

31 July 2023

India | Equity Research | Q1FY24 results review

SBI Cards and Payment Services

Financial Services

Improving outlook for NIM, credit cost, opex set up strong earnings prospect

SBI Cards (SBIC) reported QoQ PPOP growth of 6% but 14% higher credit cost led to flattish PAT of INR 5.9bn in Q1FY24. While earnings growth has faced challenges of adverse change in mix (delay in revolver build up post covid), higher cost of funds (rate hikes), higher opex (BNPL competition), regulatory challenges (RBI master circular) and higher credit costs including a long-tailed impact of covid (as seen from ~14bps impact from a FY19 cohort in Q1FY24), it has still reported 27% earnings CAGR over the last 5 years ending FY23. Additionally, these challenges are largely behind the company as reflected in valuations, which have halved in past two years (current valuations indicate 26x FY25E earnings). Expectations of NIMs having bottomed out are realistic due to cost of funds peaking out, gradual increase in higher-yielding EMI cohorts as well as growth in revolvers (revolver outstanding has grown at an average rate of 25% YoY in the past 5 quarters).

Management underlined credit cost peaking out in Q1FY24 and opex to be in control from higher digital mode of acquisition. Key downside risks: Possible regulatory cut in interchange fee, which has reduced vs past and fee has been introduced recently in select modes on UPI platforms. Key upside risk: Increase in NIMs.

Maintain BUY with a revised target price of INR 986 (earlier INR 953) based on 30x (unchanged) FY25E earnings (rolled over from Sep'24)

Considering SBIC's RoA/RoE of ~5%/23%, valuation remains attractive. We expect total spends CAGR of 9% between FY23-FY25E; FY23 industry spend was INR 14.3trn with SBIC's market share at 18.2%. SBIC's cards-in-force (CIF) stood at 16.7mn as of Mar'23, translating to a spend of INR 172k per card. We expect annual net card addition of 3.1/3mn in FY24E/FY25E, spend per card CAGR of ~1%, and total spend at ~INR 3.2trn/INR 3.8trn for FY24E/FY25E, respectively. On an annualised basis, receivables as a proportion of total spend stood at 15% in FY23. We expect receivables-to-spends ratio to improve to ~16% in FY24E/FY25E, which may lead to receivables of INR 518bn/INR 614bn as of Mar'24E/Mar'25E, respectively. We expect calculated NIMs of 12.5%/13% for FY24E/FY25E vs calculated NIM of 13% in FY23 and other operating income as a percentage of spend to average ~3% between FY23-FY25E. We expect cost-to-income ratio to decline from 59.8% in FY23 to 59/58% in FY24E/25E and credit cost to increase from 6.2% in FY23 to 6.5%/6.4% during the same period. SBIC expects credit cost to remain within 5.8-6.2% range. We expect PAT of INR 24.6/30.9bn for FY24E/FY25E (earlier INR 26.6bn/33.5bn), respectively.

Financial Summary

Y/E (INR bn)	FY22A	FY23A	FY24E	FY25E
Net Interest Income (NII) (INR bn)	38	45	58	76
PAT (INR bn)	16	22	25	31
EPS (INR)	17.1	23.4	26.1	32.9
% Chg YoY	63.7	36.8	11.2	26.0
P/E (x)	50.0	36.6	32.9	26.1
P/BV (x)	10.4	8.3	6.8	5.6
Credit cost (%)	8.4	6.0	6.5	6.4
GNPA (%)	2.3	2.5	2.6	2.6
RoAA (%)	5.2	5.5	4.8	5.0
RoAE (%)	23.0	25.3	22.8	23.6

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Market Data

Market Cap (INR)	811bn
Market Cap (USD)	9,867mn
Bloomberg Code	SBICARD IN
Reuters Code	SBIC BO
52-week Range (INR)	1,029 /691
Free Float (%)	31.0
ADTV-3M (mn) (USD)	14

Price Performance (%)	3m	6m	12m
Absolute	11.0	19.0	(8.4)
Relative to Sensex	9.0	12.1	16.4

ESG Disclosure	2021	2022	Change
ESG score	35.9	45.1	9.2
Environment	3.8	18.2	14.4
Social	37.6	38.4	0.8
Governance	66.1	78.6	12.5

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
NII	(4.3)	(6.9)
PAT	(7.6)	(7.5)

Previous Reports

30-04-2023: [Q4FY3 results review](#)

23-03-2023: [Company update](#)

Total interest bearing asset stands at 62% as of Q1FY24; mix has been stable for three quarters now

The shift in receivables mix target strategy from 33:33:33 (transactor+revolver+EMI) among the three segments to >60% interest-bearing asset (revolver+EMI) is noteworthy. The shift is being driven by the focus on the EMI category and an ongoing reset in revolver base post-covid. While there has been a constant yearning for improvement in revolver mix among investors, there have been no reservations from the company in strategically increasing the EMI mix. This could increase the long-term business salience of the company. The mix has been stable at 38% each transactor/EMI and 24% EMI. Key positive trend also includes improving receivables per card, which stands at INR 24,949 as of Q1FY24, up 7.5% YoY.

Cost-to-income ratio (for unit acquisition) shows smart improvement in Q1FY24

We expect full-year trend to be lower YoY. The big lever for reduction in the cost of acquisition would be in digital transformation and FY24E could be a pivotal year for the same. SBIC has built SPRINT platform, an end-to-end digital processing application offering digital KYC (through Digilocker), alternate data integration and instant decision-making based on AI and ML models for customers with real-time card issuance. With the use of SPRINT, SBIC offers an instant carding option for new customers. Following the same, the company is likely to be better positioned to deploy hyper-personalisation using the available data. The SPRINT platform for digital acquisition is ready and is likely to undergo integration with partners in FY24E. SBIC app downloads stand at >10mn and have an overall rating of 4.5/5 as of Mar'23, as per Google Playstore.

Management expects credit cost to improve and return to 5.8-6.2% range from Q3FY24E

Actions underway to control credit cost include: (1) Specific cohorts identified for portfolio action and (2) intensified collection efforts. The performance of recent sourcing in line with expectations and credit cost may trend lower as proportion of newer (better quality) vintages increases. The company has strategically increased the sourcing from self-employed segment and tier3-4 segments which have shown downward delinquency trends. Operational activities underlined to improve asset quality include: 1) On pre-acquisition side, company has tightened the control on new acquisitions, restricted low limit card sourcing and reduced the number of locations on the basis of viability, 2) on portfolio management side, it has reduced credit line facility and lowered the cross-selling of products to high risk section and 3) on collection side, it has customised digital interventions to drive contacts and payments, strengthened collection infra in remote locations and has increased the intensity by fine tuning field allocation strategy.

Key operating trends

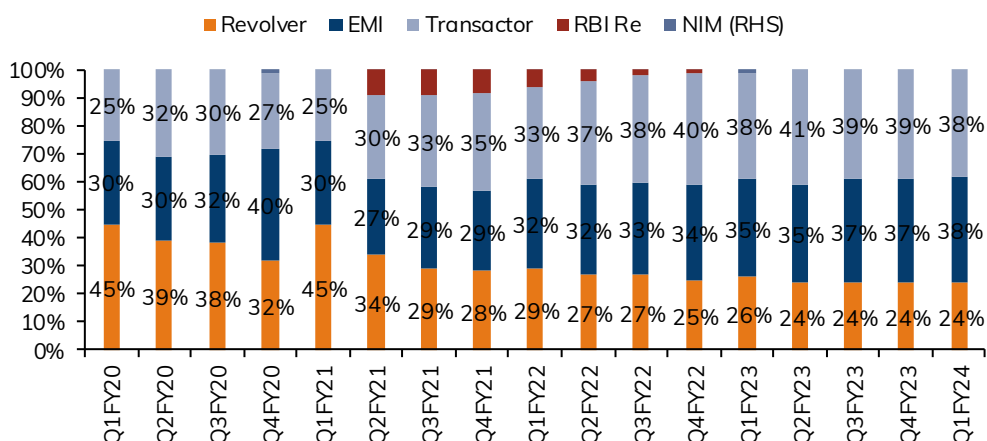
As on Jun'23, total CIF stood at 17.3mn, up 21%/3% YoY/QoQ. Net card addition stood at ~600k and SBIC has provided a guidance of ~20% market share in net additions. It reported spends of INR 739bn, up 24% YoY and 3% QoQ split between retail spend of INR 583bn (up 5% QoQ) and corporate spend of INR 156bn (down 4% QoQ). Average spend per card reduced from INR 176k in Q4FY23 to INR 173k in Q1FY24 on account of drop in corporate spends as retail spend per card increased from INR 136k to INR 137k during the same period. PoS growth was higher than online growth in Q1FY24 driven by higher spends in travel, dining and entertainment, which grew 11% QoQ vs overall spend growth of 5% QoQ. New sourcing from open market increased from 44% in Q4FY23 to 46% in Q1FY23 with SBIC's sourcing reducing from 56% to 54%, while new sourcing mix from age profile below 30yrs reduced from 36% to 34%, during the same period. Sourcing mix in terms of salaried and self-employed customers remained stable at 61/39% in Q1FY24.

Exhibit 1: Q1FY24 result review

INR mn	Q1FY24	Q1FY23	% YoY	Q4FY23	% QoQ
Interest Income	18,042	13,873	30.1	16,723	7.9
Income from membership fees	18,981	15,380	23.4	17,857	6.3
Service Charges	390	347	12.6	453	-13.8
Business development incentive income	1,697	1,396	21.6	2,578	-34.2
Insurance commission income	7	8	-14.5	10	-33.7
Net gain on fair value changes	2	-		-	
Total Revenue	39,120	31,003	26.2	37,621	4.0
Other Income	1,342	1,626	-17.4	1,544	-13.1
Finance Costs	5,711	3,084	85.2	5,073	12.6
Employee costs	1,453	1,386	4.8	1,521	-4.5
Depreciation	476	392	21.5	451	5.5
Operating and other expense	17,671	14,855	19.0	17,826	-0.9
CSR	-	-		-	
Impairment losses and bad debts	7,186	4,503	59.6	6,298	14.1
Net loss on fair value changes					
Total Expense	32,495	24,219	34.2	31,169	4.3
PPOP	15,152	12,912	17.4	14,295	6.0
PBT	7,967	8,409	-5.3	7,997	-0.4
Tax	2,033	2,140	-5.0	2,032	0.0
PAT	5,934	6,269	-5.3	5,965	-0.5
	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
ROAA	5.1%	7.0%	-190	5.4%	-30
GNPA	2.4%	2.2%	17	2.4%	6
NNPA	0.9%	0.8%	10	0.9%	2
CAR	22.9%	24.7%	-180	23.1%	-20
T-1	0.0%	21.5%	-2,150	20.4%	-2040
NIM	11.5%	13.2%	-170	11.5%	0
Cost of funds	7.1%	5.1%	200	6.7%	40
Gross credit cost	6.8%	5.6%	120	6.3%	50
Net credit cost	5.7%	3.7%	200	4.8%	90
Cost to Income ratio	56.4%	56.3%	10	58.1%	-170
Spends	739	597	23.9	717	3.1
Gross receivables	433	332	30.3	408	6.1
Revolver	24%	26%	-200	24%	0
EMI	38%	35%	300	37%	100
Transactor	38%	38%	-	39%	-100
RBI Re	0%	0%	-	0%	0
Borrowing	330	248	33	311	6

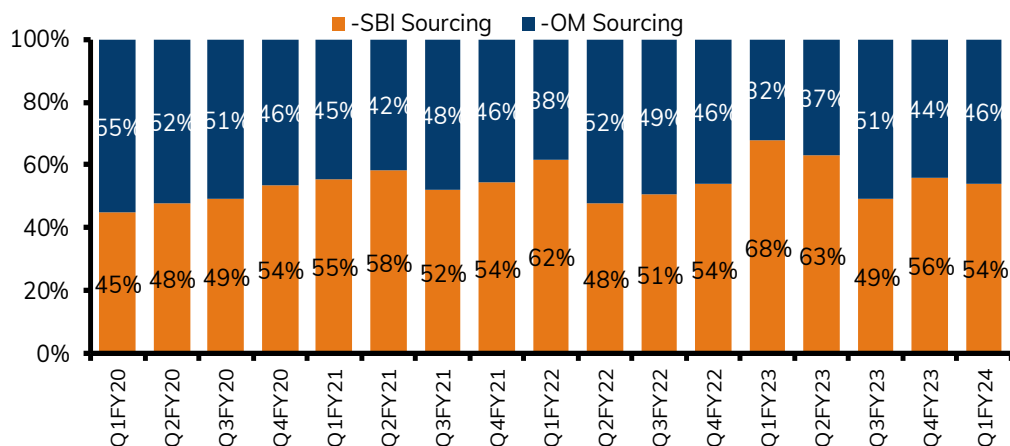
Source: I-Sec research, Company data

Exhibit 2: Receivables mix remained unchanged in Q1FY24



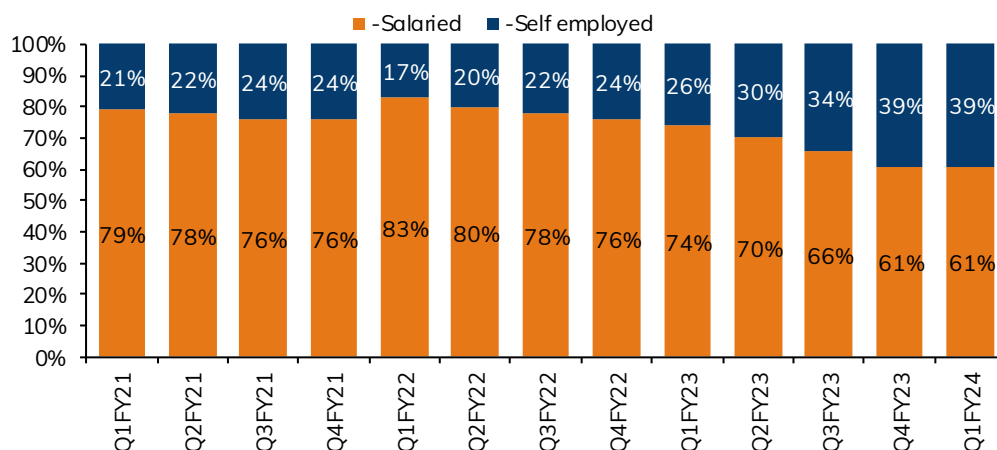
Source: I-Sec research, Company data

Exhibit 3: New account sourcing increased in Q1FY24 vs Q4FY23



Source: I-Sec research, Company data

Exhibit 4: Percentage of self-employed category in new accounts added stood at 39% in Q1FY24



Source: I-Sec research, Company data

Exhibit 5: New accounts acquired in age category of <30 yrs witnessed a decline in Q1FY24

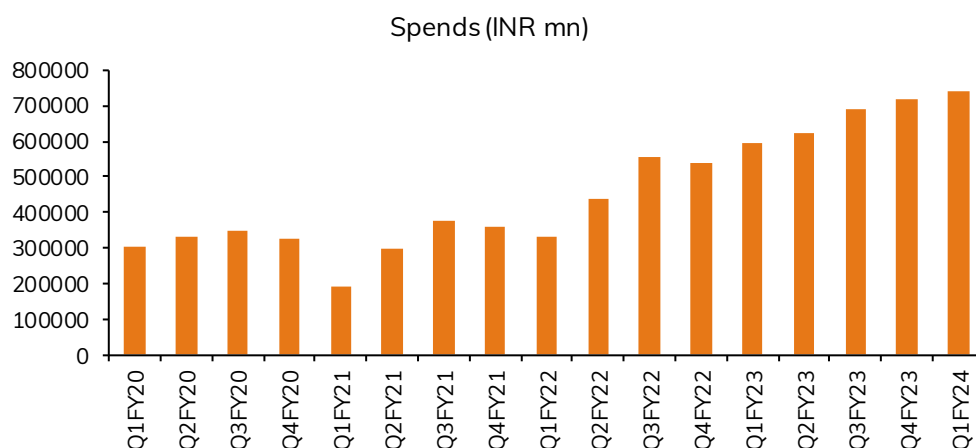
New Account Age	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
-Under 30	24%	36%	31%	32%	36%	41%	33%	33%	35%	37%	36%	36%	34%
-31-45	51%	43%	48%	46%	45%	43%	48%	47%	47%	47%	49%	48%	49%
->45	25%	21%	21%	22%	19%	16%	19%	20%	18%	16%	15%	16%	17%

Source: I-Sec research, Company data

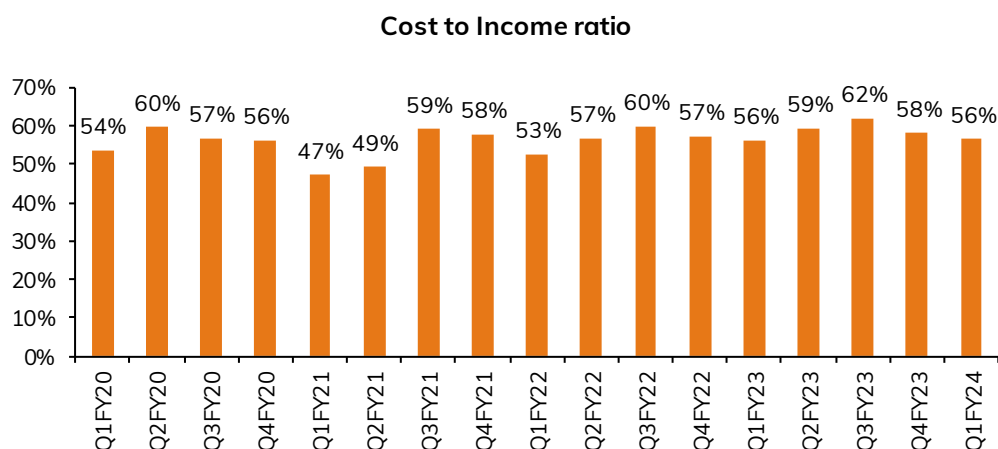
Exhibit 6: New accounts added from tier-3 and below locations have seen a significant shift from tier-1 and tier-2 cities

New Account City	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
-Tier 1	38%	40%	42%	42%	42%	40%	36%	29%	31%	30%	28%	26%	27%
-Tier 2	33%	32%	31%	31%	32%	33%	27%	20%	20%	19%	18%	18%	18%
-Tier 3	11%	11%	12%	12%	10%	12%	19%	30%	30%	30%	31%	32%	32%
-Others	17%	16%	15%	15%	16%	16%	18%	21%	20%	21%	22%	23%	23%

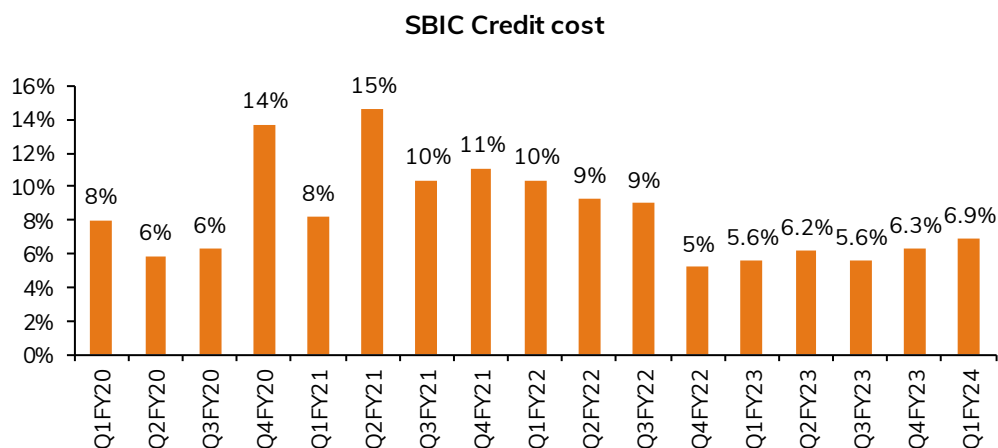
Source: I-Sec research, Company data

Exhibit 7: SBIC spends trend

Source: I-Sec research, Company data

Exhibit 8: : SBIC cost-to-income ratio trend

Source: I-Sec research, Company data

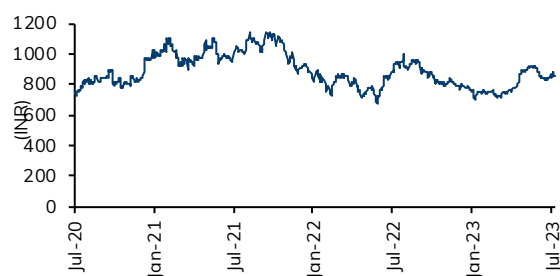
Exhibit 9: SBIC credit cost trend

Source: I-Sec research, Company data

Exhibit 10: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	69.1	69.0	69.0
Institutional investors	25.9	25.9	26.7
MFs and others	11.7	12.2	11.8
Banks / FIs	0.0	0.0	0.0
Insurance	4.3	4.6	4.7
FIIIs	9.9	9.1	10.2
Others	5.0	5.1	4.3

Source: Bloomberg, I-Sec research

Exhibit 11: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 12: Profit & Loss

(Rs mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Interest Income	48,660	61,676	78,690	99,663
Interest Expenses	(10,273)	(16,462)	(20,241)	(23,998)
Net Interest Income (NII)	38,387	45,213	58,449	75,665
Other Income	6,243	6,372	7,327	8,426
Total Income (net of interest expenses)	92,469	1,10,232	1,32,917	1,62,502
Employee benefit expenses	(4,727)	(5,558)	(6,747)	(7,957)
Depreciation and amortization	(1,486)	(1,598)	(2,078)	(2,158)
Other operating expenses	(52,249)	(68,580)	(81,447)	(98,717)
Total Operating Expense	(58,462)	(75,736)	(90,272)	(1,08,832)
Pre Provisioning Profits (PPoP)	44,280	50,958	62,886	77,668
Provisions and write offs	(22,558)	(21,394)	(30,009)	(36,241)
Profit before tax (PBT)	21,722	29,564	32,877	41,427
Total tax expenses	(5,560)	(7,450)	(8,285)	(10,440)
Profit after tax (PAT)	16,161	22,114	24,592	30,987

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Growth ratios				
Net Interest Income (NII) (%)	0.4	17.8	29.3	29.5
Non-interest income (%)	34.5	26.6	16.2	17.0
Total Income (net of interest expenses) (%)	23.2	19.2	20.6	22.3
Operating Expenses (%)	25.8	29.5	19.2	20.6
Employee Cost (%)	(3.8)	17.6	21.4	17.9
Non-Employee Cost (%)	29.6	31.3	18.8	21.2
Pre provisioning operating profits (PPoP) (%)	11.8	15.1	23.4	23.5
Provisions (%)	(14.5)	(5.2)	40.3	20.8
PBT (%)	64.1	36.1	11.2	26.0
PAT (%)	64.2	36.8	11.2	26.0
EPS (%)	63.7	36.8	11.2	26.0
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	12.7	11.1	11.3	12.3
Yield on loan assets (%)	16.1	15.1	15.2	16.2
Cost of borrowings (%)	4.5	5.7	5.5	5.3
Interest Spreads (%)	11.6	9.5	9.7	10.9
Operating efficiencies				
Cost to income ratio	56.9	59.8	58.9	58.4
Capital Structure				
CAR (%)	27.5	28.5	27.8	28.5
Tier 1 CAR (%)	23.8	22.7	21.9	22.7
Tier 2 CAR (%)	3.7	5.8	5.9	5.8
RWA (estimate) - Rs bn	3,25,695	4,28,906	5,39,740	6,37,634

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(Rs mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Share capital	9,432	9,432	9,432	9,432
Reserves & surplus	68,095	87,998	1,08,901	1,35,240
Shareholders' funds	77,527	97,430	1,18,333	1,44,672
Borrowings	2,56,828	3,24,936	4,14,470	4,84,840
Provisions	12,130	29,115	35,345	41,682
Deferred tax liabilities (net)	-	-	-	-
Current Liabilities and short-term provisions	-	-	-	-
Other Liabilities	12,130	29,115	35,345	41,682
Total Liabilities and Stakeholder's Equity	3,46,485	4,51,480	5,68,148	6,71,194
Fixed assets	4,537	4,995	5,195	5,395
Loans	3,01,873	4,07,759	5,18,002	6,14,535
Investments	12,972	15	15	15
Deferred tax assets (net)	-	-	-	-
Current Assets including cash and bank	-	-	-	-
Other Assets	16,039	26,547	31,672	36,885
Total Assets	3,46,485	4,51,480	5,68,148	6,71,194

Source Company data, I-Sec research

	FY22A	FY23A	FY24E	FY25E
Asset quality and provisioning				
GNPA (%)	2.3	2.5	2.6	2.6
NNPA (%)	0.5	0.5	0.9	0.9
GNPA (Rs mn)	7,040	10,163	13,415	15,914
Coverage ratio (%)	80.0	80.0	67.0	67.0
Return ratios				
RoAA (%)	5.2	5.5	4.8	5.0
RoAE (%)	23.0	25.3	22.8	23.6
Dividend Payout ratio (%)	14.6	10.0	15.0	15.0
Valuation Ratios				
No of shares	943	943	943	943
No of shares (fully diluted)	943	943	943	943
EPS (Rs)	17.1	23.4	26.1	32.9
Price to Earnings (x)	50.0	36.6	32.9	26.1
Book Value (fully diluted)	82	103	125	153
Price to Book	10.4	8.3	6.8	5.6
DPS (Rs)	2.5	2.3	3.9	4.9
Dividend yield (%)	0.3	0.3	0.5	0.6

Exhibit 15: Key metrics

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
DuPont Analysis				
Average Assets (Rs mn)	3,08,307	3,98,983	5,09,814	6,19,671
Average Loans (Rs mn)	2,68,232	3,54,816	4,62,880	5,66,268
Average Equity (Rs mn)	70,274	87,478	1,07,881	1,31,502
Interest earned (%)	15.8	15.5	15.4	16.1
Net gain on fair value changes (%)	-	-	-	-
Interest expended (%)	3.3	4.1	4.0	3.9
Gross Interest Spread (%)	12.5	11.3	11.5	12.2
Credit cost (%)	8.4	6.0	6.5	6.4
Net Interest Spread (%)	4.0	5.3	5.0	5.8
Operating cost (%)	19.0	19.0	17.7	17.6
Lending spread (%)	(14.9)	(13.7)	(12.7)	(11.8)
Non interest income (%)	20.9	20.4	18.6	17.9
Operating Spread (%)	6.0	6.7	5.9	6.1
Tax rate (%)	25.6	25.2	25.2	25.2
ROAA (%)	5.2	5.5	4.8	5.0
Effective leverage (AA/ AE)	4.4	4.6	4.7	4.7
RoAE (%)	23.0	25.3	22.8	23.6

Source Company data, I-Sec research

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