

Retail Equity Research

SBI Cards & Payment Services Ltd.

NBFC (Non-Deposit taking)

BSE CODE: 543066

NSE CODE: SBICARD

Bloomberg CODE: SBICARD:IN

SENSEX: 40,522

BUY

12M Investment period

Rating as per Large cap

 CMP Rs. 815 TARGET Rs. 913 RETURN 12% ↑
 (Closing: 27-10-20)

KEY CHANGES:
TARGET ↑
RATING ↔
EARNINGS ↑

Mixed performance; Outlook intact

SBI Cards & Payment Services (SBI Cards) is the leading issuer of credit cards in India. Company offers wide range of value-added payment products and services. SBI cards operates in more than 130 cities in India.

- Net interest income rose 20.0% YoY in Q2FY21, aided by NIM expansion (+185bps YoY) with higher interest income yield (+56bps YoY) and lower cost of funds (-96bps). Non-interest income was up 1.9% YoY.
- Pre-provision profit grew 37.1% YoY, further helped by lower opex (-9.5% YoY). However, PAT fell 45.9%, impacted by higher provisioning. Overall cost to income ratio improved to 49.3% (-10.3bps YoY).
- Company added 688k new accounts during the quarter. Cards in force rose 3.8% QoQ to 11,009k, and spends per card increased to Rs. 110k from Rs. 72k in Q1FY21.
- Growth momentum should pick-up in retail credit activity and daily spends in upcoming quarters. Given current upside potential, we reiterate BUY on the stock with a TP of Rs. 913 based on 10.5x FY22E

Pre-prevision profit grows on NIM expansion

Interest income grew 9.7% YoY in Q2FY21 to Rs. 1,275cr (-9.7% QoQ), as the interest income yield improved 56bps YoY to 21.4%. Non-interest income inched up only 1.9% YoY to Rs. 1,237cr, primarily on largely stable fee income (-0.3% YoY to Rs. 1,019cr). Net interest income grew 20.0% YoY to Rs. 1,011cr (-11.1% QoQ), as NIM expanded 185bps YoY to 17.0% as a result of improved interest income yield and lower cost of funds. Operational expenditures declined 9.5% YoY to Rs. 1,109cr. Overall cost to income ratio improved 10.3bps YoY to 49.3%. Resultantly, Pre-provision profit jumped 37.1% YoY (+12.5% QoQ). However, PAT fell 45.9% YoY to Rs. 206cr, as lower taxes (-40.4% YoY) were more than offset by higher provisioning of 161.5% YoY.

Market share continues to increase

SBI Cards has been steadily gaining market share with Cards share reaching 18.7% and share of spends rising to 20.5% as of Aug-2020 (vs. 18.5% and 19.9%, respectively in Q1FY21). The Company added 688k new accounts during the quarter. Also, Cards in force rose to 11,009k in Q2FY21 vs. 10,602k in Q1FY21. Spends per card rose to Rs. 110k from Rs. 72k in Q1FY21. Receivables grew 2.8% QoQ to Rs. 23,978cr. Overall net loans stood at Rs. 22,279cr (+1.6% YoY). GNPA was up 195bps YoY to 4.29%. Capital adequacy ratio improved to 25.3% during the quarter vs. 24.4% in Q1FY21.

Key highlights

- Daily average spends improved to 92% of Pre-COVID level for Sep-2020 vs. 54.0% for May-2020
- Online retail spend rose to 54.6% in H1FY21 vs. 44.2% in FY20.
- New accounts acquisition rose to 309k in Sep-2020 from 80k in May-2020; stands at 98% of Pre-COVID average daily acquisition.

Outlook & Valuation

We expect growth momentum to pick-up in retail credit activity and daily spends in the coming quarters as market recovers back to normalcy. SBI Cards' solid foothold, healthy asset quality, brand image and increasing market share should continue to support the Company's performance. Given current upside potential, we reiterate our BUY rating on the stock with a target price of Rs. 913 based on 10.5x FY22E BVPS.

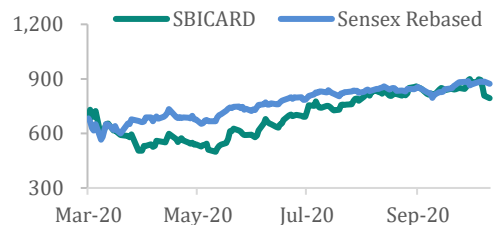
Company Data

Market Cap (cr)	Rs. 74,634
Outstanding Shares (cr)	94.0
Free Float	10.0%
Dividend Yield	0.1%
52 week high	Rs. 919
52 week low	Rs. 495
6m average volume (lacs)	2.4
Beta	1.2
Face value	Rs. 10

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	69.6	69.5	69.5
FII's	4.1	4.2	5.9
MFs/Insti	3.8	3.3	3.2
Public	5.6	5.7	4.6
Others	17.0	17.2	16.8
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	Since IPO
Absolute Return	7.2%	42.4%	16.2%
Absolute Sensex	5.3%	28.1%	27.9%
Relative Return*	1.9%	14.3%	-11.7%

*over or under performance to benchmark index



Consolidated (Rs. cr)	FY20A	FY21E	FY22E
Net Interest Income	3,540	4,198	4,851
Growth (%)	38.0	18.6	15.6
NIM (%)	16.8	17.2	17.5
Pre-Provision Profit	3,670	4,063	4,692
Net Profit	1,245	1,081	1,810
Growth (%)	43.9	(13.2)	67.5
Adj. EPS	13.2	11.5	19.2
Growth (%)	25.2	(13.2)	67.5
BVPS	56.7	68.0	86.9
P/E	46.8	69.2	41.3
P/B	10.9	11.7	9.1
P/ABV	10.9	11.7	9.1
ROE (%)	27.9	18.4	24.8
ROA (%)	5.5	4.2	6.5

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Interest Income	1,275	1,162	9.7	1,412	(9.7)	2,688	2,212	21.5
Interest Expense	264	319	(17.3)	275	(3.8)	539	621	(13.3)
Net Interest Income (NII)	1,011	843	20.0	1,137	(11.1)	2,149	1,590	35.1
Non-Interest Income	1,237	1,214	1.9	783	57.9	2,021	2,469	(18.1)
Total Net Income	2,249	2,057	9.3	1,921	17.1	4,170	4,059	2.7
Total Income	2,513	2,376	5.7	2,196	14.4	4,708	4,680	0.6
Operating Expenses	1,109	1,225	(9.5)	907	22.2	2,016	2,298	(12.3)
Total Expenditure	1,373	1,545	(11.1)	1,182	16.1	2,555	2,920	(12.5)
Pre-Provision profit	1,140	831	37.1	1,014	12.5	2,154	1,761	22.3
Provisions	862	330	161.5	485	77.6	1,347	726	85.4
Profit Before Tax	278	502	(44.6)	528	(47.3)	806	1,034	(22.0)
Tax	72	121	(40.4)	135	(46.6)	207	308	(32.7)
Net Profit	206	381	(45.9)	393	(47.6)	599	727	(17.5)
EPS - Diluted (Rs.)	2.2	4.1	(46.9)	4.2	(47.7)	6.3	7.8	(19.0)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	3,848	4,685	4,198	4,851	9.1	3.5
Net Interest Margin (%)	16.7	16.5	17.2	17.5	54bps	96bps
Pre-Provision Profit	3,624	4,141	4,063	4,692	12.1	13.3
Net Profit	1,184	1,528	1,081	1,810	(8.7)	18.5
EPS (Rs.)	12.6	16.2	11.5	19.2	(8.7)	18.5

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	2,760	3,576	4,841	5,443	6,158
Interest Expense	708	1,009	1,301	1,246	1,307
Net Int. Income	2,052	2,566	3,540	4,198	4,851
% Change	-24.5	25.0	38.0	18.6	15.6
Non-Int. Income	2,610	3,711	4,910	4,084	4,305
Net Income	4,663	6,278	8,451	8,282	9,156
Total Income	5,370	7,287	9,752	9,528	10,464
Operating Exp.	2,941	3,915	4,781	4,219	4,465
Total Exp.	3,648	4,925	6,082	5,465	5,772
Pre-Prov. Profit	1,722	2,362	3,670	4,063	4,692
Provisions	799	1,027	1,940	2,561	2,177
PBT	923	1,335	1,730	1,502	2,515
Tax	319	470	485	421	705
Tax Rate (%)	34.6	35.2	28.0	28.0	28.0
Net Profit	604	865	1,245	1,081	1,810
% Change	54.6	43.3	43.9	(13.2)	67.5
No. of Shares (cr)	78	82	94	94	94
Adj. EPS (Rs.)	7.7	10.6	13.2	11.5	19.2
% Change	54.7	37.2	25.2	(13.2)	67.5
DPS (Rs.)	0.0	0.0	1.0	0.9	1.5

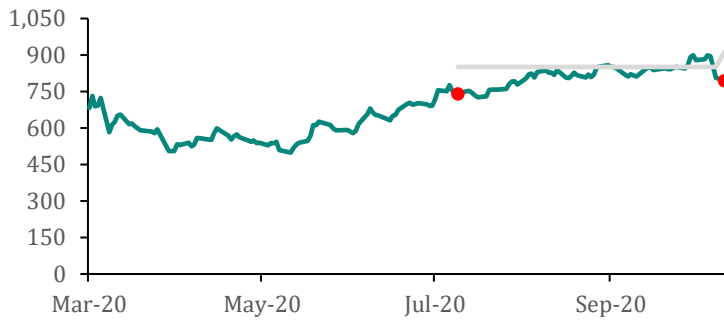
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	473	777	676	663	649
Investments	0	2	1	1	1
Advances	14,046	17,909	22,812	23,268	27,921
Fixed Assets	648	890	994	955	928
Other Assets	416	569	819	836	852
Total Assets	15,583	20,146	25,303	25,722	30,352
Capital	785	837	939	939	939
Reserves & Surplus	1,572	2,751	4,402	5,473	7,253
Deposits	-	-	-	-	-
Borrowings	7,357	8,273	10,433	10,954	11,502
Other Liabilities	5,869	8,285	9,529	8,356	10,658
Total Liabilities	15,583	20,146	25,303	25,722	30,352
BVPS (Rs.)	30.0	43.8	56.7	68.0	86.9
Adj. BVPS (Rs.)	30.0	43.8	56.7	68.0	86.9
% Change	62.6	45.7	29.5	20.0	27.8

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Spreads (%)					
NIM	29.7	16.3	15.5	17.2	17.5
Yield on funds	35.4	22.0	21.5	23.0	23.5
Cost of Borrowing	7.4	7.3	8.1	7.0	7.0
Interest Spread	28.0	14.7	13.4	16.0	16.5
Capital Adequacy (%)					
CAR	18.6	20.1	22.4	22.7	23.2
Tier I	12.6	14.9	17.7	18.0	18.2
Tier II	5.9	5.3	4.7	4.8	5.0
Asset Quality (%)					
GNPA	2.8	2.4	2.0	2.3	2.2
NNPA	0.8	0.8	0.7	0.8	0.7
Return Ratios (%)					
RoE	31.7	29.1	27.9	18.4	24.8
RoA	4.6	4.8	5.5	4.2	6.5
Valuations (x)					
P/E (x)	n.m.	n.m.	46.8	69.2	41.3
P/BV (x)	n.m.	n.m.	10.9	11.7	9.1
P/ABV (x)	n.m.	n.m.	0.2	0.1	0.2

Recommendation Summary



Dates	Rating	Target
24-Jul-20	BUY	851
27-Oct-20	BUY	913

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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