

Margins slip again; lower opex drive earnings beat

BFSI - Banks ▶ Result Update ▶ April 28, 2024

TARGET PRICE (Rs): 725

SBI Cards continues to report margin contraction (30bps QoQ to 10.9%), coupled with deteriorating asset quality (GNPA up 20bps QoQ to 2.8%) leading to higher LLP. However, sharp reduction in opex, mainly due to fall in corporate spends-related opex, roll-back of festive incentives, and higher LLP/charge-off, SBI Cards (SBIC) reported a strong beat in earnings at 24%, with PAT at Rs6.6bn/4.7% RoA. Going forward, Management believes that high interchange (1.9%) corporate spends will normalize in 1-2 quarters, till then, fee and cost will remain contained. Management continues to guide for softer margins in the near term, as the rate reversal cycle is delayed. SBIC has recently issued Tier-II bonds to the tune of Rs13bn, owing to which, the CRAR has jumped above 20% levels. However, we believe it needs to shore up Tier-I capital at some point in time. We have upgraded our earnings for FY25-26E by 2-6%, and believe that slower growth, coupled with margin softness/rising NPAs, could limit RoAs around 4-4.4% over FY25-27E from 4.6-5.6%. We retain REDUCE with a TP of Rs725/share, implying 4.2x FY26E ABV and 23x P/E.

SBI Cards: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	22,585	24,078	25,950	31,676	42,555
Loan growth (%)	30.4	24.7	21.4	22.7	24.1
NII growth (%)	17.4	18.3	20.9	27.5	30.7
NIM (%)	12.0	11.0	10.7	11.2	11.8
PPOP growth (%)	17.1	25.7	20.3	24.0	27.3
Adj. EPS (Rs)	23.9	25.4	27.3	33.3	44.7
Adj. EPS growth (%)	39.3	6.2	7.5	22.1	34.3
Adj. BV (Rs)	101.1	123.1	146.1	173.9	212.4
Adj. BVPS growth (%)	26.4	21.4	18.1	18.9	21.9
RoA (%)	5.6	4.6	4.0	4.0	4.4
RoE (%)	25.7	22.0	19.6	20.1	22.3
P/E (x)	31.4	29.5	27.5	22.5	16.8
P/ABV (x)	7.4	6.1	5.1	4.3	3.5

Source: Company, Emkay Research

Margins continue to slip; lower corporate spends, better productivity lead to cost reduction

Company's cautious stance amid rising delinquencies and reduction of the cash-back card, has weakened new card addition count to 1.0mn in 4Q (vs 1.4mn 4QFY23). Card drop rate accelerated for yet another quarter to 52% of new-card adds due to clean-up of inactive cards, after change in rules by the RBI, as well as some lower-ticket card deactivation. CIF growth has held up to 13% YoY/2% QoQ to 18.9mn, leading to a persistent decline in market share to 18.6% vs 19.1% in FY23. Though the cumulative spends growth remains healthy at 26% YoY, high interchange (1.9%) corporate spends dropped significantly (-35% YoY/-55% QoQ) in Q4FY24, possibly due to seasonal factors and some incentive pull-back seen across the industry - leading to a sharp fall in C/I ratio (down 881bps QoQ to 51%). Company believes that corporate spends-related opex will come back in the next 1-2 quarters, but productivity improvement-related opex gains will probably reduce the cost ratios, thereby supporting PPOP. NIM slipped QoQ by 40 bps at 10.9%, due to rising CoF/falling yields, while the company guides for softer NIMs in the near term due to delayed rate reversal cycle. Revolver book remains low as well, adding to the margin softness.

Asset quality continues to deteriorate

SBIC's GNPA ratio shows signs of further deterioration, with GNPA ratio up 20bps QoQ and 40 bps YoY to 2.8%, leading to higher charge-off. The systemic stress has been aggravated by the recent regulatory action. With the revolver portfolio being relatively lower at 24% from the peak of 40%, we do not expect a full-blown asset-quality fallout similar to the one 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.

Retain REDUCE due to rising asset quality stress and margin weakness

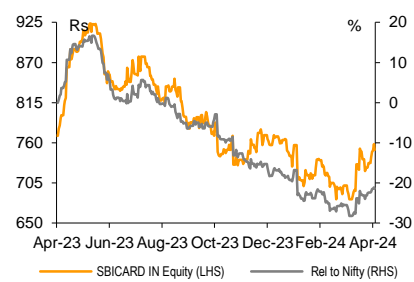
Company's CET 1 has fallen sharply by 450bps QoQ to 16.5%, which would call for a capital raise soon and lead to further RoE dilution. We have upgraded our earnings estimates for FY25-26 by 2-6%, but believe that, slower growth coupled with margin softness/rising NPAs could limit RoAs around 4-4.4% over FY25-27E from the 4.6-5.6% trajectory. We retain REDUCE with a TP of Rs725/share, implying 4.2x FY26E ABV and 23x P/E. Key upside risks to our TP: lower than anticipated asset-quality deterioration.

Target Price - 12M	Mar-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(3.4)
CMP (26-Apr-24) (Rs)	750.5

Stock Data	Ticker
52-week High (Rs)	933
52-week Low (Rs)	679
Shares outstanding (mn)	951.0
Market-cap (Rs bn)	714
Market-cap (USD mn)	8,562
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	1,427.0
ADTV-3M (USD mn)	17.1
Free float (%)	31.0
Nifty-50	22,420
INR/USD	83.3
Shareholding, Mar-24	
Promoters (%)	68.6
FPIs/MFs (%)	8.6/16.7

Price Performance

(%)	1M	3M	12M
Absolute	7.7	(1.2)	(3.3)
Rel. to Nifty	5.7	(5.9)	(23.2)

1-Year share price trend (Rs)**Anand Dama**

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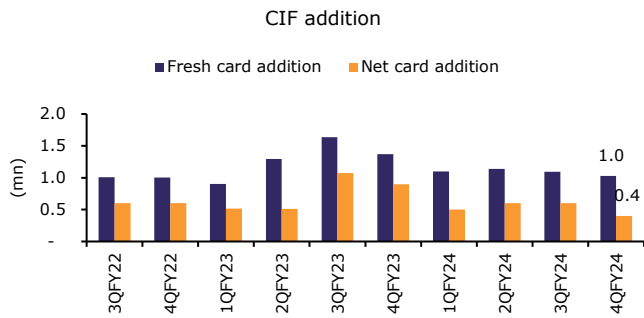
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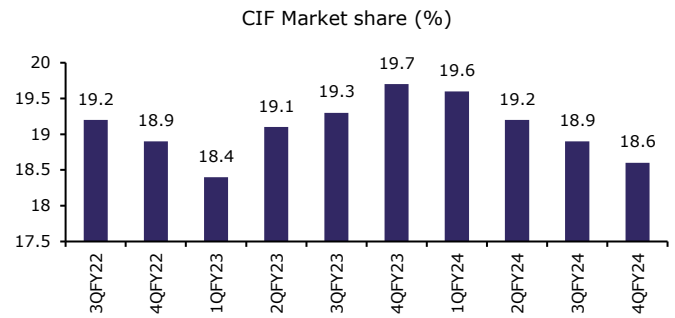
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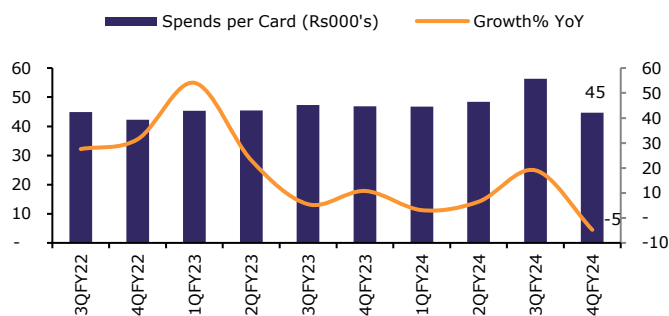
Story in Charts

Exhibit 1: Net card addition moderates, yet again


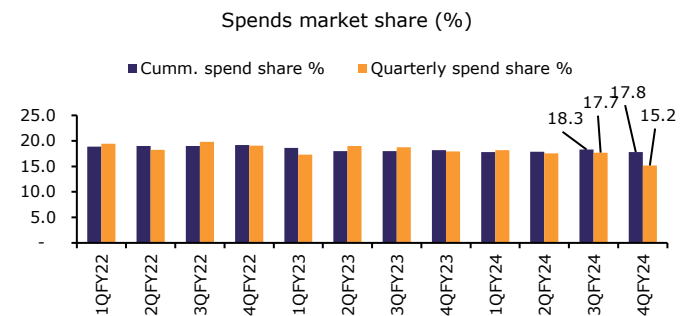
Source: Company, Emkay Research

Exhibit 2: SBIC continues to lose CIF market share in Q4


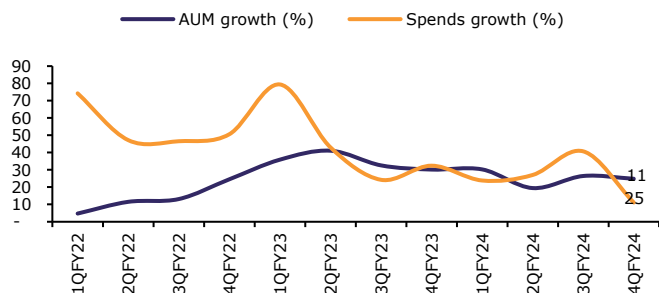
Source: Company, Emkay Research

Exhibit 3: Spends per card dropped due to non-festive season...


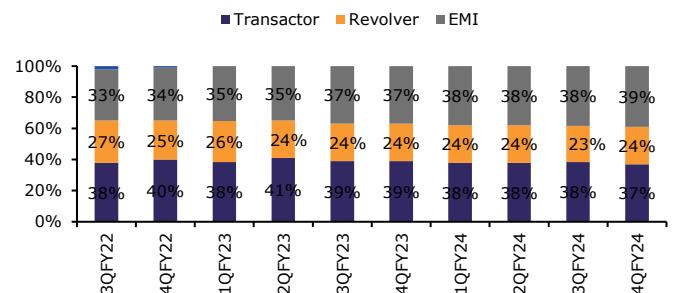
Source: Company, Emkay Research

Exhibit 4: ...leading to some market share loss in spends


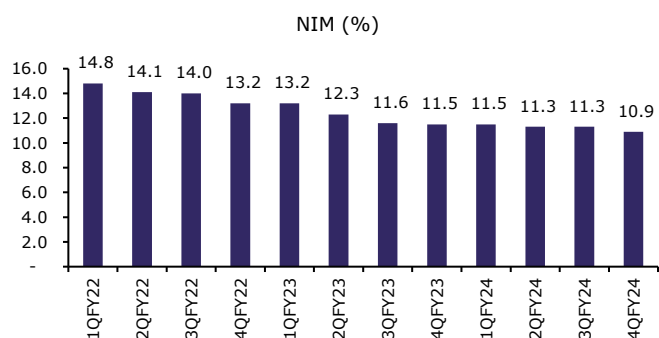
Source: Company, Emkay Research

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


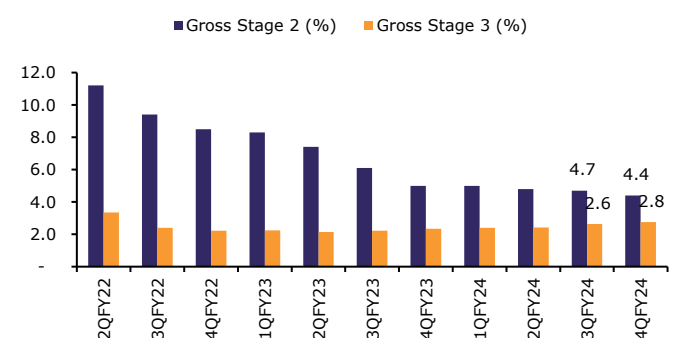
Source: Company, Emkay Research

Exhibit 6: Revolver share remains persistently steady at 24%; same as other players


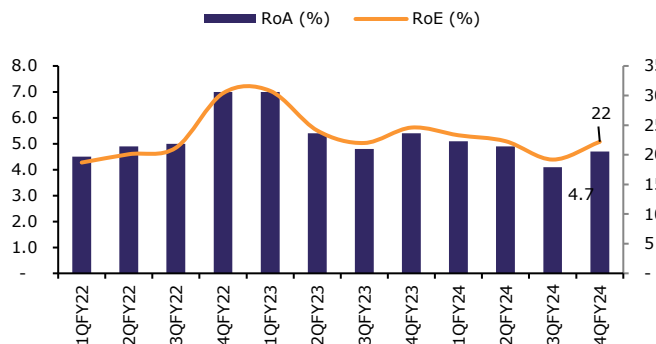
Source: Company, Emkay Research

Exhibit 7: NIM slips, and improvement could be delayed owing to rising funding costs


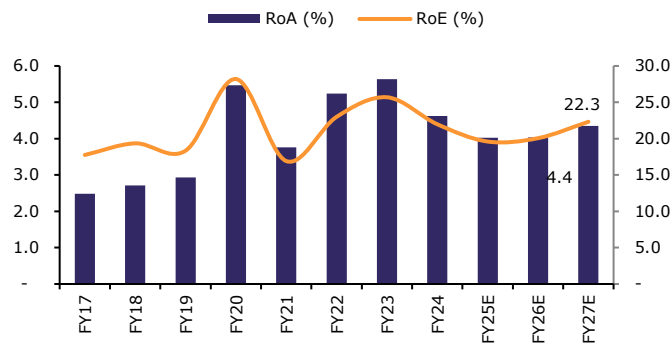
Source: Company, Emkay Research

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


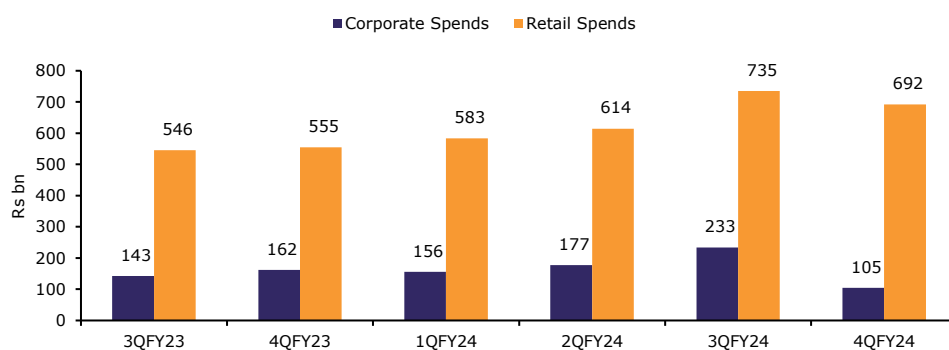
Source: Company, Emkay Research

Exhibit 9: Lower opex pushes RoA up, despite margin contraction

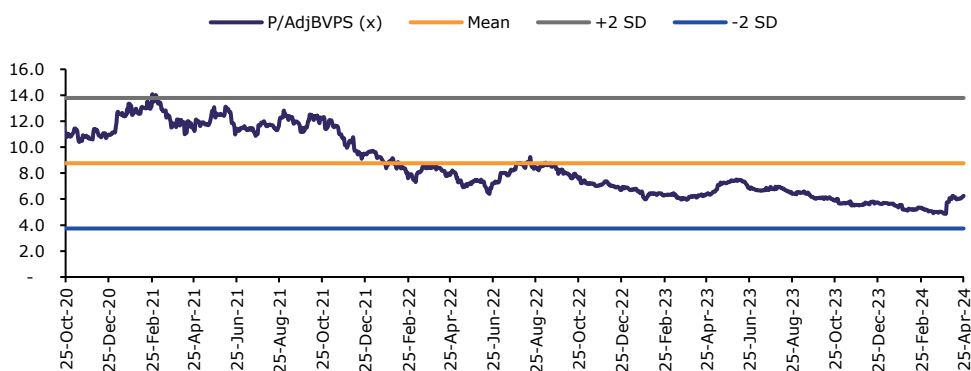
Source: Company, Emkay Research

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

Source: Company, Emkay Research

Exhibit 11: Corporate/Retail spends fell sharply leading to lower fee income and lower opex

Source: Company, Emkay Research

Exhibit 12: The stock currently trades at reasonable valuations

Source: Bloomberg, Emkay Research

Exhibit 13: Actuals vs. Estimates (Q4FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	37,508	41,257	34,495	-9%	9%	Lower NII and other income led to a shortfall
PPOP	18,326	16,307	14,367	12%	28%	Lower opex, partly offset by lower net income, led to in-line PPOP
PAT	6,624	5,339	5,911	24%	12%	In-line PPOP and lower provisions led to a PAT beat

Source: Company, Bloomberg, Emkay Research

Exhibit 14: Quarterly Summary

(Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24A	YoY (%)
Interest Earned	16,724	18,042	19,018	20,825	21,387	28	3	61,530	79,271	29
Interest Exp	5,073	5,711	6,049	6,955	7,238	43	4	16,476	25,952	58
Net Interest Income	11,651	12,332	12,969	13,870	14,148	21	2	45,053	53,319	18
Non-interest Income	22,442	22,419	23,196	26,591	23,359	4	-12	45,053	53,319	18
Operating Expenses	19,799	19,599	20,656	24,256	19,182	-3	-21	74,486	83,693	12
PPoP	14,294	15,151	15,509	16,205	18,326	28	13	51,860	65,192	26
Provision & Contingencies	6,298	7,186	7,416	8,829	9,444	50	7	21,554	32,874	53
PBT	7,997	7,966	8,094	7,376	8,882	11	20	30,306	32,317	7
Income Tax Expense (Gain)	2,032	2,033	2,064	1,885	2,258	11	20	7,721	8,240	7
Net Profit/(Loss)	5,965	5,933	6,030	5,491	6,624	11	21	22,585	24,078	7
Gross NPA (%)	2.4	2.4	2.4	2.6	2.8	41bps	12bps	2.4	2.6	24bps
Net NPA (%)	0.9	0.9	0.9	1.0	1.0	12bps	3bps	0.9	1.0	9bps
CIF (mn)	16.8	17.3	17.9	18.5	18.9	13	2	16.8	19.3	15
Spends (Rs bn)	716.9	739.1	791.6	968.6	796.5	11	-18	2,625	3,489	33
Net Advances (Rs bn)	393.6	418.1	435.6	471.6	490.8	25	4	393.6	490.8	24.69
RoA - annualized (%)	5.4	5.1	4.9	4.1	4.7	-70bps	60bps	5.6	4.6	-101bps
RoE - annualized (%)	24.6	23.3	22.3	19.2	22.2	-240bps	300bps	25.7	22.0	-372bps

Source: Company, Emkay Research

Exhibit 15: Revision in Estimates

Y/E March (Rs mn)	FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change
Net income	183,613	174,030	-5.2%	226,680	210,676	-7.1%
PPOP	80,535	78,415	-2.6%	103,078	97,265	-5.6%
PAT	30,664	25,950	-15.4%	37,393	31,676	-15.3%
EPS (Rs)	32.4	27.3	-15.8%	39.5	33.3	-15.7%
BV (Rs)	154.6	151.4	-2.1%	188.6	180.7	-4.2%

Source: Emkay Research

Exhibit 16: Key Assumptions

	FY24A	FY25E	FY26E	FY27E
Loan Growth (%)	24.7	21.4	22.7	24.1
CIF Growth (%)	12.5	10.8	10.8	23.4
NIM (%)	11.0	10.7	11.2	11.8
GNPA (%)	2.8	3.1	3.3	3.1
Credit Cost (%)	7.3	7.9	8.1	8.0

Source: Emkay Research

SBI Cards: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	61,530	79,271	97,256	119,959	153,118
Interest Expense	16,476	25,952	32,778	37,739	45,618
Net interest income	45,053	53,319	64,478	82,220	107,500
NII growth (%)	17.4	18.3	20.9	27.5	30.7
Other income	81,293	95,565	109,552	128,456	151,712
Total Income	126,346	148,884	174,030	210,676	259,212
Operating expenses	74,486	83,693	95,615	113,410	135,385
PPOP	51,860	65,192	78,415	97,265	123,827
PPOP growth (%)	17.1	25.7	20.3	24.0	27.3
Core PPOP	51,860	65,192	78,415	97,265	123,827
Provisions & contingencies	21,554	32,874	43,584	54,747	66,706
PBT	30,306	32,317	34,832	42,519	57,121
Extraordinary items	0	0	0	0	0
Tax expense	7,721	8,240	8,882	10,842	14,566
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	22,585	24,078	25,950	31,676	42,555
PAT growth (%)	39.7	6.6	7.8	22.1	34.3
Adjusted PAT	22,585	24,078	25,950	31,676	42,555
Diluted EPS (Rs)	23.7	25.2	27.1	33.0	0.0
Diluted EPS growth (%)	39.4	6.2	7.5	22.1	(100.0)
DPS (Rs)	11.3	14.0	15.0	16.0	0.0
Dividend payout (%)	12.6	9.9	11.0	12.0	11.2
Effective tax rate (%)	25.5	25.5	25.5	25.5	25.5
Net interest margins (%)	12.0	11.0	10.7	11.2	11.8
Cost-income ratio (%)	59.0	56.2	54.9	53.8	52.2
Shares outstanding (mn)	946.1	951.0	951.0	951.0	951.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	9,461	9,510	9,510	9,510	9,510
Reserves & surplus	88,840	111,331	134,427	162,299	200,100
Net worth	98,301	120,840	143,937	171,809	209,610
Deposits	0	0	0	0	0
Borrowings	297,491	398,911	498,465	634,815	808,538
Interest bearing liab.	297,491	398,911	498,465	634,815	808,538
Other liabilities & prov.	59,664	61,961	61,295	61,762	68,773
Total liabilities & equity	455,456	581,712	703,697	868,386	1,086,920
Net advances	393,610	490,790	596,053	731,501	907,595
Investments	21,397	35,191	43,252	53,216	66,414
Cash, other balances	9,898	10,393	10,912	11,458	12,031
Interest earning assets	428,551	553,277	662,360	817,159	1,023,371
Fixed assets	5,737	5,644	6,749	8,021	9,545
Other assets	21,168	22,791	34,588	43,206	54,003
Total assets	455,456	581,712	703,697	868,386	1,086,920
BVPS (Rs)	103.9	127.1	151.4	180.7	220.4
Adj. BVPS (INR)	101.1	123.1	146.1	173.9	212.4
Gross advances	407,216	508,460	619,971	761,526	944,027
Credit to deposit (%)	0.0	0.0	0.0	0.0	0.0
CASA ratio (%)	0.0	0.0	0.0	0.0	0.0
Cost of deposits (%)	6.1	7.3	7.2	6.5	6.2
Loans-to-Assets (%)	86.4	83.7	84.7	84.2	83.5
Net advances growth (%)	30.4	24.7	21.4	22.7	24.1
Deposit growth (%)	0.0	0.0	0.0	0.0	0.0
Book value growth (%)	26.4	22.3	19.1	19.4	22.0

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	9,575.3	14,033.0	19,052.6	24,396.2	29,028.5
Net NPLs	3,544.9	5,033.6	6,668.4	8,538.7	10,160.0
GNPA ratio (%)	2.4	2.8	3.1	3.3	3.1
NNPA ratio (%)	0.9	1.0	1.1	1.2	1.1
Provision coverage (%)	63.0	64.1	65.0	65.0	65.0
Gross slippages	21,529.4	27,445.0	33,464.0	41,104.7	46,323
Gross slippage ratio (%)	5.4	5.5	5.5	5.5	5.0
LLP ratio (%)	6.1	7.3	7.9	8.1	8.0
NNPA to networth (%)	3.4	3.9	4.4	4.7	4.6
Capital adequacy					
Total CAR (%)	23.1	22.4	21.8	20.4	19.8
Tier-1 (%)	20.4	20.1	19.9	18.9	18.6
CET-1 (%)	20.4	20.1	19.9	18.9	18.6
RWA-to-Total Assets (%)	92.0	94.0	95.0	98.0	98.0
Miscellaneous					
Total income growth (%)	26.4	22.4	18.3	20.1	22.7
Opex growth (%)	27.4	12.4	14.2	18.6	19.4
Core PPOP growth (%)	17.1	25.7	20.3	24.0	27.3
PPOP margin (%)	36.3	37.3	37.9	39.2	40.6
PAT/PPOP (%)	43.6	36.9	33.1	32.6	34.4
LLP-to-Core PPOP (%)	41.6	50.4	55.6	56.3	53.9
Yield on advances (%)	17.5	17.7	17.7	17.8	18.5
Cost of funds (%)	6.1	7.3	7.2	6.5	6.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	31.4	29.6	27.5	22.5	16.8
P/B (x)	7.2	5.9	5.0	4.2	3.4
P/ABV (x)	7.4	6.1	5.2	4.3	3.5
P/PPOP (x)	13.7	11.0	9.1	7.4	5.8
Dividend yield (%)	1.5	1.9	2.0	2.1	0.0
DuPont-RoE split (%)					
NII/avg assets	11.2	10.2	10.0	10.5	11.0
Other income	20.3	18.3	17.0	16.3	15.5
Fee income	18.7	17.3	16.3	15.9	15.2
Opex	18.6	16.1	14.8	14.4	13.8
PPOP	12.9	12.5	12.2	12.4	12.7
Core PPOP	12.9	12.5	12.2	12.4	12.7
Provisions	5.4	6.3	6.8	7.0	6.8
Tax expense	1.9	1.6	1.4	1.4	1.5
RoA (%)	5.6	4.6	4.0	4.0	4.4
Leverage ratio (x)	4.6	4.8	4.9	5.0	5.1
RoE (%)	25.7	22.0	19.6	20.1	22.3
Quarterly data					
Rs mn, Y/E Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24E
NII	11,651	12,332	12,969	13,870	14,148
NIM (%)	11.6	11.5	11.3	11.3	11.3
PPOP	14,294	15,151	15,509	16,205	18,326
PAT	5,965	5,933	6,030	5,491	6,624
EPS (Rs)	6.30	6.27	6.37	5.80	7.00

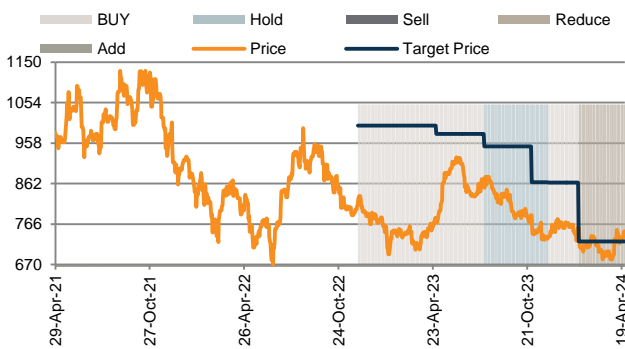
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Jan-24	757	725	Reduce	Anand Dama
30-Nov-23	736	865	Buy	Anand Dama
29-Oct-23	788	865	Hold	Anand Dama
30-Jul-23	854	950	Hold	Anand Dama
29-Apr-23	769	980	Buy	Anand Dama
09-Mar-23	762	1,000	Buy	Anand Dama
24-Jan-23	740	1,000	Buy	Anand Dama
30-Nov-22	818	1,000	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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