mn shares (fresh issue: 6.62 - 6.67; OFS shares: 130.53mn shares) in offering. The offer represents around 14.61% of its post issue paid-up equity shares of the company. Total IPO size is Rs. 102,895.1 - 103,547.7mn.
- The issue will open on 02nd Mar. 2020 and close on 05th Mar. 2020. for QIB bidder, the offer closes on 04th Mar. 2020.
- The issue is through book building process with a price band of Rs. 750 - 755 per share.
- The issue is combination of fresh and OFS. The company will not receive any proceeds from OFS. Majority of the fresh issue net proceeds, will be utilize by the company to augment the capital base so as to meet the future capital requirement.
- 50% of the net issue shall be allocated on a proportionate basis to qualified institutional buyers, while rest 15% and 35% is reserved for non-institutional bidders and retail investors, respectively.
- Promoter holds 74% stake in the company and post-IPO this will come down to 69.51%. Public holding will increase from current 26% to 30.49%.

Pre and post issue shareholding pattern (%)

	Pre Issue	Post Issue (at higher price band)
Promoter & Promoter Group (%)	74.00%	69.51%
Public (%)	26.00%	30.49%

Source: Choice Equity Broking

Indicative IPO process time line:



Company introduction:

SBI Cards is the second-largest credit card issuer in India, with a 17.6% and 18.1% market share in the Indian credit card market in terms of the number of credit cards outstanding as of 31st Mar. 2019 and 30th Nov. 2019, respectively. Moreover, in terms of credit card spending, the company had a market share of 17.1% and 17.9%, respectively. It 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.

Customer Segment	Lifestyle Cards	Rewards	Shopping	Travel & Fuel	Banking Partnerships
Premium	Elite	Prime	SimplyCLICK Central	Etihad Signature	Allahabad Karur Vyasa
Affluent	Elite Advantage	Ola Money	SimplySAVE Fbb Styleup	Yatra Air India	Oriental Bank of Commerce Maharashtra
Mass Affluent	Doctor	Apollo	Shaurya	BPCL CMRL	Karnataka
Mass		Tata Platinum	Unnati	IRCTC	South Indian
New to Credit		Tata Titanium			

Source: Company Presentation

The company is a subsidiary of State Bank of India (SBI), India's largest commercial bank in terms of deposits, advances and number of branches. 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 the cardholders. According to the RBI, the company has grown its business faster than the Indian credit card market over the past three years both in terms of numbers of credit cards outstanding and amounts of credit card spends. According to the company, this has been achieved by leveraging its strengths and capitalizing on India's favorable economic and demographic changes, including its strong macroeconomic performance, rising affluence, increasing consumer demand, rapid urbanization and the growth of e-commerce platforms.

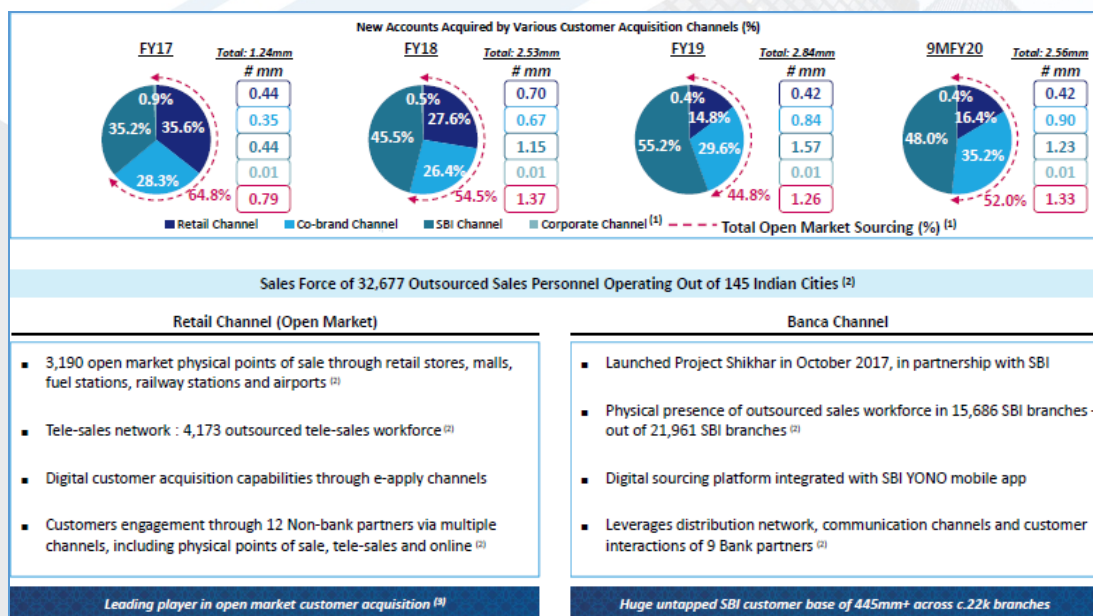
During FY17-19, SBI Card's total credit card spends grew at a 54.2% CAGR (as compared to a 35.6% CAGR for the overall credit card industry) and the number of credit cards outstanding grew at a 34.5% CAGR (as compared to a 25.6% CAGR for the overall credit card industry). The company has a broad credit card portfolio that includes SBI Card-branded credit cards as well as co-branded credit cards that bear both the SBI Card brand and our co-brand partners' brands. SBI Card 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 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. The company's credit cards portfolio is tailored to meet a diverse range of cardholder needs across the entire spectrum of its cardholders' income profiles and lifestyles, from the "premium" cardholder category to the "affluent", "mass affluent", "mass" and "new to credit" categories. SBI Card issues its credit cards in partnership with the Visa, MasterCard and RuPay payment networks, and is continuously looking to expand its payment network partnerships to broaden the reach and functionality of our credit card offerings.

	Incremental Market Share of Cards in Force (Top 5 Players) (%)				
	36M	24M	12M	6M	1M
SBI card	22%	23%	24%	27%	45%
HDFC BANK	21%	20%	16%	12%	30%
ICICI Bank	15%	17%	21%	24%	44%
AXIS BANK	15%	15%	16%	16%	19%
citibank	1%	1%	1%	0%	2%

Source: Company Presentation

Company introduction (Contd...):

SBI Card has a diversified customer acquisition network that enables it to engage prospective customers across multiple channels. As on 31st Dec. 2019, it had deployed a sales force of 32,677 outsourced sales personnel operating out in 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. According to Crisil Research, the company is the leading player in open market customer acquisition in India and had presence in 3,190 open market points of sale across India. Additionally, SBI Card's partnership with SBI provides it with access to SBI's extensive network of 21,961 branches across India, which enables it to market credit cards to SBI's vast customer base of 445.5mn customers as of 31st Dec. 2019. Its extensive physical customer acquisition network is complemented by digital sales and marketing capabilities which include its website, mobile application and online, email and SMS marketing platforms.



Source: Company Presentation

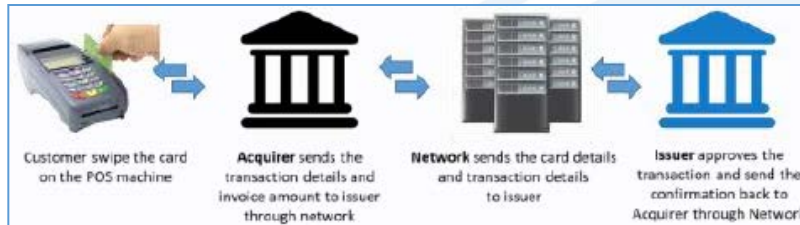
SBI Card's business is technology-driven and underpinned by its data analytics capabilities, which cut across all aspects of the operations. The company's core technology systems are scalable, modern and sophisticated, with considerable capacity to support future growth. It possess a large database of cardholder demographic and socio-economic data (such as cardholder's 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. SBI Card also employ its data analytics capabilities to more effectively market credit cards to potential customers and to develop new product offerings. The company's technology systems also leverage artificial intelligence and process automation technologies to automate routine activities, such as customer service and credit analysis, which has enhanced its operating efficiencies.

Business model: SBI Card's operating model is focused on catering to credit cardholder's two main financial needs: transactional needs and short term credit. The revenue the company derives from its credit card products consists primarily of interest on credit card receivables and non-interest income primarily comprised of fee-based income such as interchange fees, late fees, annual credit card membership fees and other fees.

A typical credit card transaction begins when a cardholder purchases goods or services from a merchant using its credit card. After the transaction is authorized by the credit card issuer through the payment network, the credit card issuer pays the purchase amount to the payment network net of interchange fees. The payment network, in turn, then pays the purchase amount to the acquirer. Finally, the acquirer pays the purchase amount to the merchant net of acquirer fees.

Company introduction (Contd...):

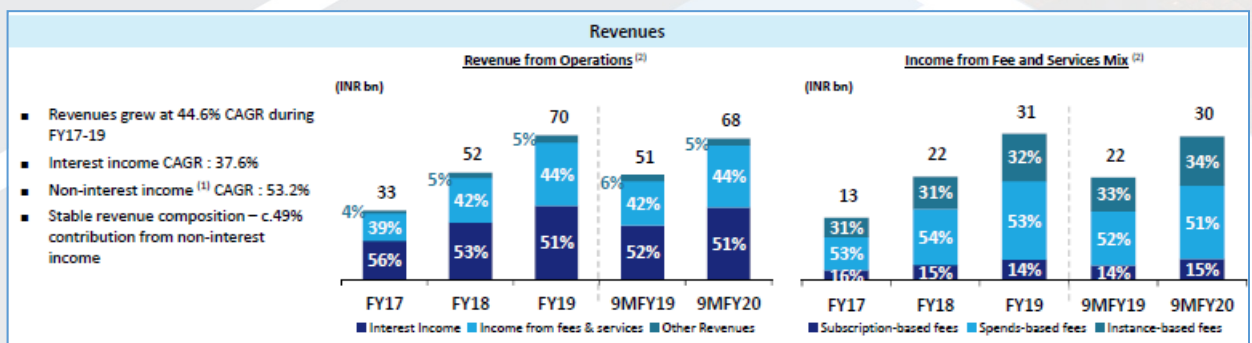
The diagram below summarizes the key steps involved in a typical credit card transaction:



Source: Company Presentation

The company extends credit to its cardholders through revolving credit card accounts at standard terms. Its cardholders have the option to “revolve” their balances or convert their balances into monthly installments and repay their obligations over a period of time and at a fixed interest rate set forth in their cardholder agreements. The company assigns each card account a credit limit when the account is initially opened. Thereafter, it may increase or decrease individual credit limits from time to time, at its discretion, based primarily on evaluation of the cardholder’s creditworthiness and ability to pay. The cardholder’s accounts are assessed periodic interest charges using a standard fixed interest rate. The interest that SBI Card earns on revolving credit card balances and monthly installment balances comprised 51.1% and 51.0% of its total revenue for FY19 and for 9M FY20, respectively.

SBI Card typically charges its cardholders an annual credit card fee for the credit cards. In addition to periodic interest charges, the company also charges cardholders other fees as specified in the cardholder agreements. These fees may include fees for late payments where a cardholder has not paid at least the minimum payment due by the required due date, returned checks and balance transfer transactions. These fees are based on a standardized schedule and can vary based on the type of merchant. Apart from interest and fees from cardholders, the company also receives interchange fees from the merchant acquirer that settles its cardholder’s transactions with merchants and as business development incentives from the payment networks. Non-interest income formed 48.9% and 49% of the total income for FY19 and for 9M FY20, respectively.



Source: Company Presentation

Competition: SBI Card operates in a highly competitive environment, and faces competition in all aspects of its business from numerous bank and non-bank providers of financial services. Its credit cards business competes with international and national credit card issuers and, to a certain extent, issuers of debit cards. The company also encounter competition from businesses that operate their own mobile wallets or extend credit to their customers and other fintech service providers. In general, customers are attracted to credit card issuers largely on the basis of price, credit limit, reward programs and other product features. It face intense competition for co-brand relationships, as both card issuer and network competitors have targeted key business partners with attractive value propositions.

Company introduction (Contd...):

Financial performance: On the back of 33.9% CAGR rise in net credit card advances and 31bps increase in the corresponding yield, interest income increased by 37.6% CAGR over FY17-19. To fund the growth in advances, the company reported 28.5% CAGR rise in the borrowings. Additionally, cost of debt increased by 72bps, thereby leading to 38.7% CAGR rise in finance cost over FY17-19. Thus net interest income increased by 37.2% CAGR to Rs. 25,585mn in FY19. Non-interest income increased by 53.2% CAGR, while other income increased by 51.8% CAGR over FY17-19. Total income increased by 46% CAGR over FY17-19 to Rs. 62,696.2mn in FY19.

For the nine month ended Dec. 2019, interest income and interest expenses increased by 33% Y-o-Y and 30.1%, respectively, thereby leading to a 34.1% Y-o-Y rise in net interest income to Rs. 25,267.1mn. Non-interest income and other income increased by 36.3% Y-o-Y and 103.9%, respectively, as a result of which total income grew by 38.3% Y-o-Y to Rs. 62,737.9mn in 9M FY20.

Operating expenditure increased by 43.6% CAGR over FY17-19. Consequently, pre-provision profit increased by 49.9% CAGR to Rs. 24,793.4mn in FY19. During the 9M FY20, pre-provision operating profit increased by 56% Y-o-Y to Rs. 27,207.3mn.

Provisions increased by 46.9% CAGR during FY17-19, while the same increased by 38.4% Y-o-Y in 9M FY20. Reported PAT increased by 52.1% CAGR to Rs. 8,627.2mn in FY19. However, reduction in corporate tax rate during 9M FY20, led to a 89% Y-o-Y rise in PAT to Rs. 11,612.1mn.

Stressed assets during FY17-19 increased by 37.1% CAGR, whereas average gross NPA stood at 2.5% of total advances. Net of provisions, average net NPA stood at 0.9% over FY17-19. During the same period, provision coverage ratio stood over 67%. Capital adequacy ratio improved from 15.7% in FY17 to 20% in FY19. With high business growth and double digit net profit margin, average return on asset and return on equity stood at 4.5% and 29.3%, respectively.

(Rs. mn)	FY17	FY18	FY19	9M FY19	9M FY20	CAGR (%)	Y-o-Y (%)	9M Y-o-Y (%)
Total Income	29,426.1	46,586.8	62,696.2	45,361.1	62,737.9	46.0%	34.6%	38.3%
Pre-Provision Profit	11,035.9	17,194.0	24,793.4	17,435.3	27,207.3	49.9%	44.2%	56.0%
PAT	3,728.6	6,011.4	8,627.2	6,145.2	11,612.1	52.1%	43.5%	89.0%
Restated Adjusted EPS	4.0	6.4	9.2	6.5	12.4	52.1%	43.5%	89.0%
NIM (%)	15.3%	16.5%	15.5%	15.5%	15.6%	12 bps	(97) bps	14 bps
GNPA (%)	2.3%	2.8%	2.4%	2.6%	2.5%	11 bps	(23) bps	2 bps
NNPA (%)	0.8%	1.0%	0.8%	0.9%	0.8%	7 bps	(8) bps	0 bps
Provision Coverage Ratio (%)	67.9%	67.3%	66.5%	67.3%	67.0%	(142) bps	(5) bps	47 bps
Net Advances (%)		40.7%	27.5%		38.8%		(4,070) bps	
Interest Earned (%)		46.2%	29.6%		33.0%		(4,617) bps	
Net Interest Income (%)		50.7%	24.9%		34.1%		(5,065) bps	
Pre-Provision Operating Profit (%)		55.8%	44.2%		56.0%		(5,580) bps	
PAT (%)		61.2%	43.5%		89.0%		(6,122) bps	
Yield on Advances (%)	21.3%	22.2%	21.6%	21.6%	21.5%	31 bps	(59) bps	(11) bps
Average Cost of Funds (%)	7.4%	7.2%	8.1%	8.1%	8.0%	72 bps	87 bps	(12) bps
Net Interest Margin (%)	15.3%	16.5%	15.5%	15.5%	15.6%	12 bps	(97) bps	14 bps
RoAA (%)	4.0%	4.5%	4.8%	4.7%	6.7%	79 bps	15 bps	190 bps
RoAE (%)	28.5%	31.0%	28.4%	27.7%	36.5%	(7) bps	(334) bps	811 bps
Restated Reported EPS (Rs.)	4.0	6.4	9.2	6.5	12.4	52.1%	43.5%	89.0%
Restated DPS (Rs.)	0.8	0.0	0.9	0.0	0.0	3.3%		
Restated BVPS (Rs.)	15.4	25.1	38.1	36.4	50.6	57.2%	52.2%	38.9%
Restated ABVPS (Rs.)	14.6	23.6	36.5	34.8	48.4	58.1%	54.6%	39.1%

Source: Choice Equity Broking



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
- Supported by a strong brand and pre-eminent promoter
- Diversified portfolio of credit card offerings
- Advanced risk management and data analytics capabilities
- Modern and scalable technology infrastructure
- Highly experienced and professional management team

Business strategy:

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



Risk and concerns:

- Continued economic slowdown
- Change in government policies and regulations
- Unfavorable interest rate movements
- Unfavorable receivables portfolio-mix
- Unexpected rise in stressed assets
- Competition especially from fintech companies

Financial statements:

Profit and loss statement (Rs. mn)

	FY17	FY18	FY19	9M FY19	9M FY20	TTM	CAGR over FY17 - 19 (%)	Annual Growth over FY18 (%)	9M Y-o-Y (%)
Interest Income	18,881.6	27,599.8	35,757.1	26,263.3	34,930.7	44,424.6	37.6%	29.6%	33.0%
Interest Expenses	(5,284.3)	(7,115.1)	(10,172.1)	(7,425.7)	(9,663.7)	(12,410.1)	38.7%	43.0%	30.1%
Net Interest Income	13,597.3	20,484.7	25,585.0	18,837.6	25,267.1	32,014.4	37.2%	24.9%	34.1%
Non-Interest Income	14,580.4	24,270.0	34,234.0	24,576.0	33,499.8	43,157.9	53.2%	41.1%	36.3%
Other Income	1,248.4	1,832.2	2,877.2	1,947.5	3,971.0	4,900.7	51.8%	57.0%	103.9%
Total Income	29,426.1	46,586.8	62,696.2	45,361.1	62,737.9	80,073.0	46.0%	34.6%	38.3%
Employee Benefits Expenses	(953.1)	(1,930.9)	(3,904.0)	(2,879.7)	(3,344.5)	(4,368.8)	102.4%	102.2%	16.1%
Operating and Other Expenses	(17,318.7)	(27,119.2)	(33,045.9)	(24,431.5)	(31,412.1)	(40,026.5)	38.1%	21.9%	28.6%
CSR Expenses	(70.4)	(97.8)	(141.9)	(33.6)	(33.7)	(141.9)	42.0%	45.1%	0.2%
Depreciation, Amortization and Impairment	(47.9)	(244.9)	(811.0)	(581.1)	(740.4)	(970.3)	311.3%	231.1%	27.4%
Pre-Provision Profit	11,035.9	17,194.0	24,793.4	17,435.3	27,207.3	34,565.5	49.9%	44.2%	56.0%
Provisions	(5,319.7)	(8,000.6)	(11,477.4)	(7,960.2)	(11,020.6)	(14,537.9)	46.9%	43.5%	38.4%
Profit Before Tax	5,716.2	9,193.4	13,316.0	9,475.1	16,186.7	20,027.6	52.6%	44.8%	70.8%
Tax Expenses	(1,987.6)	(3,182.0)	(4,688.8)	(3,330.0)	(4,574.7)	(5,933.5)	53.6%	47.4%	37.4%
PAT	3,728.6	6,011.4	8,627.2	6,145.2	11,612.1	14,094.1	52.1%	43.5%	89.0%

Balance sheet statement (Rs. mn)

	FY17	FY18	FY19	9M FY19	9M FY20	CAGR over FY17 - 19 (%)	Annual Growth over FY18 (%)	9M Y-o-Y (%)
Equity Share Capital	7,850.0	7,850.0	8,372.2	8,372.2	9,323.3	3.3%	6.7%	11.4%
Other Equity	6,638.2	15,680.6	27,445.0	25,846.8	38,189.8	103.3%	75.0%	47.8%
Debt Securities	75,097.8	29,489.3	40,793.2	35,176.8	67,149.8	-26.3%	38.3%	90.9%
Borrowings (Other Than Debt Securities)	2,197.4	74,658.6	83,744.1	86,445.7	106,162.0	517.3%	12.2%	22.8%
Subordinated Liabilities	5,389.0	9,980.4	11,968.0	9,983.7	12,465.2	49.0%	19.9%	24.9%
Other Financial Liabilities	2,883.2	6,448.5	9,576.9	7,275.8	8,107.5	82.3%	48.5%	11.4%
Derivative Financial Instruments		28.5	1,095.4	2,222.9	322.8		3737.9%	-85.5%
Payables (Financial Liabilities)	1,190.7	5,295.6	6,650.6	532.1	852.1	136.3%	25.6%	60.1%
Current Tax Liabilities (Net)	17.3	104.0	762.3	3.7	37.8	563.0%	632.8%	926.6%
Provisions	4,952.1	3,924.2	6,284.2	11,192.6	12,484.3	12.6%	60.1%	11.5%
Other Non Financial Liabilities	1,434.1	3,400.4	5,704.6	3,934.7	4,840.2	99.4%	67.8%	23.0%
Total Liabilities	107,649.8	156,860.1	202,396.4	190,986.9	259,934.7	37.1%	29.0%	36.1%
Cash and Bank Balances	2,829.5	4,726.8	7,767.8	6,006.0	5,077.7	65.7%	64.3%	-15.5%
Receivables (Financial Assets)	1,324.8	1,507.3	2,950.2	1,549.1	1,772.7	49.2%	95.7%	14.4%
Advances (Net)	99,828.5	140,455.4	179,087.3	172,403.8	239,331.8	33.9%	27.5%	38.8%
Investments	0.0	0.0	14.6	14.6	14.6	3724.9%	146200.0%	0.0%
Other Financial Assets	24.7	1,139.2	307.1	552.3	294.9	252.6%	-73.0%	-46.6%
Deferred Tax Assets (Net)	1,292.0	880.1	1,665.1	1,082.4	1,373.7	13.5%	89.2%	26.9%
Property Plant and Equipment	16.6	418.6	575.4	463.3	571.8	489.3%	37.5%	23.4%
Intangible Assets		439.8	646.0	543.4	738.2		46.9%	35.8%
Capital Work in Progress		133.4	43.4	54.7	183.1		-67.5%	235.0%
Intangible Assets Under Development		217.2	158.3	153.5	146.2		-27.1%	-4.7%
Right-of-Use Assets	221.9	1,559.2	1,642.8	1,547.9	1,711.0	172.1%	5.4%	10.5%
Other Non Financial Assets	2,111.8	5,383.1	7,538.3	6,615.8	8,718.9	88.9%	40.0%	31.8%
Total Assets	107,649.8	156,860.1	202,396.4	190,986.9	259,934.7	37.1%	29.0%	36.1%

Source: Choice Equity Broking

Financial statements:

Cash flow statement (Rs. mn)

Particulars (Rs. mn)	FY17	FY18	FY19	9M FY19	9M FY20	CAGR over FY17 - 19 (%)	Annual Growth over FY18 (%)	9M Y-o-Y (%)
Profit Before Tax	5,716.2	9,193.4	13,316.0	9,475.1	16,186.7	52.6%	44.8%	70.8%
Cash Flow Before Working Capital Changes	16,341.7	24,490.4	35,568.4	25,229.9	36,044.6	47.5%	45.2%	42.9%
Change in Working Capital	(30,282.0)	(43,761.6)	(45,483.2)	(37,288.3)	(70,804.1)	22.6%	3.9%	89.9%
Cash Flow from Operating Activities	(22,348.8)	(28,770.9)	(23,649.4)	(22,435.1)	(48,654.5)	2.9%	-17.8%	116.9%
Cash Flow from Investing Activities	(8.4)	(314.9)	(723.9)	(398.0)	(567.3)	826.1%	129.9%	42.5%
Cash Flow from Financing Activities	22,442.3	29,349.0	27,414.3	24,112.4	46,531.8	10.5%	-6.6%	93.0%
Net Cash Flow	85.1	263.2	3,041.0	1,279.3	(2,690.0)	497.9%	1055.2%	-310.3%
Opening Balance of Cash and Bank Balances	2,744.4	4,463.5	4,726.8	4,726.8	7,767.8	31.2%	5.9%	64.3%
Closing Balance of Cash and Bank Balances	2,829.5	4,726.8	7,767.8	6,006.0	5,077.7	65.7%	64.3%	-15.5%

Financial ratios

Particulars (Rs. mn)	FY17	FY18	FY19	9M FY19	9M FY20
Growth ratios					
Net Advances (%)		40.7%	27.5%		38.8%
Interest Earned (%)		46.2%	29.6%		33.0%
Net Interest Income (%)		50.7%	24.9%		34.1%
Pre-Provision Operating Profit (%)		55.8%	44.2%		56.0%
PAT (%)		61.2%	43.5%		89.0%
Return / Profitability ratios					
Yield on Advances (%)	21.3%	22.2%	21.6%	21.6%	21.5%
Average Cost of Funds (%)	7.4%	7.2%	8.1%	8.1%	8.0%
Net Interest Margin (%)	15.3%	16.5%	15.5%	15.5%	15.6%
RoAA (%)	4.0%	4.5%	4.8%	4.7%	6.7%
RoAE (%)	28.5%	31.0%	28.4%	27.7%	36.5%
Operating ratios					
Non-Interest Income to Total Income (%)	42.0%	45.2%	47.0%	46.6%	46.3%
Opex to Total Income Ratio (%)	62.5%	63.1%	60.5%	61.6%	56.6%
Capitalization ratios					
Tier-1 CAR (%)	11.3%	12.4%	14.7%	15.3%	15.4%
Tier-2 CAR (%)	4.4%	5.9%	5.3%	4.1%	3.8%
Total CAR (%)	15.7%	18.3%	20.0%	19.4%	19.2%
Equity / Assets (%)	13.5%	15.0%	17.7%	17.9%	18.3%
Loans / Assets (%)	92.7%	89.5%	88.5%	90.3%	92.1%
Dividend Payout Ratio (%)	21.1%	0.0%	9.7%	0.0%	0.0%
Asset quality ratios					
GNPA (Rs. mn)	2,409.0	4,125.0	4,529.5	4,651.2	6,117.0
GNPA (%)	2.3%	2.8%	2.4%	2.6%	2.5%
NNPA (Rs. mn)	773.3	1,347.6	1,518.2	1,521.8	2,021.3
NNPA (%)	0.8%	1.0%	0.8%	0.9%	0.8%
Provision Coverage Ratio (%)	67.9%	67.3%	66.5%	67.3%	67.0%
Per share data					
Restated Reported EPS (Rs.)	4.0	6.4	9.2	6.5	12.4
Restated DPS (Rs.)	0.8	0.0	0.9	0.0	0.0
Restated BVPS (Rs.)	15.4	25.1	38.1	36.4	50.6
Restated ABVPS (Rs.)	14.6	23.6	36.5	34.8	48.4
Valuation ratios					
P/E (x)	190.1	117.9	82.2	115.4	61.0
P/BVPS (x)	48.9	30.1	19.8	20.7	14.9
P/ABVPS (x)	51.7	32.0	20.7	21.7	15.6

Note: Ratios calculated on pre-issue data; Source: Company RHP

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