

SBI Cards and Payment Services (SBICARD IN)

Rating: **ACCUMULATE** | CMP: Rs852 | TP: Rs895

October 23, 2020

Q2FY21 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		BUY	
Target Price	895		973	
NII (Rs.)	49,946	54,028	49,787	54,039
% Chng.	0.3	-		
PPoP (Rs.)	34,302	31,583	33,112	34,046
% Chng.	3.6	(7.2)		
EPS (Rs.)	16.7	19.3	17.7	20.8
% Chng.	(5.4)	(7.1)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Int.Inc. (Rs m)	35,404	42,793	49,946	54,028
Growth (%)	38.0	20.9	16.7	8.2
Op. Profit (Rs m)	36,699	40,114	34,302	31,583
PAT (Rs m)	12,448	8,292	15,711	18,164
EPS (Rs.)	13.3	8.8	16.7	19.3
Gr. (%)	28.3	(33.4)	89.5	15.6
DPS (Rs.)	1.0	1.0	2.0	2.4
Yield (%)	0.1	0.1	0.2	0.3
Margin (%)	15.6	15.8	15.2	13.6
RoAE (%)	27.9	14.5	23.3	22.1
RoAA (%)	5.5	3.1	4.8	4.6
PE (x)	64.3	96.5	51.0	44.1
P/BV (x)	15.0	13.2	10.8	8.9
P/ABV (x)	15.4	14.0	11.3	9.0

Key Data

SBIC.BO | SBICARD IN

52-W High / Low	Rs.919 / Rs.495
Sensex / Nifty	40,558 / 11,896
Market Cap	Rs.801bn / \$ 10,888m
Shares Outstanding	940m
3M Avg. Daily Value	Rs.3197.54m

Shareholding Pattern (%)

Promoter's	69.46
Foreign	5.93
Domestic Institution	3.23
Public & Others	21.38
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.8	60.0	-
Relative	(2.5)	23.8	-

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Pandemic knocks AQ, downgrade to Accumulate

Quick Pointers:

- Critical book under radar amounts to Rs41bn; provisions need further beef-up

We downgrade SBICARD to Accumulate (earlier BUY) and pare down our EPS estimates by 36% for FY21 and 5-7% for FY22-23. Our downgrade stems from our conservative stance on credit costs (12%) and NPA (~8%) for FY21 led by pandemic challenges. While we assess 10% of book net of provisions stands under stress as at Sep'20-end, provision run-rate to stay elevated for H2FY21 (avg. Rs8bn). Said that, Q2FY21 witnessed outstanding cards traction (~4% QoQ growth vs negative in Q1FY21) and improved spends (55% QoQ growth) buoyed by retail spends (90% pre-COVID levels). Such a business rebound coupled with healthy PPoP (13%QoQ/27% YoY) should absorb asset quality pressures over the course of the year. The recent buoyant stock momentum and near term erratic asset quality picture prompts us to trim our valuation multiple to 44.5x (earlier 47x) on Sep'22 PE basis for a price target of Rs 895. Said that, long term prospects remain upbeat with industry-best return profile (4.6% RoA/22% RoE over FY22-23E). recommend ACCUMULATE.

Business intact; spends and cards-in-force improve: Q2FY21 saw cards-in-force growing 3.8% QoQ/16% YoY to 11mn buoyed by daily average new accounts acquisition retreating at 98% of pre-COVID levels. With leadership in new to credit customers for credit cards at 31% market share (20% market share in overall credit card market) and market share uptick in both spends (20.5% vs 18.6% YoY) and cards in force (18.7 vs 18.0 YoY) business prospects for SBICARD stand intact. 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 20%YoY fees and 19%YoY growth in receivables in FY23.

Pandemic knocks asset quality; 10% of the book under stress: GNPA stood at 4.3% vs 1.3% on QoQ basis and 2.33% YoY basis. PCR stood at 67% with NNPA at 1.4%. Had it not been for Supreme Court ruling on standstill accounts, the GNPA would have climbed to 7.46% and NNPA to 2.7% for Q2FY21. PCR, in such a case stands at 64%. Restructured stock under the RBI RE (resolution plan) stood at Rs21bn (9.6% of AUM), EPP (easy payment plan) at 0.07% taking overall stressed assets to 17% of AUMs. While greater part of restructured book customers emerged from self-employed segment and sourced from open market channels, the Co. had already tightened credit filters as part of underwriting strategy. Furthermore, antidotes such as prompt blocking of cards of all 12.5 lac moratorium customers as on May'20 (o/w 1/3rd had paid up by June itself and their cards were unblocked), lowering of credit limits, expansion of focus into Tier 3 markets (57%) and banca channel (42%) stand in place. However, lack of direction on COVID provisions in Q1FY21, but sudden spike in provisioning (Rs2.7bn and overall provision at Rs 7.6bn) coupled with severe deterioration in asset quality in Q2FY21 came as a disappointment. Against this backdrop, we adopt conservative stance and expect the provision run-rate to stay elevated for H2FY21 (avg. Rs8bn). Consequently, our credit costs estimates stand at 12% and NPA forecasts at ~8% for FY21 led by pandemic challenges. The same should decline to 4.0% and subsequently to 2.6% over FY22-23 as normalcy returns.

PAT at Rs2.0bn declines 48%QoQ/46%YoY and stands below estimates [PLe of Rs3.9bn] on account of double than expected provisioning at Rs 8.6bn this quarter as against PLe of Rs3.8bn

While NPA recognition is under dpd freeze, had it not been the case, the Co.'s proforma GNPA and proforma NNPA ratio would have been 7.46% (PLe: 2%) and 2.70% respectively.

Said that, an additional provision w.r.t such accounts already stand in place and is included in the overall ECL provision.

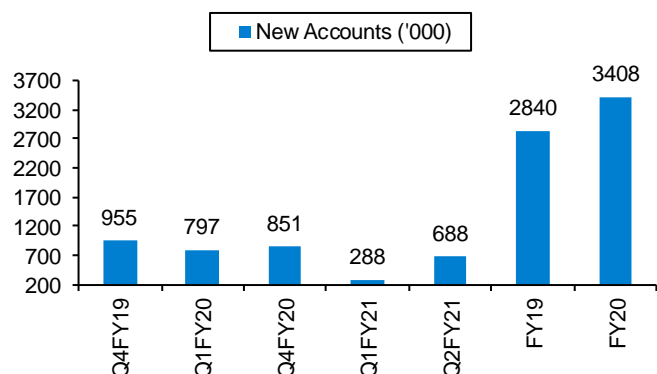
NII de-grew 11%QoQ, but up 20%YoY to Rs10.1bn, although in-line [vs. PLe of Rs10.9bn]

While fee traction and opex management stood better, PPOp held up well growing 13%QoQ/37% YoY at Rs11.4bn [vs. PLe of Rs9.1bn]%

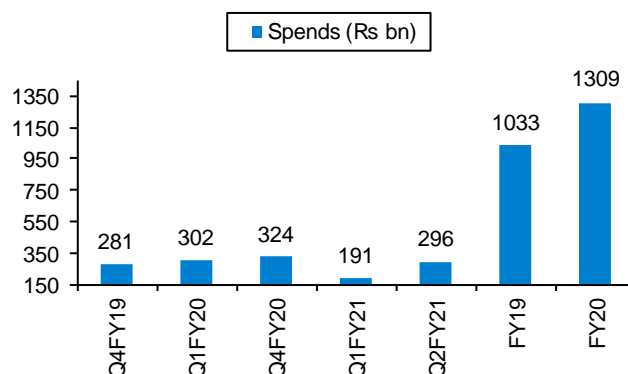
Exhibit 1: PAT miss on doubling of quarterly provisions, NPA spike sharply

Y/e March	Q2FY21	Q2FY20	YoY gr.	Q1FY21	QoQ gr.
Interest Income	12,754	11,623	9.7%	14,121	-9.7%
Interest Expenses	2,642	3,193	-17.3%	2,746	-3.8%
Net Interest Income	10,112	8,430	20.0%	11,375	-11.1%
Other Income	12,373	12,139	1.9%	7,808	58.5%
Total Income	22,486	20,569	9.3%	19,183	17.2%
Total Operating Expenses	11,086	12,259	-9.6%	9,047	22.5%
Operating Profit (PPP)	11,399	8,310	37.2%	10,136	12.5%
Provisions & Write Offs	8,617	3,292	161.8%	4,853	77.6%
PBT	2,782	5,018	-44.6%	5,282	-47.3%
Tax Expense	720	1,208	-40.4%	1,350	-46.6%
Reported Profit	2,061	3,810	-45.9%	3,933	-47.6%
Asset Quality					
Gross NPAs	10,311	5,299	94.6%	3,266	215.7%
Net NPAs	3,547	1,749	102.8%	1,035	242.6%
Gross NPA (%)	4.30%	2.30%	200	1.40%	290
Net NPA (%)	1.48%	0.8%	72	0.44%	104
Yields	21.40%	20.80%	60	23.90%	-250
CoF	6.60%	7.60%	-100	6.60%	0
NIM %	17.00%	15.10%	190	19.20%	-220
Cost to Income	49.30%	59.60%	-1030	47.20%	210
ROE %	14.10%	36.30%	-2220	28.30%	-1420
ROA %	3.40%	6.50%	-310	6.30%	-290
Cards Outstanding (Units mn)	11.00	9.46	16.3%	10.60	3.8%
Total spends	295900	331760	-10.8%	190850	55.0%
Gross Loans	239780	230380	4.1%	233300	2.8%

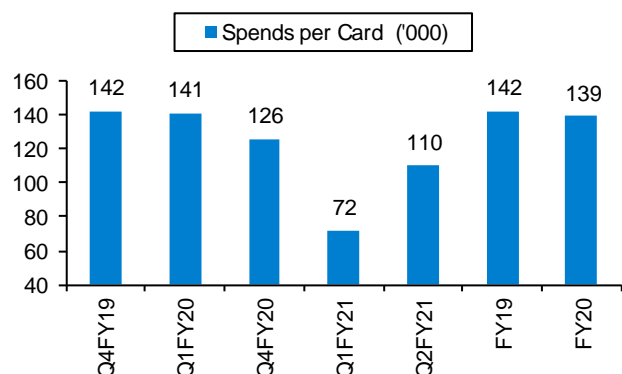
Source: Company, PL

Exhibit 2: New accounts traction picks up


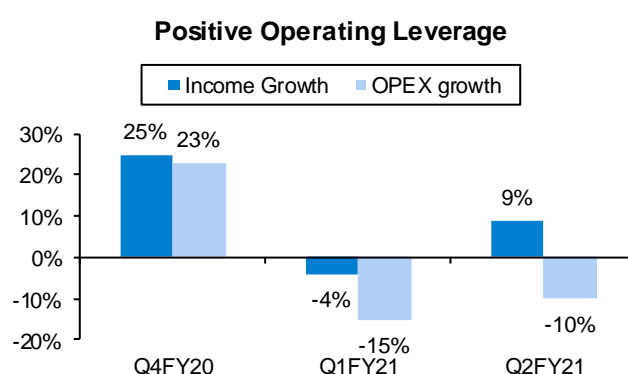
Source: Company, PL

Exhibit 3: Spends strengthens due to higher retail spends


Source: Company, PL

Exhibit 4: Improvement in spends per card


Source: Company, PL

Exhibit 5: Technology/data analytics aiding opex leverage


Source: Company, PL

Exhibit 6: Meaningful decline in CoF

Revenue (Rs mn)	Q2FY21	Q2FY20	YoY gr.	FY19	FY20	YoY gr.
Revenue from Operations	24,130	22,960	5%	69,990	92,760	33%
Other Income	990	800	24%	2,880	4,760	65%
Total Income	25,130	23,760	6%	72,870	97,520	34%
Finance Costs	2,640	3,190	-17%	10,090	13,010	29%
Net Revenue	22,490	20,570	9%	62,770	84,510	35%
Interest Income Yield	21.4%	20.80%	56 bps	21.60%	22.70%	109 bps
Cost of Funds	6.6%	7.60%	(96) bps	8.10%	8.40%	29 bps
<i>Net Interest Margin</i>	<i>17.0%</i>	<i>15.10%</i>	<i>185 bps</i>	<i>15.50%</i>	<i>16.60%</i>	<i>109 bps</i>

Source: Company, PL

Exhibit 7: Additional provisioning this quarter on account of COVID

Asset Quality (Rs mn)	Q2FY21	Q2FY20	YoY gr.	Q1FY21	QoQ gr.
Impairment and losses	8,620	3,290	162.0%	4,850	77.7%
Gross Loss on Loans	8,620	3,280	163.0%	4,850	77.7%
Gross write off	2,180	3,430	-36.0%	4,040	-46.0%
Provision	3,750	(150)	NA	800	368.8%
COVID provisions	2680	-	NA		NA
Recoveries	(970)	(790)	23.0%	(380)	155.3%
Net Credit Costs	7,650	2,490	207.0%	4,470	71.1%
Gross Credit Cost %	14.6%	5.9%	865 bps	8.2%	640 bps
Gross Credit Cost %(Ex-Overlay)	10.0%	5.9%	412 bps	8.2%	180 bps
Net Credit Cost %	12.9%	4.5%	843 bps	7.5%	540 bps
Net Credit Cost %(Ex-Overlay)	8.4%	4.5%	390 bps	7.5%	90 bps

Source: Company, PL

Exhibit 8: Change in Estimates - FY21 revised downwards, TP at Rs895 on 44.5x PE on Sep'22 basis

Rs mn	Old			Revised			Change in Estimates		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Interest Income	43,584	49,787	54,039	42,793	49,946	54,028	-2%	0%	0%
Operating Profit	32,398	33,112	34,046	40,114	34,302	31,583	24%	4%	-7%
Net Profit	12,873	16,591	19,547	8,292	15,711	18,164	-36%	-5%	-7%
EPS (Rs)	13.7	17.7	20.8	8.8	16.7	19.3	-36%	-5%	-7%
Price Target (Rs)	973			895			-8.0%		
Reco	BUY			Accumulate					

Source: PL



Income Statement (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Inc. / Opt. Inc.	48,413	54,843	66,331	78,239
Interest Expenses	13,009	12,050	16,384	24,212
Net interest income	35,404	42,793	49,946	54,028
Growth(%)	38.0	20.9	16.7	8.2
Non-interest income	49,110	45,594	57,796	70,150
Growth(%)	32.3	(7.2)	26.8	21.4
Net operating income	84,514	88,387	1,07,742	1,24,178
Expenditures				
Employees	4,684	5,202	6,686	8,340
Other Expenses	42,093	41,845	65,250	82,441
Depreciation	1,038	1,227	1,504	1,813
Operating Expenses	47,815	48,274	73,440	92,595
PPP	36,699	40,114	34,302	31,583
Growth(%)	47.8	9.3	(14.5)	(7.9)
Provisions	19,402	29,033	13,307	7,310
Profit Before Tax	17,296	11,081	20,995	24,273
Tax	4,848	2,789	5,284	6,110
Effective Tax rate(%)	28.0	25.2	25.2	25.2
PAT	12,448	8,292	15,711	18,164
Growth(%)	43.9	(33.4)	89.5	15.6

Balance Sheet (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Source of funds				
Equity	-	-	-	-
Reserves and Surplus	44,023	51,253	64,999	80,774
Networth	53,412	60,649	74,395	90,171
Growth (%)	48.9	13.5	22.7	21.2
Loan funds	1,73,649	1,97,657	2,53,564	3,09,347
Growth (%)	28.2	13.8	28.3	22.0
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	19,254	24,020	31,745	51,414
Other Liabilities	6,713	7,720	8,878	-
Total Liabilities	2,53,028	2,90,046	3,68,582	4,50,933
Application of funds				
Net fixed assets	3,346	4,717	5,734	6,533
Advances	2,28,116	2,45,691	3,22,050	3,84,051
Growth (%)	27.4	7.7	31.1	19.3
Investments	15	25	25	25
Current Assets	6,760	8,566	8,570	25,013
Net current assets	(12,493)	(15,454)	(23,175)	(26,401)
Other Assets	14,791	31,048	32,202	35,310
Total Assets	2,53,028	2,90,046	3,68,582	4,50,933
Growth (%)	25.6	14.6	27.1	22.3
Business Mix				
AUM	2,28,116	2,45,691	3,22,050	3,84,051
Growth (%)	27.4	7.7	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	15.8	15.2	13.6
ROAA	5.5	3.1	4.8	4.6
ROAE	27.9	14.5	23.3	22.1

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Int. Inc. / Operating Inc.	12,815	13,482	14,121	12,754
Income from securitization	11,976	10,850	7,401	11,380
Interest Expenses	3,452	3,344	2,746	2,642
Net Interest Income	21,339	20,988	18,776	21,492
Growth (%)	33.9	22.7	6.3	8.7
Non-Interest Income	841	772	407	993
Net Operating Income	22,180	21,759	19,183	22,486
Growth (%)	33.1	20.7	(4.2)	9.3
Operating expenditure	12,320	11,970	8,768	10,786
PPP	9,595	9,502	10,136	11,399
Growth (%)	80.3	74.3	(4.8)	56.1
Provision	3,763	8,382	4,853	8,617
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	5,832	1,120	5,282	2,782
Tax	1,485	285	1,350	720
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	25.5	25.5	25.6	25.9
PAT	4,347	835	3,933	2,061
Growth	82	(66)	14	(46)
AUM	2,44,760	2,41,410	2,33,300	2,39,780
YoY growth (%)	42.0	34.8	9.9	4.1
Borrowing	1,85,778	1,73,649	1,60,760	1,56,966
YoY growth (%)	42.3	28.2	-	-

Key Ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	852	852	852	852
EPS (Rs)	13.3	8.8	16.7	19.3
Book value (Rs)	56.9	64.5	79.2	96.0
Adj. BV(Rs)	55.2	60.9	75.4	94.3
P/E(x)	64.3	96.5	51.0	44.1
P/BV(x)	15.0	13.2	10.8	8.9
P/ABV(x)	15.4	14.0	11.3	9.0
DPS (Rs)	1.0	1.0	2.0	2.4
Dividend Payout Ratio(%)	7.5	11.5	11.8	12.5
Dividend Yield(%)	0.1	0.1	0.2	0.3

Asset Quality

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs(Rs m)	4,844	18,672	12,882	9,985
Net NPA(Rs m)	1,589	3,440	3,543	1,536
Gross NPAs to Gross Adv.(%)	2.0	7.6	4.0	2.6
Net NPAs to net Adv.(%)	0.7	1.4	1.1	0.4
NPA coverage(%)	67.2	81.6	72.5	84.6

Du-Pont as a % of AUM

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	15.6	15.8	15.2	13.6
NII INCI. Securitization	35.1	31.2	31.0	29.3
Total income	37.2	32.6	32.7	31.3
Operating Expenses	19.1	19.9	19.0	15.7
PPOP	16.1	14.8	10.4	8.0
Total Provisions	8.5	10.7	4.0	1.8
RoAA	5.5	3.1	4.8	4.6
Avg. Assets/Avg. net worth	19.6	23.2	21.0	21.4
RoAE	27.9	14.5	23.3	22.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Oct-20	BUY	973	851
2	21-Jul-20	BUY	974	766
3	13-Jul-20	BUY	782	703
4	02-Jun-20	BUY	643	570
5	09-May-20	BUY	643	562
6	17-Apr-20	BUY	646	531

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,805	3,233
2	Cholamandalam Investment and Finance Company	Accumulate	283	253
3	HDFC	Accumulate	2,098	1,957
4	L&T Finance Holdings	Sell	52	63
5	LIC Housing Finance	Reduce	282	306
6	Mahindra & Mahindra Financial Services	Reduce	124	133
7	Manappuram Finance	Accumulate	197	166
8	SBI Cards and Payment Services	BUY	973	851
9	Shriram Transport Finance	Accumulate	809	641

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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