

July 21, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	974		782	
NII (Rs.)	46,651	49,898	33,339	39,787
% Chng.	39.9	25.4		
PPoP (Rs.)	29,844	36,778	25,320	31,362
% Chng.	17.9	17.3		
EPS (Rs.)	19.1	22.0	16.2	21.0
% Chng.	18.0	4.8		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Int.Inc. (Rs m)	35,404	41,929	46,651	49,898
Growth (%)	38.0	18.4	11.3	7.0
Op. Profit (Rs m)	36,699	24,887	29,844	36,778
PAT (Rs m)	12,448	7,557	17,939	20,674
EPS (Rs.)	14.0	8.0	19.1	22.0
Gr. (%)	31.4	(42.6)	137.4	15.2
DPS (Rs.)	1.5	0.9	2.3	2.8
Yield (%)	0.2	0.1	0.3	0.4
Margin (%)	15.6	15.7	14.5	12.8
RoAE (%)	27.9	13.3	26.4	24.4
RoAA (%)	5.5	2.8	5.6	5.3
PE (x)	54.6	95.2	40.1	34.8
P/BV (x)	13.5	12.0	9.5	7.7
P/ABV (x)	13.9	12.5	9.7	7.8

Key Data

SBIC.BO | SBICARD IN

52-W High / Low	Rs.769 / Rs.495
Sensex / Nifty	37,419 / 11,022
Market Cap	Rs.719bn/ \$ 9,600m
Shares Outstanding	939m
3M Avg. Daily Value	Rs.3585.84m

Shareholding Pattern (%)

Promoter's	69.55
Foreign	4.07
Domestic Institution	3.79
Public & Others	22.59
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	24.1	-	-
Relative	15.2	-	-

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All round performance

Quick Pointers:

- Spends back to 75% of pre-COVID levels

An all-round performance and incredibly lower moratorium value (down 79%MoM in Jun'21) sums up Q1FY21 performance for SBICARD. Co.'s focus on non-discretionary (88-90% of spends led by both retail & corporate) and digital spends (online retail spends rose to 56% in Q1FY21 from 44% in FY20) translated into healthy loans (Rs 233bn vs PLe of Rs 217bn growing 10%YoY/-3%QoQ) and avg daily spends (up 77% to pre-COVID levels) defying lockdown challenges. While NPA (down 133bps YoY/33bps QoQ to 1.35%) and provisioning (42% down QoQ) for the quarter witnessed sharp decline, the same stands masked due to moratorium dispensation. Hence, we build-in elevated NPA (4.5% in FY21) and credit costs (6.3%), albeit lower than earlier estimates as controlled delinquencies (morat decline), suitable customer mix (85% salaried) and robust data analytics and risk management systems are gradually paying off. We see SBICARD geared to return to normalcy sooner than expected with emergence of greenshoots (fall in unemployment rate to pre-COVID levels, digital transactions uptick), improving corporate spends led by non-discretionary focus (vendor, tax & utility payments & gradual pick-up in domestic travels) and increasing banca potential (55% SBI sourcing).

As structural demand begin to roll in and Co. reporting industry lowest morat nos., FY21 EPS estimates swell by 63% over previous nos. Our FY22-23 EPS estimates stands tweaked by 18%/5% resp. led by increased spends (25%YoY growth) and fee income (34%YoY growth). Such a robust performance places SBICARD as the only NBFC to clock industry best avg 25% RoE and 5.3% RoAs over FY22-23E. Hence, we reiterate BUY valuing SBICARD at 47x PE as we roll over our target multiple to Sep'22 estimates for a price target of Rs974.

Daily spends uptick defy lockdown challenges: While overall spends at Rs191bn declined 37%YoY/41%QoQ with tepid cards-in-force traction and declining high value discretionary spends, avg. daily spends post lockdown have returned to pre-COVID levels. That is, both corporate/retail spends renewed to 55%/81% resp. on MoM basis as Co. focused on non-discretionary spends for corporate and online digital focus for retail customer base. However, H1FY21 remains critical led by tepid business augmentation at POS terminals & subdued high value transactions. We expect 2% decline QoQ in spends, 3%QoQ decline in loan receivables to Rs223bn in 1HFY21. With increasing focus on retail, sticky customer base and increased co-branded tie-ups, spends are expected to record 25% YoY growth translating into renewed 34%YoY fees and 19%YoY growth in receivables in FY23.

Morat & NPA decline surprise; yet caution maintained: While Q1FY21 surprised both on NPA (133bps YoY/33bps QoQ to 1.35%) and credit costs front (552bps QoQ), write-off stood higher with 15% QoQ increase. However, recoveries stood down 46-50% QoQ/YoY. Said that, we confide in Mngt's demonstration of fair resilience to shocks with hefty provisioning buffer, lower than industry fraud rates, de-risking corporate book and salaried customer focus (85%).

PAT increases by 14%YoY/371%QoQ to Rs3.9bn [PLe: Rs-3.2bn] with a huge beat on estimates largely on account of strong NII, lower opex and lower than expected provisioning

NII growth was robust with 52%YoY/12%QoQ at Rs11.4bn [PLe:Rs7.7bn]. Higher than anticipated loan traction (Loans at Rs 233bn vs PLe of Rs 217bn) and higher than anticipated spends (Daily average spends improved to 76.5% of Pre COVID level for June 2020 vs 54.0% for May 2020)

PPoP at Rs10bn [PLe: Rs3.6bn] reported growth at % 9%YoY/7%QoQ

Opex declined by 15%YoY/26%QoQ to Rs9.1bn [PLe: Rs11.9bn]

GNPA improves by 133bps YoY/33bps QoQ to 1.35% vs 2.68% for Q1 FY20 (PLe:5%) , PCR at 68.3%

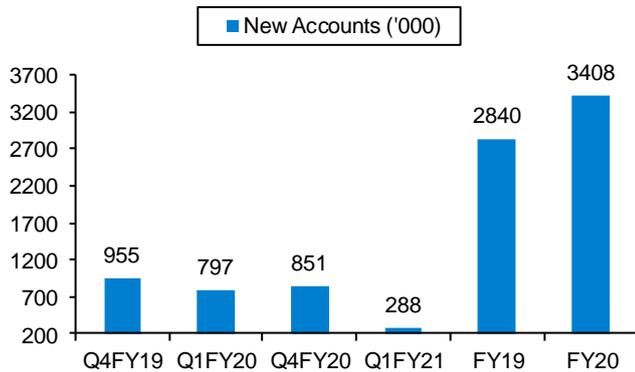
Accounts under morat down to 1.5 lac in Jun'21 from 12.5 lacs in May'21

As of June 30, 2020, Company's CRAR was 24.4% compared to 18.9% last year with Tier I at 20%

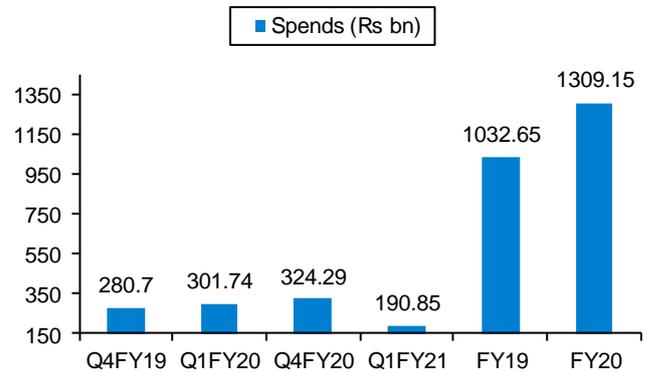
Exhibit 1: Robust NII, better receivables, low opex, healthy PPOP drive PAT

Y/e March	Q1FY21	Q1FY20	YoY gr.	Q4FY20	QoQ gr.
Interest Income	14,121	10,492	34.6%	13,482	4.7%
Interest Expenses	2,746	3,019	-9.0%	3,344	-17.9%
Net Interest Income	11,375	7,473	52.2%	10,138	12.2%
Other Income	7,835	12,550	-37.6%	11,621	-32.6%
Total Income	19,210	20,023	-4.1%	21,759	-11.7%
Total Operating Expenses	9,074	10,729	-15.4%	12,257	-26.0%
Operating Profit (PPP)	10,136	9,294	9.1%	9,502	6.7%
Provisions & Write Offs	4,853	3,969	22.3%	8,382	-42.1%
PBT	5,283	5,325	-0.8%	1,120	371.5%
Tax Expense	1,350	1,869	-27.8%	285	372.9%
Reported Profit	3,933	3,456	13.8%	835	371.0%
Asset Quality					
Gross NPAs	3,150	5,690	-44.6%	4,852	-35.1%
Net NPAs	998	1,593	-37.3%	1,592	-37.3%
Gross NPA (%)	1.35%	2.68%	-133	2.01%	-66
Net NPA (%)	0.43%	0.75%	-32	0.66%	-23
Yields	23.90%	21.20%	270	22.10%	180
CoF	6.60%	8.20%	-160	7.50%	-90
NIM %	19.20%	15.10%	410	16.60%	260
Cost to Income	47.20%	53.60%	-640	56.30%	-910
ROE %	28.30%	36.10%	-780	6.50%	2180
ROA %	6.30%	6.50%	-20	1.30%	500
Cards Outstanding (Units mn)	10.60	8.80	20.5%	10.55	0.5%
Total spends	190850	301740	-36.8%	324290	-41.1%
Gross Loans	233300	212310	9.9%	241410	-3.4%

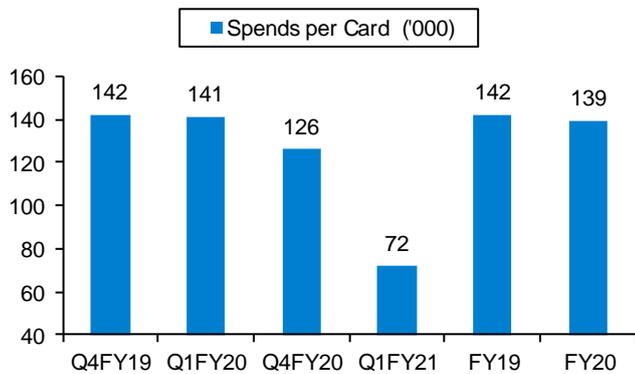
Source: Company, PL

Exhibit 2: New accounts traction slows


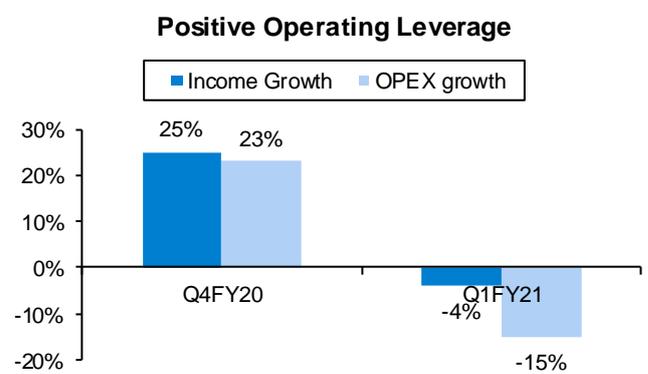
Source: Company, PL

Exhibit 3: Q1FY21 spends weakened as transactions value dip


Source: Company, PL

Exhibit 4: Spends per card bettering


Source: Company, PL

Exhibit 5: Technology/data analytics aiding opex leverage


Source: Company, PL

Exhibit 6: Meaningful decline in CoF

Revenue (Rs mn)	Q1FY21	Q1FY20	YoY gr.	FY19	FY20	YoY gr.
Revenue from Operations	21,520	20,680	4%	69,990	92,760	33%
Other Income	430	2,360	-82%	2,880	4,760	65%
Total Income	21,960	23,040	-5%	72,870	97,520	34%
Finance Costs	2,750	3,020	-9%	10,090	13,010	29%
Net Revenue	19,210	20,020	-4%	62,770	84,510	35%
Interest Income Yield	23.90%	21.20%	269 bps	21.60%	22.70%	109 bps
Cost of Funds	6.60%	8.20%	(158) bps	8.10%	8.40%	29 bps
<i>Net Interest Margin</i>	<i>19.20%</i>	<i>15.10%</i>	<i>414 bps</i>	<i>15.50%</i>	<i>16.60%</i>	<i>109 bps</i>

Source: Company, PL

Exhibit 7: Provisioning takes a breather as Jun'21 delinquencies stand arrested

Asset Quality (Rs mn)	Q1FY21	Q1FY20	YoY gr.	Q4FY20	YoY gr.
Impairment and losses	4,850	3,970	22.0%	8,380	-42.0%
Gross Loss on Loans	4,850	3,960	22.0%	8,380	-42.0%
Gross write off	4,050	2,400	69.0%	3,510	15.0%
Provision	800	1,560	-49.0%	(30)	-2760.0%
COVID provisions				4,890	
Recoveries	(380)	(70)	-46.0%	(760)	-50.0%
Net Credit Costs	4,470	326	37.0%	7,620	-41.0%
Net Credit Costs(Ex COVID)	4,470	326	37.0%	2,730	64.0%
Gross Credit Cost %	8.2%	8.0%	21Bps	13.7%	(552 Bps)
Net Credit Cost %	7.5%	6.6%	97Bps	12.5%	(492 Bps)

Source: Company, PL

Exhibit 8: Change in Estimates

Rs mn	Old			Revised			Change in Estimates		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Interest Income	28,234	33,339	39,787	41,929	46,651	49,898	49%	40%	25%
Operating Profit	14,888	25,320	31,362	24,887	29,844	36,778	67%	18%	17%
Net Profit	4,650	15,203	19,733	7,557	17,939	20,674	63%	18%	5%
EPS (Rs)	5.0	16.2	21.0	8.0	19.1	22.0	63%	18%	5%
Price Target (Rs)		782			974			24.7	
Reco		BUY			BUY				

Source: PL

Conference Highlights

- **Industry outlook:** Green shoots emerging across country and witnessing significant movement on all fronts. Cash less, digital payments and Tap & Go witnessing growth.
- **Customer acquisition:** Revival in customer acquisition, launched video KYC bringing down KYC visit cost drastically
- **Liquidity:** Liquidity position continues to be strong and Cos liabilities tilting from high cost borrowing to low cost borrowings thus, bringing down CoF
- **Collection rampup:** From 8th June field collections have started. Scaling collection infra (tele, field & digital).Collection team increased from 4200 to 8000; tele collection team increased from 1100 to 2000
- **Morat:** Reduction in no.of customers opted for morat is due to the opt in option provided as guided by RBI and not necessary that the customer has paid his installments
- **Spends:** Spends back to 75% pre-covid level. Category 1 and 2 (Departmental stores, fuel, health,utility,jewellery durables) online spends witnessed good traction as it grew 23% and 21% over avg spend of Dec'19 to Feb'20. Where as Category 3 online spends (Travel agents, Hotel, Flights) de-grew 78% over same period
- **Change in customer mix:** Card holders above the age of 55 have started using their cards for online transactions which was not the case before. Co. also came up with new offers for appliances on EMI on Amazon and Flipkart with increased online CD spends.
- **Corp customer spends:** Expected to resume sooner led by corporate spends towards utility, vendor and tax payments
- **Loan mix:** Changes in loan split because of lower transactor spend. Hence, higher revolver loans (45% vs 38% as on Q1FY20)
 - Opex: Lower opex on account of lower variable costs (lower reward points redemption) costs and lower fixed costs (low discretionary spends, renegotiation of rent, savings on travel costs)
 - ALM duration: Avg Loan duration is 5 months major book runs-down in 8 to 9 mnths.



Income Statement (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Inc. / Opt. Inc.	48,413	53,895	62,370	73,126
Interest Expenses	13,009	11,966	15,719	23,228
Net interest income	35,404	41,929	46,651	49,898
Growth(%)	38.0	18.4	11.3	7.0
Non-interest income	49,110	31,747	46,436	62,413
Growth(%)	32.3	(35.4)	46.3	34.4
Net operating income	84,514	73,676	93,087	1,12,311
Expenditures				
Employees	4,684	5,906	7,395	8,577
Other Expenses	42,093	41,699	54,448	65,303
Depreciation	1,038	1,185	1,399	1,653
Operating Expenses	47,815	48,790	63,243	75,533
PPP	36,699	24,887	29,844	36,778
Growth(%)	47.8	(32.2)	19.9	23.2
Provisions	19,402	14,788	5,871	9,149
Profit Before Tax	17,296	10,099	23,974	27,628
Tax	4,848	2,542	6,034	6,954
Effective Tax rate(%)	28.0	25.2	25.2	25.2
PAT	12,448	7,557	17,939	20,674
Growth(%)	43.9	(39.3)	137.4	15.2

Balance Sheet (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Source of funds				
Equity	-	-	-	-
Reserves and Surplus	44,023	50,603	66,314	84,287
Networth	53,412	59,992	75,704	93,677
Growth (%)	48.9	12.3	26.2	23.7
Loan funds	1,73,649	1,89,627	2,43,263	2,96,780
Growth (%)	28.2	9.2	28.3	22.0
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	19,254	24,425	32,305	45,228
Other Liabilities	6,713	7,720	8,878	-
Total Liabilities	2,53,028	2,81,764	3,60,149	4,35,684
Application of funds				
Net fixed assets	3,346	5,026	6,063	6,879
Advances	2,28,116	2,31,020	3,02,820	3,61,119
Growth (%)	27.4	1.3	31.1	19.3
Investments	15	25	25	25
Current Assets	6,760	8,044	12,074	18,666
Net current assets	(12,493)	(16,382)	(20,231)	(26,562)
Other Assets	14,791	37,650	39,167	48,997
Total Assets	2,53,028	2,81,764	3,60,150	4,35,685
Growth (%)	25.6	11.4	27.8	21.0
Business Mix				
AUM	2,28,116	2,31,020	3,02,820	3,61,119
Growth (%)	27.4	1.3	31.1	19.3
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	15.6	15.7	14.5	12.8
ROAA	5.5	2.8	5.6	5.3
ROAE	27.9	13.3	26.4	24.4

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21
Int. Inc. / Operating Inc.	12,815	13,482	14,121
Income from securitization	11,976	10,850	7,401
Interest Expenses	3,452	3,344	2,746
Net Interest Income	21,339	20,988	18,776
Growth (%)	33.9	22.7	6.3
Non-Interest Income	841	772	434
Net Operating Income	22,180	21,759	19,210
Growth (%)	33.1	20.7	(4.1)
Operating expenditure	12,320	11,970	8,795
PPP	9,595	9,502	10,136
Growth (%)	80.3	74.3	(4.8)
Provision	3,763	8,382	4,853
Exchange Gain / (Loss)	-	-	-
Profit before tax	5,832	1,120	5,283
Tax	1,485	285	1,350
Prov. for deferred tax liability	-	-	-
Effective Tax Rate	25.5	25.5	25.6
PAT	4,347	835	3,933
Growth	82	(66)	14
AUM	2,39,332	2,28,116	2,19,210
YoY growth (%)	0.4	0.3	0.1
Borrowing	1,85,778	1,73,649	1,60,760
YoY growth (%)	42.3	28.2	-

Key Ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	766	766	766	766
EPS (Rs)	14.0	8.0	19.1	22.0
Book value (Rs)	56.9	63.9	80.6	99.8
Adj. BV(Rs)	55.2	61.4	79.3	98.2
P/E(x)	54.6	95.2	40.1	34.8
P/BV(x)	13.5	12.0	9.5	7.7
P/ABV(x)	13.9	12.5	9.7	7.8
DPS (Rs)	1.5	0.9	2.3	2.8
Dividend Payout Ratio(%)	11.2	11.5	11.8	12.5
Dividend Yield(%)	0.2	0.1	0.3	0.4

Asset Quality

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs(Rs m)	4,852	10,396	7,268	8,450
Net NPA(Rs m)	1,592	2,310	1,211	1,444
Gross NPAs to Gross Adv.(%)	-	-	-	-
Net NPAs to net Adv.(%)	0.7	1.0	0.4	0.4
NPA coverage(%)	67.2	77.8	83.3	82.9

Du-Pont as a % of AUM

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	15.6	15.7	14.5	12.8
NII INCL. Securitization	35.1	26.8	28.1	27.8
Total income	37.2	27.6	29.0	28.9
Operating Expenses	19.1	19.6	18.7	16.0
PPOP	16.1	9.3	9.3	9.5
Total Provisions	8.5	5.5	1.8	2.4
RoAA	5.5	2.8	5.6	5.3
Avg. Assets/Avg. net worth	19.6	24.5	22.4	23.5
RoAE	27.9	13.3	26.4	24.4

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Jul-20	BUY	782	703
2	02-Jun-20	BUY	643	570
3	09-May-20	BUY	643	562
4	17-Apr-20	BUY	646	531

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,806	3,314
2	Cholamandalam Investment and Finance Company	Accumulate	239	208
3	HDFC	Accumulate	2,177	1,886
4	L&T Finance Holdings	Sell	52	62
5	LIC Housing Finance	Reduce	260	276
6	Mahindra & Mahindra Financial Services	Reduce	191	204
7	Manappuram Finance	Accumulate	182	160
8	SBI Cards and Payment Services	BUY	782	703
9	Shriram Transport Finance	Accumulate	793	699

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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