

July 28, 2022

**RESULT REPORT Q1 FY23** | Sector: Financials

# SBI Cards and Payment Services

## Strong show; uptick in Revolvers' share

SBI Cards delivered a handsome beat of 6%/12%/24% on our Income/PPOP/PAT estimates, and it was driven by robust spends growth, uptick in revolvers' share, contained opex intensity and a stable quality underpinning moderate credit cost. RoA and RoE stood at 7% and 31% respectively, which were a multi-year high.

### Robust spends growth; recovery in revolvers' share aids NIM

CIF grew by 4% qoq/19% yoy with new accounts addition at 0.9mn (down 10% qoq, but up 48% yoy). Spends at Rs597bn were up 10% qoq/79% yoy, and within this Retail spends were up 9% qoq/68% yoy. Spends in Travel & Entertainment category are now trending higher than pre-Covid level. Receivables grew by 6% qoq/36% yoy to Rs332bn. Share of Revolvers improved to 26% from 25% qoq on the back of altered sourcing mix (in targeted direction), normalization of risk filters over past three quarters and higher share of discretionary spends. Transactor's share declined to 38% from 40%.

The secular decline in NIM seen over the previous quarters was arrested as portfolio yield improved by 30 bps qoq on the back of uptick in revolvers' share and calibrated increase in CoF (despite higher proportion of Bank + CP funding). Fee yield also saw an uptick which is attributable to better discretionary mix in retail spends.

### Credit cost declined further with sturdy asset quality

GNPA/NNPA were stable at 2.2%/0.8% even after dissolution of the RBI RE portfolio. Credit cost at 5.6% was lower than 6.2% in Q4 FY22 (after adding back overlay release) and 9-10% run-rate of preceding three quarters. Receivable write-off was also lower. Portfolio construct (Current, Std. OD and NPL buckets) and ECL provisions have reverted to pre-pandemic level.

SBI Cards' performance had multiple positives with the key being increase in Revolvers' share and interest-bearing receivables. Co. has been guiding towards a gradually recovery in Revolvers' share aided by increasing sourcing share of Tier-3 & beyond locations and of SE customers and Cat B & C Salaried customers. SBI cards has started to claw back the market share lost recently from June and remains confident about gaining further ground in coming months. With the pervasively strong momentum expected to continue in coming quarters, we raise our FY23/24 earnings estimates by 7%/2%. We now estimate RoA/RoE delivery of 6%/26% over FY23-24 which factors a 25 bps MDR reduction (with partial recoup through opex). Reiterate BUY with 12m PT of Rs1260.

### Exhibit 1: Result table

(Rs mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Revenue from Operations	31,003	28,503	8.8	23,619	31.3
Interest expended	(3,084)	(2,674)	15.3	(2,290)	34.7
Net Interest Income	27,919	25,829	8.1	21,329	30.9
Total Income	29,545	27,487	7.5	22,219	33.0
Operating expenses	(16,633)	(15,767)	5.5	(11,680)	42.4
PPOP	12,912	11,720	10.2	10,540	22.5
Provisions	(4,503)	(3,928)	14.6	(6,437)	(30.1)
PBT	8,409	7,792	7.9	4,103	105.0
Tax	(2,140)	(1,984)	7.9	(1,057)	102.5
PAT	6,269	5,809	7.9	3,046	105.8

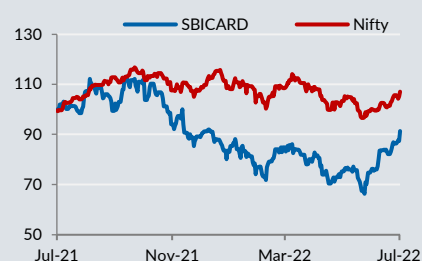
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 929
Target Price	: Rs 1,260
Potential Return	: 35.6%

### Stock data (as on July 28, 2022)

Nifty	16,930
52 Week h/l (Rs)	1165 / 656
Market cap (Rs/USD mn)	876432 / 10989
Outstanding Shares (mn)	943
6m Avg t/o (Rs mn):	1,503
Div yield (%):	0.3
Bloomberg code:	SBICARD IN
NSE code:	SBICARD

### Stock performance



	1M	3M	1Y
Absolute return	19.7%	10.4%	-8.4%

### Shareholding pattern

Promoter	69.6%
FII+DII	24.5%
Others	5.8%

### 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)	17.1	24.1	30.6
EPS (Old)	17.1	22.6	30.0
% Change	-	6.7%	1.8%

### Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Op. income	102,742	120,019	150,770
PPOP	44,280	51,679	66,283
Net profit	16,162	22,742	28,815
Growth (%)	64.2	40.7	26.7
EPS (Rs)	17.1	24.1	30.6
ABVPS (Rs)	79.6	101.1	128.3
P/E (x)	54.2	38.5	30.4
P/ABV (x)	11.7	9.2	7.2
ROE (%)	23.0	25.9	25.9
ROA (%)	5.2	6.0	6.2

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## KEY CON-CALL HIGHLIGHTS

- Lower card addition in Q1 FY23 v/s Q4 FY22 due to banca integration issues - sourcing mix was thus skewed towards open market
- Structurally, the sourcing mix will not change – there is no recalibration of risk or sourcing mix
- Overall spends growth was strong with even Travel & Entertainment category reverting to pre-pandemic level (it grew by 34% yoy)
- Spends were also driven by discount offers by the co. – avg. spend per card has been rising
- Spend-based fee has been around 1.4% v/s 1.6% pre-Covid – will improve but will not go back to the pre-Covid level due to addition of new category of spends – subscription-based fees would stabilize henceforth on per card basis
- Spend per customer has been increasing for the industry due to addition of categories due to digitalization – and within each category, the penetration/usage will keep increasing
- Spend per active card is similar between Banca and OM channel – Revolve rate is lower in Banca v/s OM
- Expansion of partnerships and addition of digital channels would augment gross card addition – while the co. would try to reduce the card attrition – 0.3mn net monthly card addition remains as aspiration
- Recent decline in market share in industry CIF is a transient phenomenon and the co. has plans to reverse the situation – since June, the market share has started recovering
- Digital integration with SBI as good as a YONO app – the latter has been contributing to card addition
- Considering the nature of increase in Revolvers' share, the co. expects that this trend could continue
- CoF increase will be sharper in the current quarter and can move to 5.6-5.8%
- Share of EMI loans been steadily increasing – increase in the share of interest earnings receivables (including revolvers) would support NIM despite funding rate increase
- Tenor of Term Loans could be 8-9 months in case of spend conversion and 30-34 months in case of an additional loan
- EMI loans are fixed rate loans – new disbursed can be priced higher to pass on CoF
- While NIM has declined over the past couple of year due to reduction in the Revolvers' share, the RoA/RoE matrix has not changed
- Ongoingly looking at optimizing the credit cost given that currently it is low – co. has been opening-up on the risk appetite as can be seen in the shift in sourcing mix since few quarters back
- SBI Cards is complying with the all guidelines prescribed by RBI recently - guideline on 30-day activation of cards has been deferred for implementation from Oct 1
- More than 1mn cards on Rupay network in the industry and SBI would be one of the largest issuers
- Industry needs MDR as cards offer up to 52 days of interest-free credit period which entails a funding cost for the issuer and the customers use cards also due to the revolve preposition

## Exhibit 2: Key Financial data

(%)	Q1 FY23	Q4 FY22	Chg qoq	Q1 FY22	Chg yoy
Yield on assets	17.1	16.8	0.3	18.5	(1.4)
Cost of funds	5.1	4.9	0.2	5.2	(0.1)
NIMs	13.2	13.2	-	14.8	(1.6)
Cost / Income	56.3	57.4	(1.1)	52.5	3.8
GNPA (%)	2.2	2.2	0.0	3.9	(1.7)
NNPA (%)	0.8	0.8	0.0	0.9	(0.1)
Provision coverage ratio (%)	65.1	65.3	(0.2)	78.2	(13.1)
CAR (%)	24.7	23.8	0.9	26.1	(1.4)
Tier I (%)	21.5	21.0	0.5	22.6	(1.1)
Tier II (%)	3.2	2.8	0.4	3.5	(0.3)
Financial leverage (x)	3.9	4.1	(0.2)	3.7	0.2
RoAA (%)	7.0	7.0	-	4.5	2.5
RoAE (%)	30.8	30.4	0.4	18.7	12.1

Source: Company, YES Sec

## Exhibit 3: Cards and Spends data

Key Indicators	Q1 FY23	Q4 FY22	qoq %	Q1 FY22	yoy %
CIF ('000)	14,316	13,767	4.0	12,044	18.9
New accounts ('000)	902	1,002	(10.0)	609	48.1
Spends (Rs mn)	596,710	541,340	10.2	332,600	79.4
Corporate Spends (Rs mn)	141,830	122,630	15.7	61,620	130.2
Retail Spends (Rs mn)	454,880	418,720	8.6	270,980	67.9
Retail Spends (% of Total Spends)	76.2	77.3	(1.1)	81.5	(5.2)
Online Spends (% of Retail Spends)	55.2	54.4	0.8	54.9	0.3
Avg. Annual Spend/Card ('000)	170	161	5.6	111	53.2
30 days active - (%)	50.0	50.0	-	45.9	4.1
Receivables (Rs mn)	332,150	312,810	6.2	244,380	35.9
Receivables per card (Rs)	23,202	22,722	2.1	20,290	14.4
Market Share in Industry CIF (%)	18.4	18.9	(0.5)	19.2	(0.8)
Market Share in Industry Spends (%)	18.6	19.2	(0.6)	18.9	(0.3)

Source: Company, YES Sec

## Exhibit 4: Composition of Receivables

(%)	Q1 FY23	Q4 FY22	chg qoq	Q1 FY22	Chg yoy
Term Balances /EMI	38.0	40.0	(2.0)	32.0	6.0
Revolver	26.0	25.0	1.0	29.0	(3.0)
RBI RE	-	1.0	-	6.0	-
Transactor	35.0	34.0	1.0	33.0	2.0

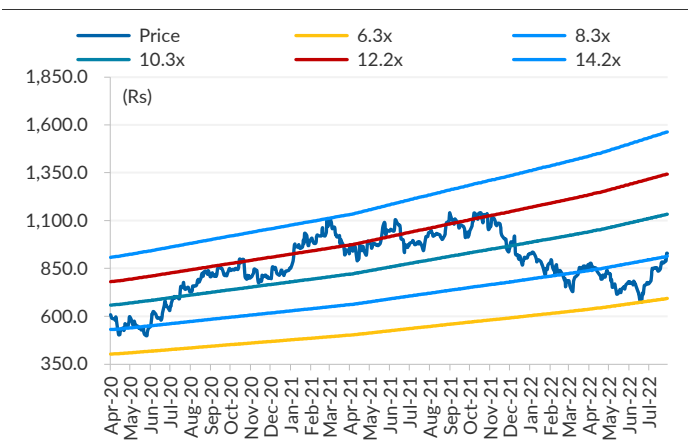
Source: Company, YES Sec

**Exhibit 5: New Sourcing profile**

(%)	Q1 FY23	Q4 FY22	chg qoq	Q1 FY22	Chg yoy
<b>Channel Mix (%)</b>					
SBI sourcing	32.2	46.2	(14.0)	38.3	(6.1)
Open market sourcing	67.8	53.8	14.0	61.7	6.1
<b>Occupation Mix (%)</b>					
Salaried	74.0	76.0	(2.0)	83.0	(9.0)
Self employed	26.0	24.0	2.0	17.0	9.0
<b>Salaried Mix (%)</b>					
Govt. / PSU	36.0	38.0	(2.0)	32.0	4.0
Category A	29.0	29.0	-	43.0	(14.0)
Category B	35.0	34.0	1.0	25.0	10.0
<b>Age Profile Mix (%)</b>					
Under 30	35.0	33.0	2.0	36.0	(1.0)
31-45	47.0	47.0	-	45.0	2.0
>45	18.0	20.0	(2.0)	19.0	(1.0)
<b>City Tier Mix (%)</b>					
Tier 1	31.0	29.0	2.0	42.0	(11.0)
Tier 2	20.0	20.0	-	32.0	(12.0)
Tier 3	30.0	30.0	-	10.0	20.0
Others	19.0	21.0	(2.0)	16.0	3.0

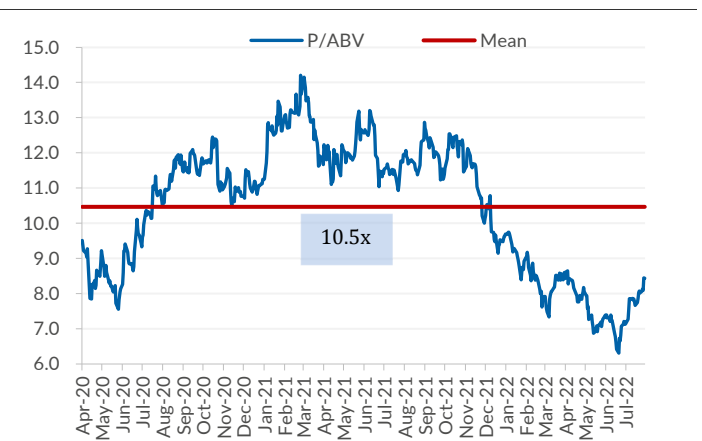
Source: Company, YES Sec

**Exhibit 6: 1-yr rolling P/ABV band**



Source: Company, YES Sec

**Exhibit 7: 1-year rolling P/ABV vis-a-vis the mean**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 8: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
<b>Equity and Liabilities</b>					
Equity Share Capital	9,390	9,405	9,432	9,432	9,432
Other Equity	44,023	53,615	68,095	88,779	115,064
<b>Shareholders fund</b>	<b>53,412</b>	<b>63,020</b>	<b>77,527</b>	<b>98,210</b>	<b>124,496</b>
<b>Financial Liabilities</b>					
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	101,479
Borrowings (Other than Debt Securities)	104,328	106,635	146,801	174,693	209,632
Subordinated Liabilities	12,467	12,983	11,960	14,233	17,079
Other Financial Liabilities	6,713	8,761	15,727	18,715	22,458
<b>Non-Financial Liabilities</b>	<b>11,961</b>	<b>10,472</b>	<b>12,129</b>	<b>13,948</b>	<b>16,041</b>
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
<b>Total Liabilities + Equity</b>	<b>253,028</b>	<b>270,129</b>	<b>346,484</b>	<b>417,897</b>	<b>507,422</b>
<b>Assets</b>					
<b>Financial Assets</b>					
Cash and Cash Equivalents	5,151	6,432	7,582	6,570	8,723
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	371,303	452,990
Investments	15	9,576	12,972	12,972	14,269
Other Financial Assets	403	1,949	2,133	2,133	2,347
<b>Non- Financial Assets</b>	<b>15,387</b>	<b>15,996</b>	<b>16,758</b>	<b>19,055</b>	<b>22,395</b>
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
<b>Total Assets</b>	<b>253,028</b>	<b>270,129</b>	<b>346,484</b>	<b>417,897</b>	<b>507,422</b>

Source: Company, YES Sec

## Exhibit 9: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Income from Operations	92,764	92,965	106,773	127,248	161,824
Interest expense	(13,009)	(10,434)	(10,273)	(14,095)	(18,779)
<b>Net interest income</b>	<b>79,755</b>	<b>82,531</b>	<b>96,500</b>	<b>113,152</b>	<b>143,045</b>
Non-interest income	4,759	4,171	6,243	6,867	7,725
Total operating income	84,514	86,702	102,742	120,019	150,770
Total operating expenses	(47,815)	(47,079)	(58,462)	(68,340)	(84,487)
<b>PPoP</b>	<b>36,699</b>	<b>39,623</b>	<b>44,280</b>	<b>51,679</b>	<b>66,283</b>
Provisions	(19,402)	(26,386)	(22,558)	(21,276)	(27,760)
Profit before tax	17,297	13,238	21,722	30,404	38,523
Taxes	(4,848)	(3,392)	(5,560)	(7,662)	(9,708)
<b>Net profit</b>	<b>12,448</b>	<b>9,845</b>	<b>16,162</b>	<b>22,742</b>	<b>28,815</b>

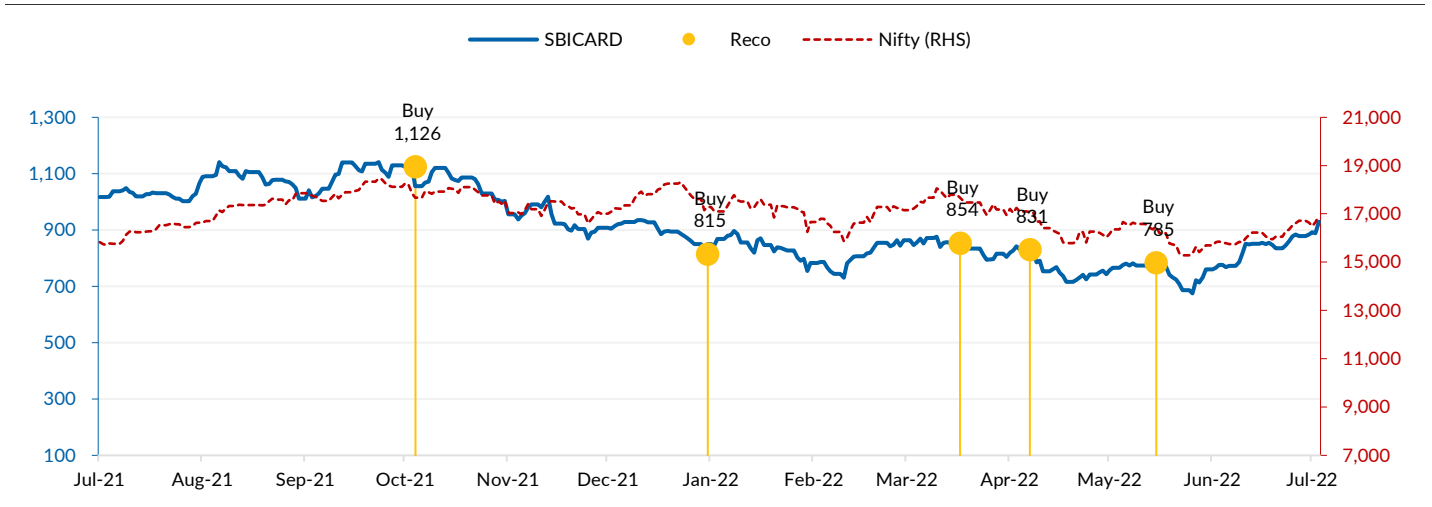
Source: Company, YES Sec

## Exhibit 10: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
<b>Growth matrix (%)</b>					
Net interest income	33.2	3.5	16.9	17.3	26.4
Total op income	34.6	2.6	18.5	16.8	25.6
Op profit (pre-provision)	47.8	8.0	11.8	16.7	28.3
Net profit	43.9	(20.9)	64.2	40.7	26.7
Loans	27.4	2.8	28.7	23.0	22.0
Borrowings + Debt	28.2	3.1	28.4	19.0	20.0
Total assets	25.6	6.8	28.3	20.6	21.4
<b>Profitability Ratios (%)</b>					
NIM	15.6	14.9	12.5	11.8	12.5
Non-interest income /Total income	5.6	4.8	6.1	5.7	5.1
Return on Avg. Assets	5.5	3.8	5.2	6.0	6.2
Return on Avg. Equity	27.9	16.9	23.0	25.9	25.9
<b>Per share ratios (Rs)</b>					
EPS	13.3	10.5	17.1	24.1	30.6
Adj. BVPS	55.2	63.9	79.6	101.1	128.3
DPS	1.0	1.0	2.5	2.0	2.5
<b>Other key ratios (%)</b>					
Loans/Borrowings	131.4	131.1	131.3	135.8	138.0
Cost/Income	56.6	54.3	56.9	56.9	56.0
CAR	22.4	24.8	23.8	24.2	24.6
NNPA (%)	0.7	1.2	0.8	0.8	0.8
Credit Cost	9.1	10.7	8.0	6.1	6.5
Tax rate	28.0	25.6	25.6	25.2	25.2

Source: Company, YES Sec

## Recommendation Tracker



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Name of the Research Analyst : Rajiv Mehta, Manuj Oberoi

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
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## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS



# SBI Cards and Payment Services

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.