REDUCE **SBI Cards**

Downgrade to reduce, as asset quality stress aggravates

BFSI - Banks ▸ Result Update ▸ **January 27, 2024**

TARGET PRICE (Rs): 725

SBI Cards (SBIC), yet again, reported a miss on earnings (of 10%), with PAT at Rs5.5bn/4.1% RoA due to continued deterioration in asset quality leading to higher LLP/charge-off. Though SBIC has taken incremental measures to cut portfolio risk, NPAs are on the rise, with GNPA ratio now at 2.6% from a low 2.2% a year ago. With the revolver portfolio being relatively lower at 23% from the 40% peak pre-Covid, we do not expect a full blown asset-quality fallout akin to that during Covid, but delinquencies would continue rising as stress in the multi-card & lower-bucket customer portfolio emerges. Mgmt has guided to NIMs too remaining under pressure for an extended period due to rising funding cost and, now, NPAs too. Company's CET 1 has fallen sharply by 450bps QoQ to 16.3%, which would call for capital raise soon and, hence, further RoE dilution. Factoring-in the slower growth/higher LLP, we cut our earnings estimate by 19-30% and revise our ERE model-based TP to Rs725/sh (from Rs865), implying 4.5x Dec-25 ABV/24x EPS; downgrade to REDUCE from Buy.

SBI Cards: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	16,161	22,585	22,793	24,544	30,912
Loan growth (%)	28.7	30.4	25.5	22.2	21.6
NII growth (%)	(1.7)	17.4	18.4	25.8	26.6
NIM (%)	13.4	12.0	11.1	11.3	11.7
PPOP growth (%)	11.8	17.1	21.8	23.4	23.0
Adj. EPS (Rs)	17.2	23.9	24.0	25.8	32.5
Adj. EPS growth (%)	63.8	39.3	0.5	7.4	25.9
Adj. BV (INR)	80.3	101.1	119.9	140.0	166.3
Adj. BVPS growth (%)	23.5	26.4	18.5	16.4	18.6
RoA (%)	5.2	5.6	4.4	3.8	4.0
RoE (%)	23.0	25.7	21.1	19.2	20.5
P/E (x)	44.3	31.8	31.6	29.4	23.4
P/ABV (x)	9.5	7.5	6.3	5.4	4.6

Source: Company, Emkay Research

Margins could be under pressure for an extended period

New card addition count has moderated to 1.1mn in 3Q vs 1.6mn last year, partly due to devaluation of the cash-back card and Company's cautious approach amid rising delinquencies. Further, the card drop rate too has accelerated, to 51% of new card adds vs the mid-40s range earlier – a phenomenon seen across the industry due to clean-up of inactive cards post change in rules by the RBI as well as some lower-ticket card de-activation. CIF growth has moderated to 16% YoY to 18.5mn, leading to continued decline in market share to 18.9% from 19.3% a year ago. However, cumulative spends growth remains high at 31% YoY, partly aided by festive spends, with some improvement in market share to 18.3% for 3Q. This is reflecting in the higher AUM growth, at 27% YoY/8% QoQ. However, NIM was largely stable at 13.4% due to sharp rise in CoF, while Bank guides for softer margins in the near-term as the rate reversal cycle is delayed.

Asset quality aggravates for the industry, as also for SBIC

SBIC's GNPA ratio has deteriorated from a low of 2.2% a year ago to 2.6% now, leading to higher charge-off and pressure on earnings. Management had earlier indicated a one-off stress in the old 2019 pool some time ago, and it now believes the stress is likely be more widespread and swiftly intensify due to higher customer leverage. With the revolver portfolio being relatively lower at 23% from the peak of 40%, we do not expect a full blown asset-quality fallout similar to that during Covid, but delinquencies would continue to rise as stress in the multi-card and lower-bucket customer portfolio comes to the fore. Thus, we build-in higher LLP/charge-off for SBIC.

We downgrade to REDUCE, as asset-quality stress intensifies

Company's CET 1 has sharply fallen by 450bps QoQ to 16.3%, which would call for a capital raise soon and hence lead to further RoE dilution. Factoring-in the slower growth/higher LLP, we cut our earnings estimates 19-30% and revise our ERE model based TP to Rs725/share (from Rs865), implying 4.5x its Dec-25 ABV/24x EPS. We downgrade our rating to REDUCE from Buy. Key upside risks to our TP: Lower than anticipated asset-quality deterioration.

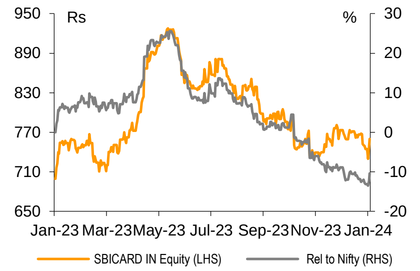
Target Price – 12M	Dec-24
Change in TP (%)	**16.2**
Current Reco.	REDUCE
Previous Reco.	BUY
Upside/(Downside) (%)	(4.6)
CMP (25-Jan-24) (Rs)	759.9

Stock Data	Ticker
52-week High (Rs)	933
52-week Low (Rs)	691
Shares outstanding (mn)	950.8
Market-cap (Rs bn)	722
Market-cap (USD mn)	8,692
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	1,475.7
ADTV-3M (USD mn)	17.8
Free float (%)	31.0
Nifty-50	21,353
INR/USD	83.1
Shareholding, Sep-23	
Promoters (%)	68.9
FPIs/MFs (%)	9.1/17.3

Price Performance

(%)	1M	3M	12M
Absolute	(1.7)	(2.3)	6.3
Rel. to Nifty	(1.7)	(12.5)	(11.0)

1-Year share price trend (Rs)



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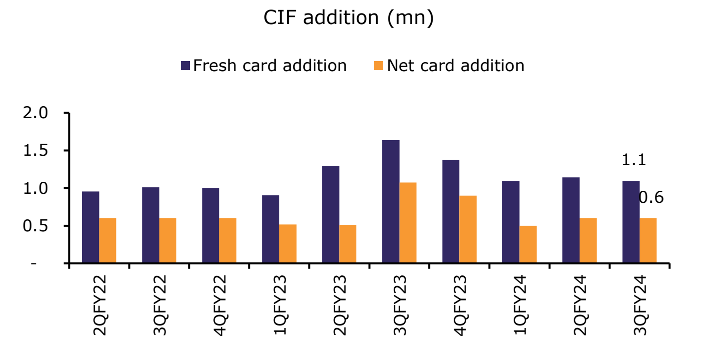
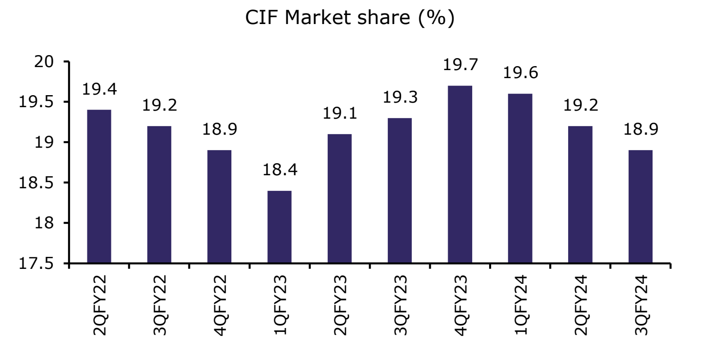
Story in Charts

Exhibit 1: Net card addition moderates a bit



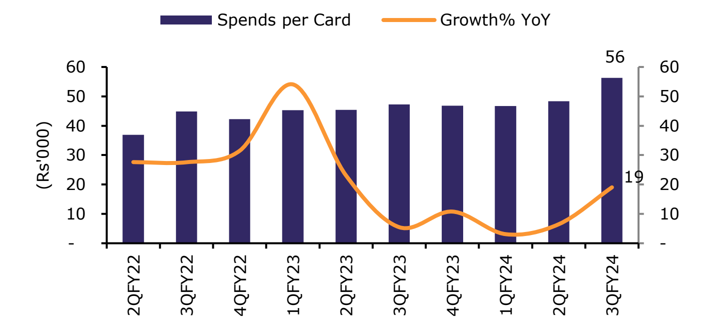
Source: Company, Emkay Research

Exhibit 2: SBIC continues to lose CIF market share from the peak in 4Q



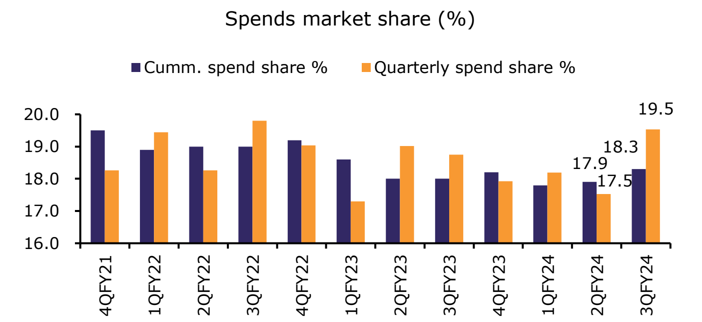
Source: Company, Emkay Research

Exhibit 3: Spends per card pick up due to festive cheer…



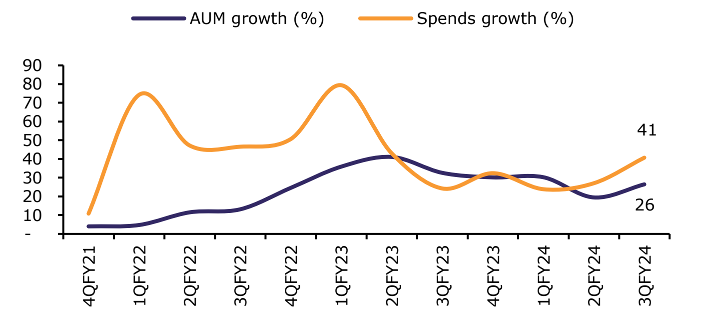
Source: Company, Emkay Research

Exhibit 4: …leading to some market share gains in spends



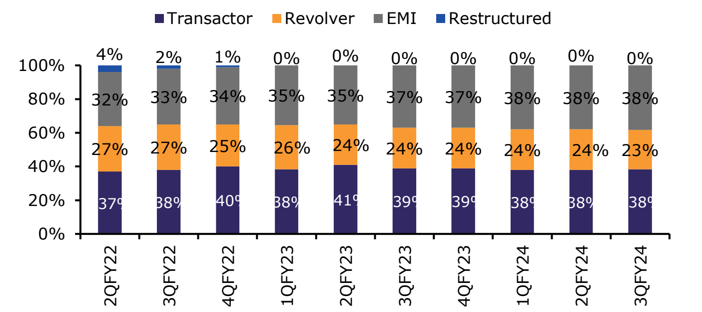
Source: Company, Emkay Research

Exhibit 5: Gross receivables growth remains healthy, benefiting from the higher spends growth and EMI share



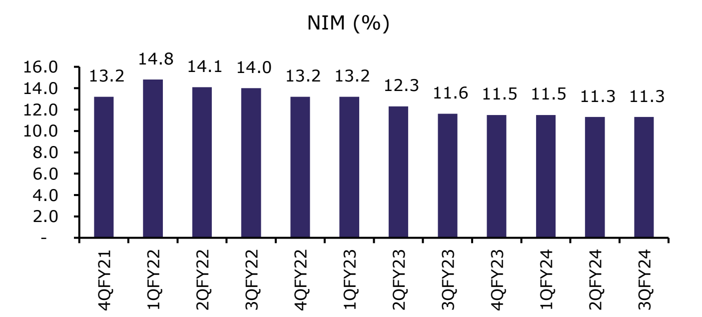
Source: Company, Emkay Research

Exhibit 6: Revolver share remains persistently low at 23%, as also for other players



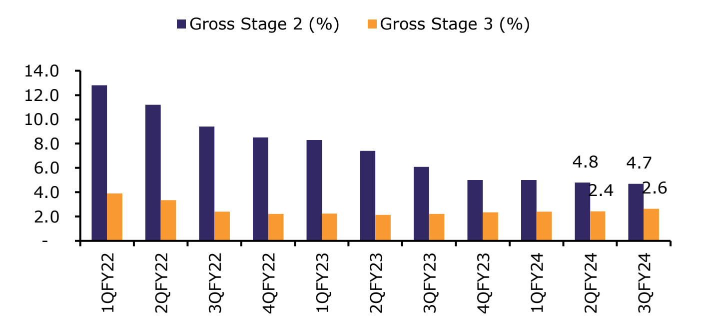
Source: Company, Emkay Research

Exhibit 7: NIM stabilizes, but improvement could be delayed



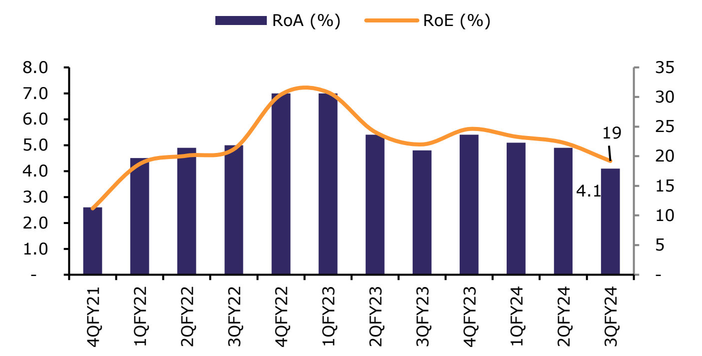
Source: Company, Emkay Research

Exhibit 8: Stage-3 assets continued to inch up due to rising stress in the card portfolio for the industry and, hence, also for SBIC



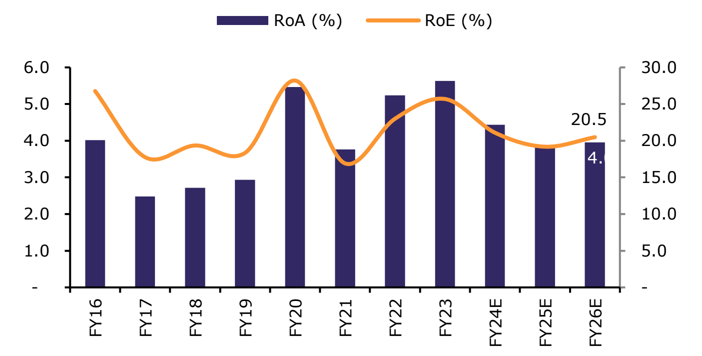
Source: Company, Emkay Research

Exhibit 9: Margin pressure and higher LLP hurts RoA



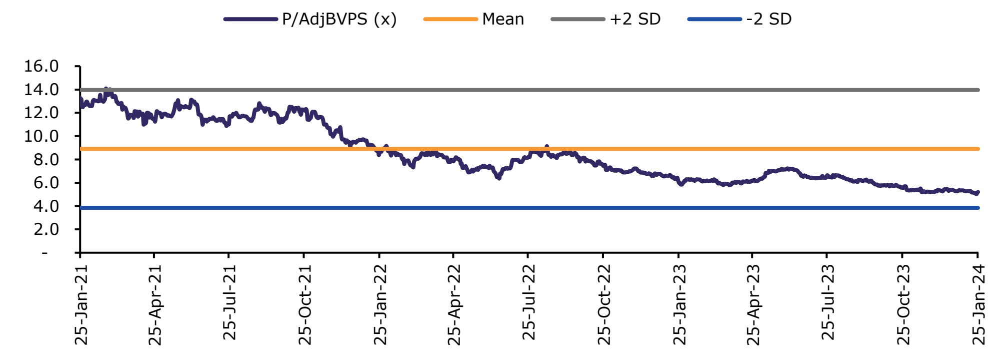
Source: Company, Emkay Research

Exhibit 10: We expect SBIC's RoA/RoE to moderate, mainly due to rising LLP



Source: Company, Emkay Research

Exhibit 11: The stock currently trades at 4.5x one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 12: Actuals vs. Estimates (Q3FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	40,461	37,813	34,495	7%	17%	Higher NII and other income led to a beat
PPOP	16,205	15,756	14,367	3%	13%	Higher PPOP partly offset by higher opex led to a slight beat
PAT	5,491	6,076	5,911	-10%	-7%	Higher provisions led to a PAT miss

Source: Company, Bloomberg, Emkay Research

Exhibit 13: Quarterly Summary

(Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)
Interest Earned	16,089	16,724	18,042	19,018	20,825	29	10	61,530	79,681	29
Interest Exp	4,643	5,073	5,711	6,049	6,955	50	15	16,476	26,342	60
Net Interest Income	11,446	11,651	12,332	12,969	13,870	21	7	45,053	53,339	18
Non-interest Income	20,473	22,442	22,419	23,196	26,591	30	15	45,053	53,339	18
Operating Expenses	19,745	19,799	19,599	20,656	24,256	23	17	74,486	89,461	20
PPoP	12,174	14,294	15,151	15,509	16,205	33	4	51,860	63,172	22
Provision & Contingencies	5,330	6,298	7,186	7,416	8,829	66	19	21,554	32,578	51
PBT	6,843	7,997	7,966	8,094	7,376	8	-9	30,306	30,595	1
Income Tax Expense (Gain)	1,749	2,032	2,033	2,064	1,885	8	-9	7,721	7,802	1
Net Profit/(Loss)	5,095	5,965	5,933	6,030	5,491	8	-9	22,585	22,793	1
Gross NPA (%)	2.2	2.4	2.4	2.4	2.6	42bps	21bps	2.4	2.7	32bps
Net NPA (%)	0.8	0.9	0.9	0.9	1.0	16bps	7bps	0.9	1.0	12bps
CIF (mn)	15.9	16.8	17.3	17.9	18.5	16	3	16.8	19.3	15
Spends (Rs bn)	688.4	716.9	739.1	791.6	968.6	41	22	2,625	3,489	33
Net Advances (Rs bn)	373.5	393.6	418.1	435.6	471.6	26	8	393.6	493.9	25.48
RoA - annualized (%)	4.8	5.4	5.1	4.9	4.1	-70bps	-80bps	5.6	4.4	-120bps
RoE - annualized (%)	22.0	24.6	23.3	22.3	19.2	-280bps	-310bps	25.7	21.1	-460bps

Source: Company, Emkay Research

Exhibit 14: Revision in Estimates

Y/E March (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	149,733	152,634	1.9%	183,613	182,339	-0.7%	226,680	217,305	-4.1%
PPOP	63,388	63,172	-0.3%	80,535	77,951	-3.2%	103,078	95,848	-7.0%
PAT	24,867	22,793	-8.3%	30,664	24,544	-20.0%	37,393	30,912	-17.3%
EPS (Rs)	26.3	24.0	-8.6%	32.4	25.8	-20.4%	39.5	32.5	-17.8%
BV (Rs)	126.7	123.9	-2.2%	154.6	145.2	-6.1%	188.6	172.2	-8.7%

Source: Emkay Research

Exhibit 15: Key Assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	30.4	25.5	22.2	21.6
CIF Growth (%)	21.7	14.8	11.8	11.8
NIM (%)	12.0	11.1	11.3	11.7
GNPA (%)	2.4	2.7	3.0	2.8
Credit Cost (%)	6.1	7.2	8.1	8.0

Source: Emkay Research

SBI Cards : Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	48,660	61,530	79,681	98,300	123,771
Interest Expense	10,273	16,476	26,342	31,182	38,822
Net interest income	**38,387**	**45,053**	**53,339**	**67,118**	**84,949**
NII growth (%)	(1.7)	17.4	18.4	25.8	26.6
Other income	64,355	81,293	99,295	115,221	132,355
Total Income	**102,742**	**126,346**	**152,634**	**182,339**	**217,305**
Operating expenses	58,462	74,486	89,461	104,388	121,456
PPOP	**44,280**	**51,860**	**63,172**	**77,951**	**95,848**
PPOP growth (%)	11.8	17.1	21.8	23.4	23.0
Core PPOP	**44,280**	**51,860**	**63,172**	**77,951**	**95,848**
Provisions & contingencies	22,558	21,554	32,578	45,006	54,356
PBT	**21,722**	**30,306**	**30,595**	**32,945**	**41,492**
Extraordinary items	0	0	0	0	0
Tax expense	5,560	7,721	7,802	8,401	10,580
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**16,161**	**22,585**	**22,793**	**24,544**	**30,912**
PAT growth (%)	64.2	39.7	0.9	7.7	25.9
Adjusted PAT	**16,161**	**22,585**	**22,793**	**24,544**	**30,912**
Diluted EPS (Rs)	**17.0**	**23.7**	**23.8**	**25.6**	**32.3**
Diluted EPS growth (%)	64.0	39.4	0.5	7.4	25.9
DPS (Rs)	**7.1**	**11.3**	**14.0**	**15.0**	**16.0**
Dividend payout (%)	**14.6**	**12.6**	**14.6**	**17.4**	**16.9**
Effective tax rate (%)	25.6	25.5	25.5	25.5	25.5
Net interest margins (%)	13.4	12.0	11.1	11.3	11.7
Cost-income ratio (%)	56.9	59.0	58.6	57.2	55.9
Shares outstanding (mn)	943.2	946.1	951.0	951.0	951.0

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	9,432	9,461	9,510	9,510	9,510
Reserves & surplus	68,095	88,840	108,304	128,569	154,250
Net worth	**77,527**	**98,301**	**117,814**	**138,079**	**163,760**
Deposits	-	-	-	-	-
Borrowings	217,864	297,491	386,738	502,759	645,765
Interest bearing liab.	**217,864**	**297,491**	**386,738**	**502,759**	**645,765**
Other liabilities & prov.	**51,093**	**59,664**	**68,714**	**62,222**	**52,170**
Total liabilities & equity	**346,484**	**455,456**	**573,266**	**703,060**	**861,695**
Net advances	301,873	393,610	493,895	603,545	733,901
Investments	12,972	21,397	27,816	34,770	43,462
Cash, other balances	7,582	9,898	10,393	10,912	11,458
Interest earning assets	**325,908**	**428,551**	**539,732**	**661,564**	**810,352**
Fixed assets	4,537	5,737	6,101	7,205	8,478
Other assets	16,039	21,168	27,433	34,291	42,864
Total assets	**346,484**	**455,456**	**573,266**	**703,060**	**861,695**
BVPS (Rs)	82.2	103.9	123.9	145.2	172.2
Adj. BVPS (INR)	80.3	101.1	119.9	140.0	166.3
Gross advances	312,810	407,216	512,017	626,894	761,888
Credit to deposit (%)	NA	NA	NA	NA	NA
CASA ratio (%)	NA	NA	NA	NA	NA
Cost of funds (%)	5.0	6.1	7.4	6.8	6.6
Loans-to-Assets (%)	87.1	86.4	86.2	85.8	85.2
Net advances growth (%)	28.7	30.4	25.5	22.2	21.6
Deposit growth (%)	NA	NA	NA	NA	NA
Book value growth (%)	22.7	26.4	19.2	17.2	18.6

Source: Company, Emkay Research

Asset quality and other metrics

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	6,934.2	9,575.3	13,645.4	18,259.7	21,250.5
Net NPLs	2,409.0	3,544.9	5,048.8	6,573.5	7,437.7
GNPA ratio (%)	2.3	2.4	2.7	3.0	2.8
NNPA ratio (%)	0.8	0.9	1.0	1.1	1.0
Provision coverage (%)	65.3	63.0	63.0	64.0	65.0
Gross slippages	22,564.3	21,529.4	22,612.1	30,761.6	29,908.5
Gross slippage ratio (%)	7.4	5.4	4.5	5.0	4.0
LLP ratio (%)	8.2	6.1	7.2	8.1	8.0
NNPA to networth (%)	2.9	3.4	4.0	4.5	4.3
Capital adequacy					
Total CAR (%)	23.8	23.1	22.1	20.9	19.6
Tier-1 (%)	21.0	20.4	19.8	19.0	18.1
CET-1 (%)	21.0	20.4	19.8	19.0	18.1
RWA-to-Total Assets (%)	90.0	92.0	94.0	95.0	98.0
Miscellaneous					
Total income growth (%)	16.3	26.4	25.3	19.3	20.0
Opex growth (%)	24.2	27.4	20.1	16.7	16.4
Core PPOP growth (%)	11.8	17.1	21.8	23.4	23.0
PPOP margin (%)	39.2	36.3	35.3	36.5	37.4
PAT/PPOP (%)	36.5	43.6	36.1	31.5	32.3
LLP-to-Core PPOP (%)	50.9	41.6	51.6	57.7	56.7
Yield on advances (%)	18.1	17.5	17.8	17.7	18.3
Cost of funds (%)	5.0	6.1	7.4	6.8	6.6

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	44.3	31.8	31.6	29.4	23.4
P/B (x)	9.2	7.3	6.1	5.2	4.4
P/ABV (x)	9.5	7.5	6.3	5.4	4.6
P/PPOP (x)	16.2	13.9	11.4	9.3	7.5
Dividend yield (%)	0.3	0.4	0.5	0.6	0.7
DuPont-RoE split (%)					
NII/avg assets	12.5	11.2	10.4	10.5	10.9
Other income	20.9	20.3	19.3	18.1	16.9
Fee income	19.2	18.8	18.3	17.4	16.5
Opex	19.0	18.6	17.4	16.4	15.5
PPOP	**14.4**	**12.9**	**12.3**	**12.2**	**12.3**
Core PPOP	14.4	12.9	12.3	12.2	12.3
Provisions	7.3	5.4	6.3	7.1	6.9
Tax expense	1.8	1.9	1.5	1.3	1.4
RoA (%)	**5.2**	**5.6**	**4.4**	**3.8**	**4.0**
Leverage ratio (x)	4.4	4.6	4.8	5.0	5.2
RoE (%)	**23.0**	**25.7**	**21.1**	**19.2**	**20.5**

Quarterly data

Rs mn, Y/E Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
NII	11,446	11,651	12,332	12,969	13,870
NIM (%)	11.6	11.5	11.5	11.3	11.3
PPOP	12,174	14,294	15,151	15,509	16,205
PAT	5,095	5,965	5,933	6,030	5,491
EPS (Rs)	5.40	6.30	6.27	6.37	5.80

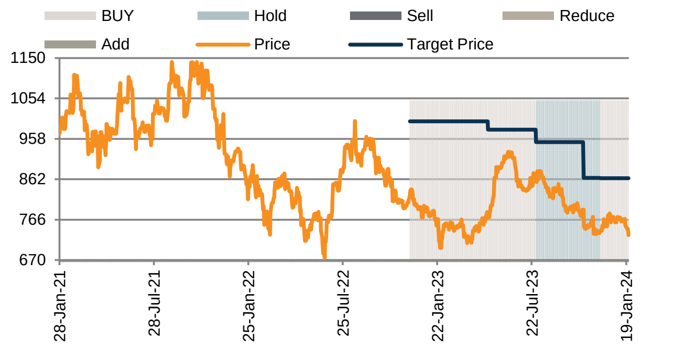
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	739	865	Buy	Anand Dama
29-Oct-23	790	865	Hold	Anand Dama
30-Jul-23	857	950	Hold	Anand Dama
29-Apr-23	772	980	Buy	Anand Dama
09-Mar-23	767	1,000	Buy	Anand Dama
24-Jan-23	745	1,000	Buy	Anand Dama
30-Nov-22	824	1,000	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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