

June 09, 2022

COMPANY UPDATE | Sector: Financials

SBI Cards and Payment Services

On course for pre-pandemic RoE delivery

We hosted SBI Cards' Management in our High Conviction Ideas Conference and the takeaways were reassuring on concurrent and expected trends in card addition/mix, spend growth/mix, revolvers' share, competitive landscape and credit cost. Co. is confident about maintaining the card sourcing run-rate demonstrated in past two quarters while would not chase market share at the cost of risk or profitability. Higher acquisitions from Tier-3 & beyond locations and of self-employed customers is mainly through SBI channel. This would drive Revolvers' share recovery along with the consistent increase of discretionary spends. Less-risky customers onboarded during FY21-22 and portfolio construct/ECL coverage being at pre-pandemic level offers visibility on prompt normalization of credit cost. Cost/income ratio is expected to remain at 56-57% in the near term, with scale and digital benefits mitigating increased intensity of spend-related cost.

We estimate 20-22% CAGR in CIF and Receivables over FY22-24. Despite modelling 25 bps MDR reduction (partial recoup through opex), we estimate RoA/RoE to be 5.5-6%/24-26% which was the pre-pandemic metric (adjusted for capital base). We believe that stock price represents overstretched concerns on a) MDR reduction and lack of flexibility to recoup it, b) structural pressure on cost-income/profitability from increased competitive intensity, c) impact on growth from rising scale of the new-age card cos. and BNPL. Being the only listed pure-play credit card issuer with significantly higher profitability than Banks and NBFCs (in good times as well as bad times), SBI Cards would continue to command a premium valuation. Reiterate BUY with 12m PT of Rs1260.

Growth in CIF and Spends

- Spends have remained robust for the industry in recent months - discretionary spends continue to increase; in particular, recovery in Travel segment continues (was impacted in January due to Omicron).
- Company is confident about maintaining the card sourcing run-rate demonstrated in past two quarters - it is not chasing market share at the cost of risk or profitability - card addition would be driven by operating environment, throughput from existing channels and risk appetite (which is gradually normalizing).
- More than 90% of co.'s cards are fee bearing and thus active rate of the portfolio is better than industry.
- Higher acquisition from Tier-3 & beyond locations mainly from SBI channel, as the bank has a large creditworthy customer base in these markets - SBI Cards get an early mover advantage at these locations where card penetration is relatively much lower (majority customers are NTCC and banking data is available to underwrite) - online spends by such customers has been strong, but PoS spends are lower (should increase over time with digital penetration).
- Company would like to maintain a balance in sourcing between open market and SBI channel - banca portfolio compares favourably on risk-adjusted profitability basis - focus has been on keeping the banca portfolio active.
- About 20-25% of banca sourcing is from the YONO App - co. runs programs/engagements with Flipkart a few times during the year; mainly during the festival periods.

Reco	: BUY
CMP	: Rs 785
Target Price	: Rs 1,260
Potential Return	: 60.5%

Stock data (as on June 08, 2022)

Nifty	16,356
52 Week h/l (Rs)	1165 / 711
Market cap (Rs/USD mn)	740352 / 9524
Outstanding Shares (mn)	943
6m Avg t/o (Rs mn):	1,679
Div yield (%):	0.3
Bloomberg code:	SBICARD IN
NSE code:	SBICARD

Stock performance



	1M	3M	1Y
Absolute return	4.3%	0.7%	-25.7%

Shareholding pattern

Promoter	69.6%
FII+DII	21.9%
Others	8.4%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,260	1,260

Δ in earnings estimates

	FY22	FY23e	FY24e
EPS (New)	-	22.6	30.0
EPS (Old)	-	22.6	30.0
% Change	-	-	-

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Op. income	102,742	120,281	149,896
PPOP	44,280	51,072	65,490
Net profit	16,162	21,282	28,260
Growth (%)	64.2	31.7	32.8
EPS (Rs)	17.1	22.6	30.0
ABVPS (Rs)	79.6	99.5	126.1
P/E (x)	45.8	34.8	26.2
P/ABV (x)	9.9	7.9	6.2
ROE (%)	23.0	24.4	25.8
ROA (%)	5.2	5.6	6.1

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SBI Cards and Payment Services

Outlook on Revolvers' share

- More discretionary spends are more prone to revolving and non-discretionary spends are less prone - discretionary spends have picked-up from February and its share has improved in overall spends - but the contribution is still lower than pre-Covid with slower recovery of Travel and Entertainment categories.
- The recent emphasis (though calibrated approach) on increasing acquisition share of self-employed (SE), Cat B & C Salaried and the customers in Tier-3 & beyond locations would aid Revolvers' share recovery over coming quarters (such customers have higher propensity to revolve).
- Revolve rate has been holding-up, and this provides visibility that Revolvers' share could start to recover - however; the pace of improvement would be slow - some change in consumer behavior like buying discretionary items on subvention and EMI has also impacted Revolvers' share.

Asset Quality & Credit Cost

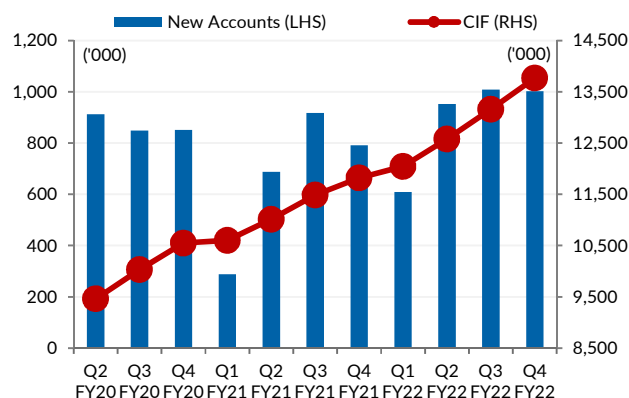
- RBI RE had declined to 1% by March, and it is a performing portfolio.
- GNPL (2.3%) and ECL (3.3%) currently at pre-Covid level; thus, reversion to pre-pandemic credit cost of around 6.5% not a challenge then - efforts are also towards optimizing the credit cost by actively managing the quality of acquisition (learning from the mistakes).
- The customers onboarded during FY22 have been less risky as the co. gradually opened its appetite for relatively riskier profiles/segments - there was a corresponding impact on the receivables mix (revolvers' share kept low).

Cost/Income Trajectory

- Working towards improving share of digital card acquisition - co. has been investing towards strengthening the digital channels - pilots ongoing for issuing insta-card even to customers from non-SBI channels - this would increase volumes and lower the blended customer acquisition cost (CAC).
- In terms of CAC, Banca channel is cheaper than open market and within banca channel, sourcing is cheaper through YONO App.
- Spend-related cost are growing in-line with spends due to competitive intensity - remaining cost (incl. CAC) has been growing below revenue (benefits from economies of scale).
- Co. would not be hesitant to make right kind of investments for the business which could be for improving customer experience, communicating value proposition, driving spends through partnership with large e-comm players, etc.
- Sharp rise in Corporate Spends and its higher share in total spends also adversely influences the reported Cost/Income ratio.
- Overall, the cost/income ratio is estimated to remain around the pre-Covid level of 56-57% in the near term - management's endeavor would be to improve it over the medium term.

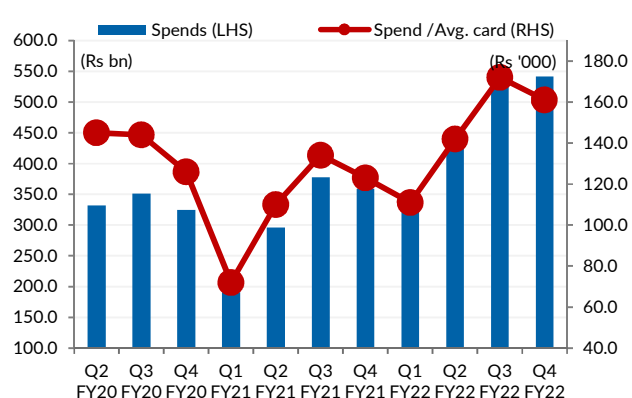
STORY IN CHARTS

Exhibit 1: New account addition has picked up



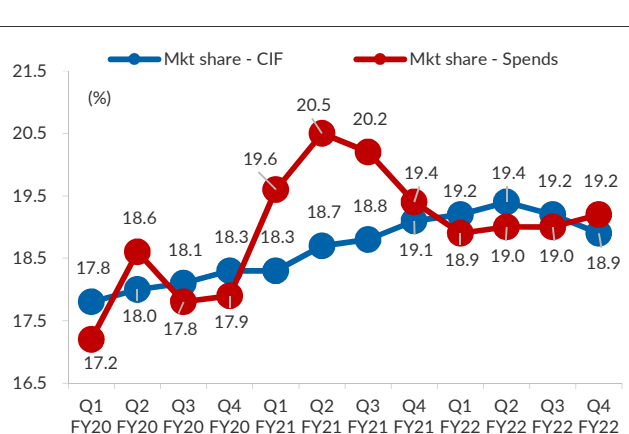
Source: Company, YES Sec

Exhibit 2: Significant recovery in Spends



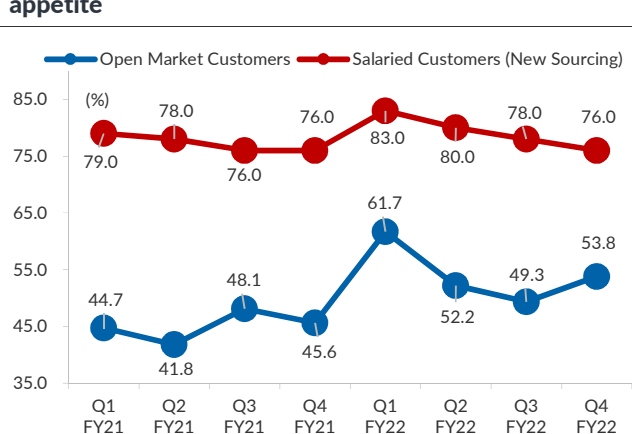
Source: Company, YES Sec

Exhibit 3: Consolidating market share gains



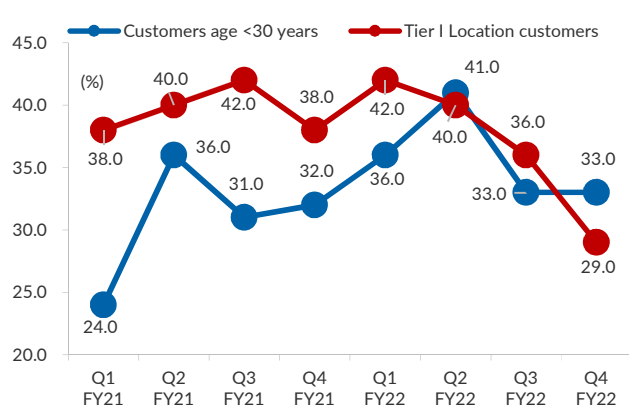
Source: Company, YES Sec

Exhibit 4: New Sourcing - Gradual opening of risk appetite



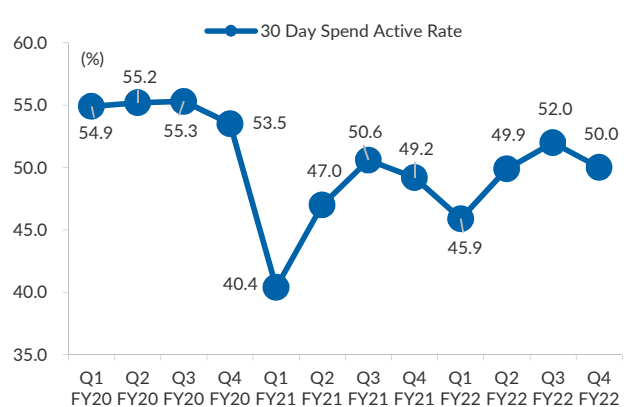
Source: Company, YES Sec

Exhibit 5: New Sourcing - Focus on younger customers and Tier 2-3 locations



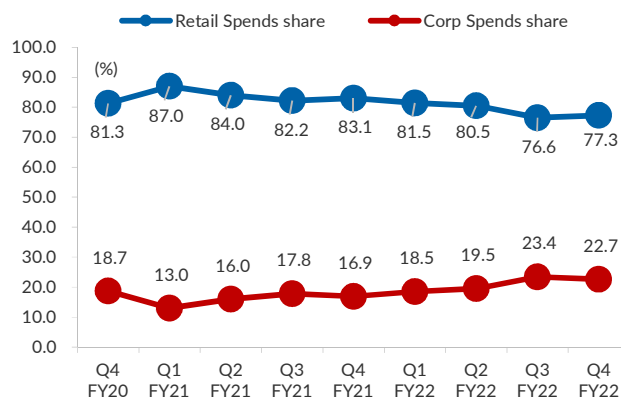
Source: Company, YES Sec

Exhibit 6: Improvement in 30-day Spend Active Rate



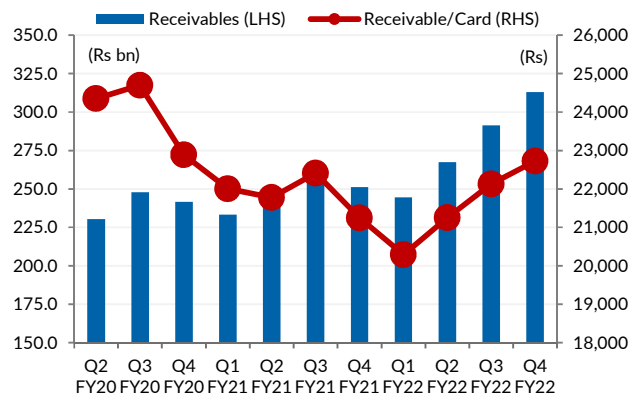
Source: Company, YES Sec

Exhibit 7: Spend recovery across Retail and Corporate Cards



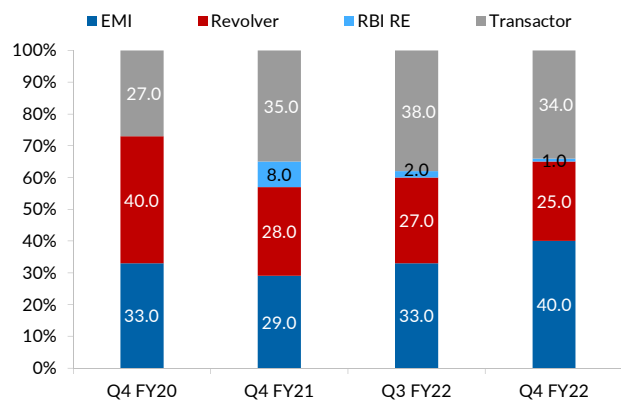
Source: Company, YES Sec

Exhibit 8: Receivables witnessing significant built-up



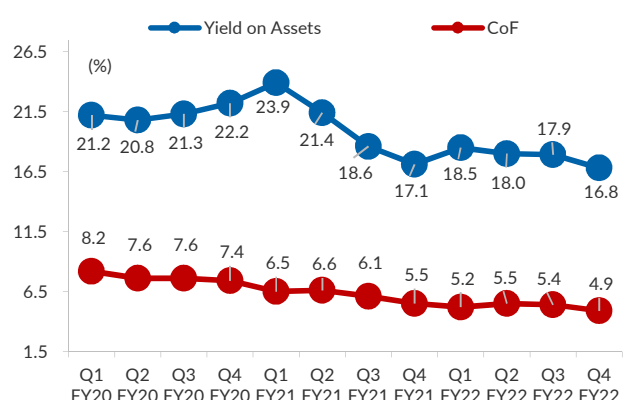
Source: Company, YES Sec

Exhibit 9: Revolvers share has bottomed out



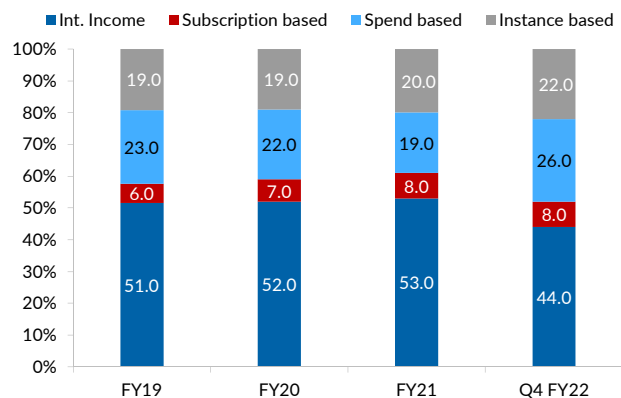
Source: Company, YES Sec

Exhibit 10: Yield impacted by decline in revolvers share



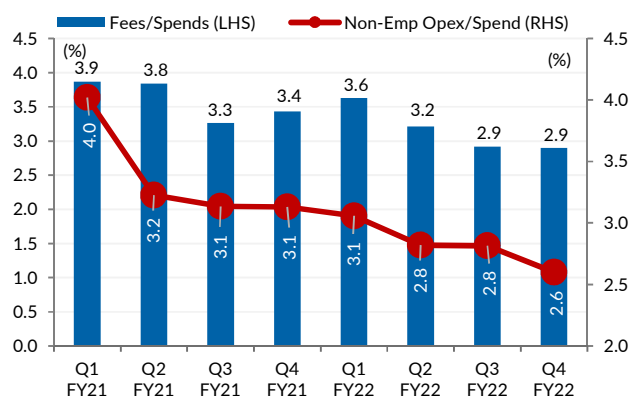
Source: Company, YES Sec

Exhibit 11: Composition of Revenue from Operations has shifted towards Fee income



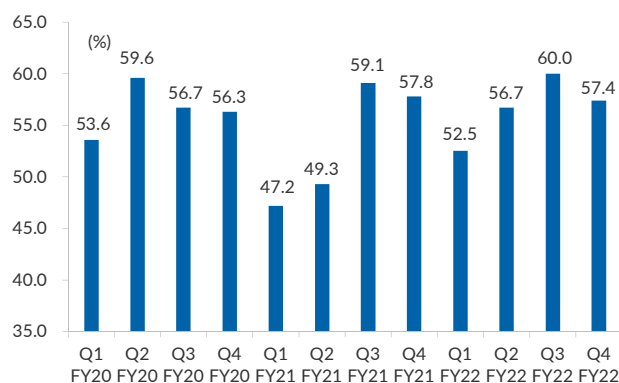
Source: Company, YES Sec

Exhibit 12: Fees/Spend % and Non-emp. Opex/Spend %



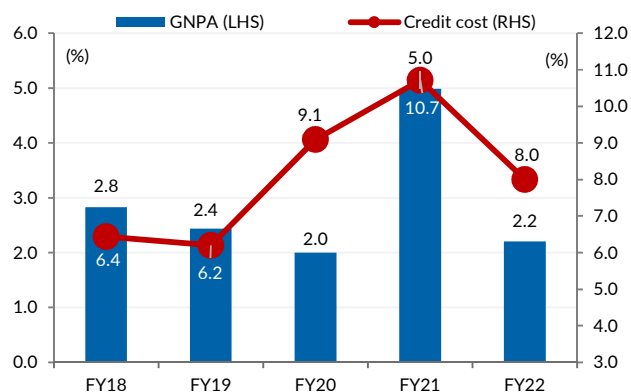
Source: Company, YES Sec

Exhibit 13: Cost/Income impacted by higher acquisitions and business investments



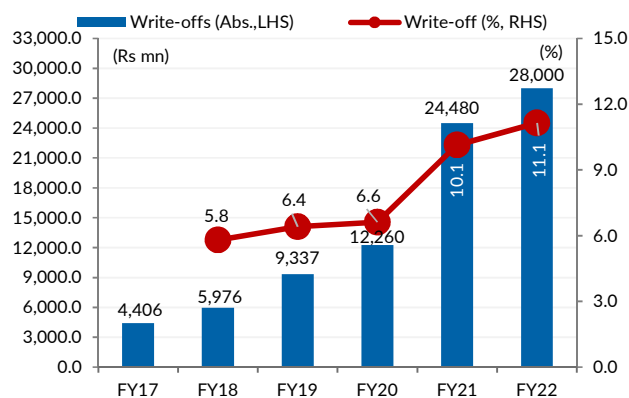
Source: Company, YES Sec

Exhibit 14: GNPLs have normalized; Credit Cost to follow



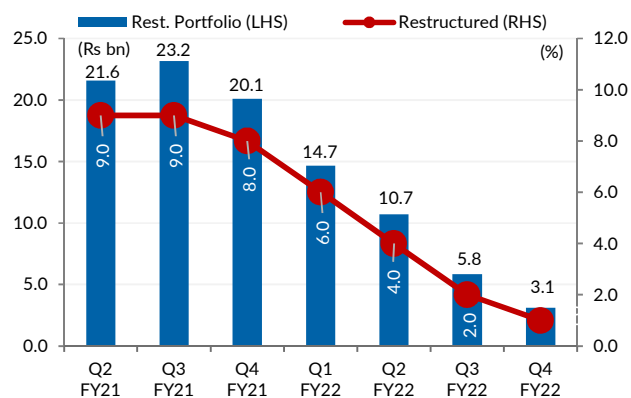
Source: Company, YES Sec

Exhibit 15: Write-offs should come-off in coming years



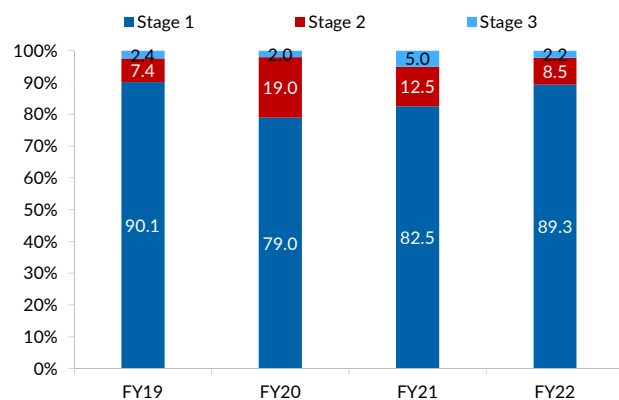
Source: Company, YES Sec

Exhibit 16: Stress from Restructured portfolio has already flowed



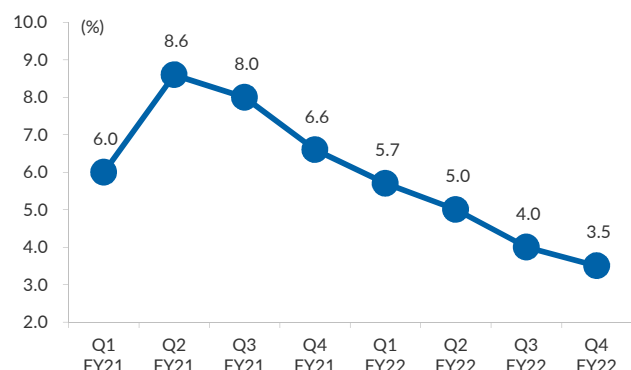
Source: Company, YES Sec

Exhibit 17: Portfolio construct has reverted to pre-pandemic level



Source: Company, YES Sec

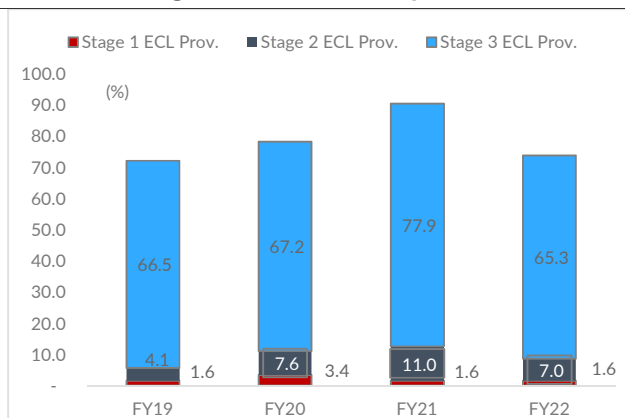
Exhibit 18: Co. holds healthy ECL provisions



Source: Company, YES Sec

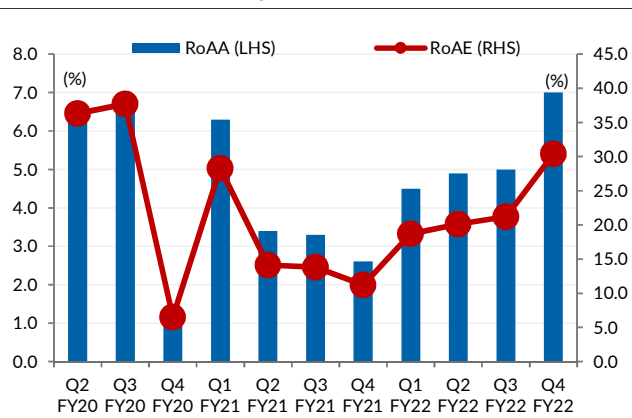
SBI Cards and Payment Services

Exhibit 19: Stage-wise ECL cover at pre-Covid level



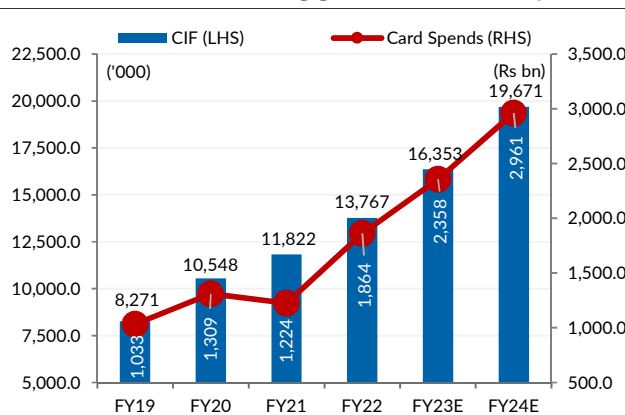
Source: Company, YES Sec

Exhibit 20: Profitability has started to normalize



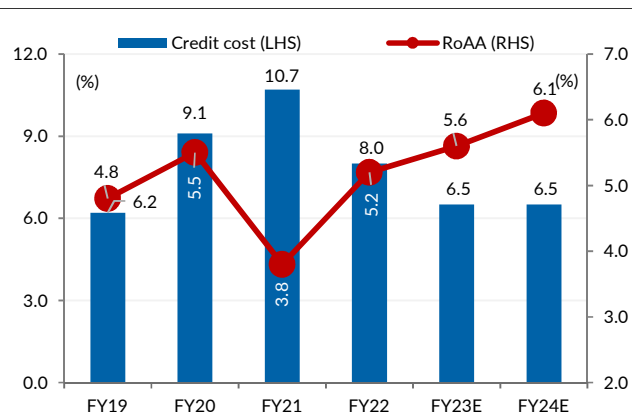
Source: Company, YES Sec

Exhibit 21: Estimate strong growth in CIF and Spends



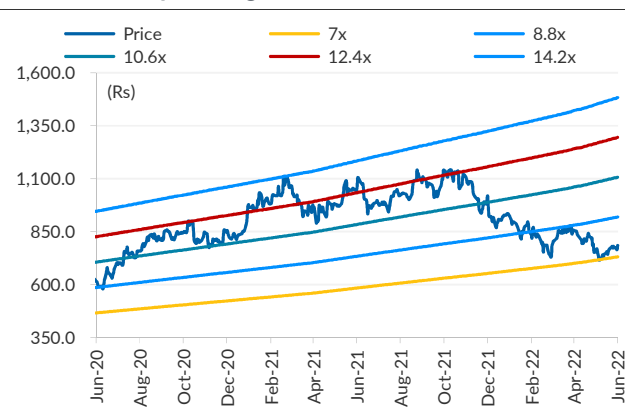
Source: Company, YES Sec

Exhibit 22: Credit cost normalisation to lift ROA



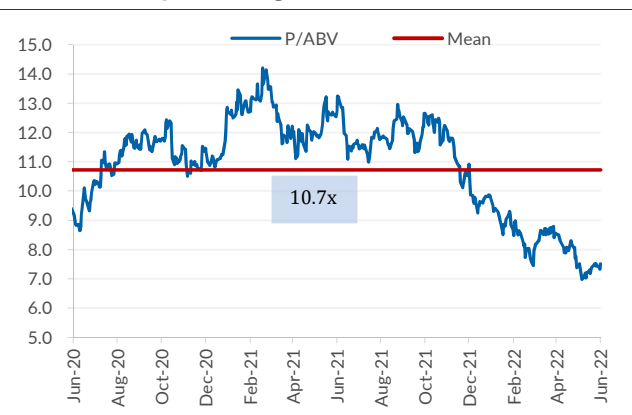
Source: Company, YES Sec

Exhibit 23: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 24: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

Delinquency pattern across customer profiles & locations

Exhibit 25: Portfolio breakup (%)

Particulars	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Occupation							
Salaried	84.0	84.0	84.0	84.0	85.0	85.0	84.0
Self employed	16.0	16.0	16.0	16.0	15.0	15.0	16.0
Salaried category							
Govt. / PSU	38.0	39.0	39.0	39.0	39.0	40.0	40.0
Category A	24.0	24.0	25.0	26.0	27.0	27.0	27.0
Category B	37.0	37.0	36.0	35.0	34.0	33.0	33.0
Age profile							
Under 30	31.0	29.0	24.0	24.0	24.0	24.0	23.0
31-45	48.0	48.0	51.0	51.0	51.0	51.0	52.0
>45	22.0	23.0	25.0	25.0	25.0	25.0	25.0
City tier							
Tier 1	51.0	50.0	49.0	49.0	48.0	46.0	45.0
Tier 2	24.0	25.0	26.0	26.0	26.0	26.0	25.0
Tier 3	14.0	14.0	14.0	14.0	14.0	16.0	17.0
Others	11.0	11.0	11.0	12.0	12.0	12.0	13.0

Source: Company, YES Sec

Exhibit 26: Indexed 30+ Delinquency

Particulars	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Occupation							
Salaried	0.93	0.92	0.91	0.91	0.92	0.93	0.95
Self employed	1.35	1.42	1.47	1.53	1.51	1.44	1.33
Salaried category							
Govt. / PSU	0.43	0.40	0.38	0.46	0.54	0.58	0.70
Category A	0.97	0.95	0.85	0.82	0.93	0.99	1.02
Category B	1.26	1.32	1.23	1.23	1.36	1.31	1.19
Age profile							
Under 30	1.13	1.03	1.16	1.09	1.10	1.16	1.18
31-45	1.01	0.81	1.04	1.03	1.03	1.02	1.00
>45	0.86	1.12	0.77	0.84	0.84	0.80	0.83
City tier							
Tier 1	1.14	1.10	1.12	1.06	1.06	1.02	1.00
Tier 2	0.86	0.92	0.92	0.97	0.93	0.91	0.91
Tier 3	0.72	0.75	0.78	0.89	0.96	1.05	1.08
Others	0.71	0.74	0.72	0.86	0.87	1.05	1.11

Source: Company, YES Sec

FINANCIALS

Exhibit 27: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Equity and Liabilities					
Equity Share Capital	9,390	9,405	9,432	9,432	9,432
Other Equity	44,023	53,615	68,095	87,318	113,048
Shareholders fund	53,412	63,020	77,527	96,750	122,480
Financial Liabilities	187,655	196,636	256,828	305,738	368,347
Derivative financial instruments	4	0	0	0	0
Payables	7,288	8,927	11,277	13,532	16,238
Debt Securities	56,854	59,329	71,063	84,565	101,901
Borrowings (Other than Debt Securities)	104,328	106,635	146,801	174,693	210,505
Subordinated Liabilities	12,467	12,983	11,960	14,233	17,150
Other Financial Liabilities	6,713	8,761	15,727	18,715	22,552
Non-Financial Liabilities	11,961	10,472	12,129	13,948	16,041
Provisions	6,026	4,097	4,774	5,490	6,313
Other non-financial liabilities	5,935	6,376	7,355	8,458	9,727
Total Liabilities + Equity	253,028	270,129	346,484	416,437	506,868
Assets					
Financial Assets	237,641	254,133	329,726	397,382	484,473
Cash and Cash Equivalents	5,151	6,432	7,582	6,620	8,161
Bank balances	1,609	769	3,482	4,179	5,015
Derivative financial instruments	0	1	0	0	0
Receivables	2,346	815	1,685	1,685	1,685
Loans	228,116	234,591	301,873	369,794	452,997
Investments	15	9,576	12,972	12,972	14,269
Other Financial Assets	403	1,949	2,133	2,133	2,347
Non- Financial Assets	15,387	15,996	16,758	19,055	22,395
Current tax assets (Net)	95	525	412	0	0
Deferred tax assets (Net)	2,751	3,951	2,185	2,185	2,185
Property, Plant and Equipment	639	565	392	412	432
Capital WIP	112	5	5	5	5
Intangible assets	903	992	1,302	1,302	1,302
Right-of-use Assets	1,693	1,620	2,839	3,122	3,435
Other Non-Financial Assets	9,195	8,338	9,623	12,029	15,037
Total Assets	253,028	270,129	346,484	416,437	506,868

Source: Company, YES Sec

Exhibit 28: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Income from Operations	92,764	92,965	106,773	127,241	160,992
Interest expense	(13,009)	(10,434)	(10,273)	(13,826)	(18,821)
Net interest income	79,755	82,531	96,500	113,414	142,170
Non-interest income	4,759	4,171	6,243	6,867	7,725
Total operating income	84,514	86,702	102,742	120,281	149,896
Total operating expenses	(47,815)	(47,079)	(58,462)	(69,209)	(84,405)
PPoP	36,699	39,623	44,280	51,072	65,490
Provisions	(19,402)	(26,386)	(22,558)	(22,620)	(27,710)
Profit before tax	17,297	13,238	21,722	28,452	37,781
Taxes	(4,848)	(3,392)	(5,560)	(7,170)	(9,521)
Net profit	12,448	9,845	16,162	21,282	28,260

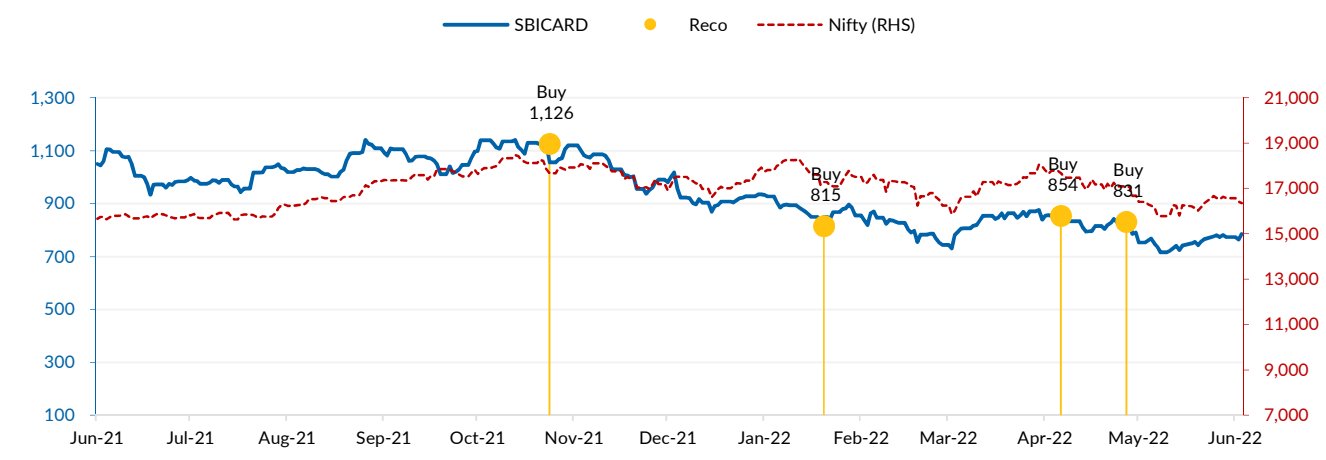
Source: Company, YES Sec

Exhibit 29: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Net interest income	33.2	3.5	16.9	17.5	25.4
Total op income	34.6	2.6	18.5	17.1	24.6
Op profit (pre-provision)	47.8	8.0	11.8	15.3	28.2
Net profit	43.9	(20.9)	64.2	31.7	32.8
Loans	27.4	2.8	28.7	22.5	22.5
Borrowings + Debt	28.2	3.1	28.4	19.0	20.5
Total assets	25.6	6.8	28.3	20.2	21.7
Profitability Ratios (%)					
NIM	15.6	14.9	12.5	12.3	13.0
Non-interest income /Total income	5.6	4.8	6.1	5.7	5.2
Return on Avg. Assets	5.5	3.8	5.2	5.6	6.1
Return on Avg. Equity	27.9	16.9	23.0	24.4	25.8
Per share ratios (Rs)					
EPS	13.3	10.5	17.1	22.6	30.0
Adj. BVPS	55.2	63.9	79.6	99.5	126.1
DPS	1.0	1.0	2.5	2.0	2.5
Other key ratios (%)					
Loans/Borrowings	131.4	131.1	131.3	135.2	137.5
Cost/Income	56.6	54.3	56.9	57.5	56.3
CAR	22.4	24.8	23.8	24.0	24.2
NNPA (%)	0.7	1.2	0.8	0.8	0.8
Credit Cost	9.1	10.7	8.0	6.5	6.5
Tax rate	28.0	25.6	25.6	25.2	25.2

Source: Company, YES Sec

Recommendation Tracker



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