

Margins to bottom-out, but asset quality remains an irritant

BFSI - Banks ▶ Company Update ▶ September 19, 2024

TARGET PRICE (Rs): 700

Amid rising hopes of a policy rate cut in CY25, we believe SBI Cards with its fixed rate asset portfolio and higher share of borrowings maturing in <1 year, could benefit on the margins front which has stabilized after a prolonged contraction cycle. However, asset quality has deteriorated meaningfully with GNPA/Stage 2 pool already rising to 3.1%/6.2% of loans in 1QFY25 from 2.4%/5.3% a year ago. Our industry level channel checks suggest that the overall stress build-up in the card business remains elevated, which coupled with the regulatory salvo on unsecured loans could hurt business growth. This has already reflected in SBIC's slower card acquisition (<1mn in 1Q) and thus the continued loss in CIF/spend market share. Factoring slower growth and higher charge off amid rising NPAs, we expect SBIC to report sub-optimal RoAs at 3.6-4%. Given the lower Tier I capital (16.8%) following the increase in RWA by RBI, SBIC also needs to raise capital sooner than later. We reiterate REDUCE on the stock with a TP of Rs700/share, implying 3.7x Sep-26E ABV.

SBI Cards: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	22,585	24,078	24,154	27,654	37,315
Loan growth (%)	30.4	24.7	19.7	19.4	20.8
NII growth (%)	17.4	18.3	17.7	20.8	27.6
NIM (%)	12.0	11.0	10.5	10.7	11.2
PPOP growth (%)	17.1	25.7	17.0	17.7	26.1
Adj. EPS (Rs)	23.9	25.4	25.4	29.1	39.2
Adj. EPS growth (%)	39.3	6.2	0.1	14.5	34.9
Adj. BV (Rs)	101.1	123.1	143.9	167.6	200.6
Adj. BVPS growth (%)	26.4	21.4	16.4	16.3	19.5
RoA (%)	5.6	4.6	3.8	3.6	4.0
RoE (%)	25.7	22.0	18.4	17.9	20.5
P/E (x)	32.6	30.7	30.7	26.8	19.9
P/ABV (x)	7.7	6.3	5.4	4.7	3.9

Source: Company, Emkay Research

Margin has largely bottomed-out...

Overall CIF growth has moderated for SBIC at 11% YoY to 19.3mn, given slower new card acquisition due to rising distress, leading to a persistent decline in market share to 18.5% in Q1FY25 vs 19.6% in Q1FY24; it is now stable at 18.5% in Jul-24. However, the fall in spends share has been more severe to 15.8% in Jul-24, mainly due to continued calibration in corporate spends, which is manifesting into slower credit growth at 22%. Though, we believe, SBIC has been aggressively issuing Rupay credit cards, the non-Rupay card acquisition is likely to remain slower as the company focuses on managing its portfolio quality vs growth. Thus, we build-in 20% growth in FY25E. However, margins have largely bottomed-out in the past 2 quarters and we believe that SBIC, given its fully fixed asset book coupled with nearly 75% of borrowings maturing in <1 year, could be a key beneficiary of the rate cut cycle in CY25. Thus, we build-in a 20bps margin improvement in FY26E followed by 50bps in FY27E, which in a way should support its operating income to some extent amid declining credit growth and slower fees.

..but asset quality remains an irritant for the industry and so also for SBIC

SBIC's asset quality has deteriorated meaningfully with GNPA/Stage 2 pool already rising to 3.1%/6.2% of loans in 1QFY25 from 2.4%/5.3% a year ago, which the management attributes to broader deterioration in asset quality across the industry, and not specific to SBIC. Our industry level channel checks suggest that overall stress build-up in the card business remains elevated with some players witnessing higher stress due to disruption in collection model, while some are witnessing higher stress in specific cohorts/geographies. We believe this could lead to higher provisions/charge-off rate for most card companies and also for SBIC, thereby impacting profitability.

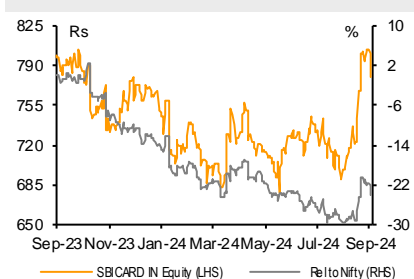
Target Price – 12M	Sept-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(10.2)
CMP (18-Sep-24) (Rs)	779.9

Stock Data	Ticker
52-week High (Rs)	841
52-week Low (Rs)	648
Shares outstanding (mn)	951.2
Market-cap (Rs bn)	742
Market-cap (USD mn)	8,856
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	1,451.5
ADTV-3M (USD mn)	17.3
Free float (%)	31.0
Nifty-50	25,378
INR/USD	83.8
Shareholding, Jun-24	
Promoters (%)	68.6
FPIs/MFs (%)	8.7/16.5

Price Performance

(%)	1M	3M	12M
Absolute	11.6	7.4	(4.9)
Rel. to Nifty	7.9	(0.3)	(24.5)

1-Year share price trend (Rs)



Anand Dama

anand.dama@emkayglobal.com
+91 22 6624 2480

Kunaal N

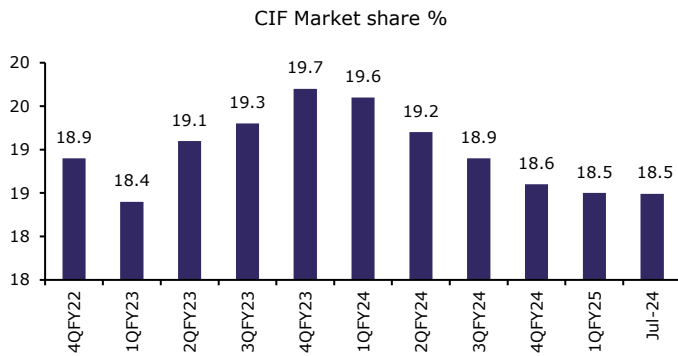
kunaal.n@emkayglobal.com
+91 22 6612 1275

Marazbaan Dastur

marazbaan.dastur@emkayglobal.com
+91 22 6612 1281

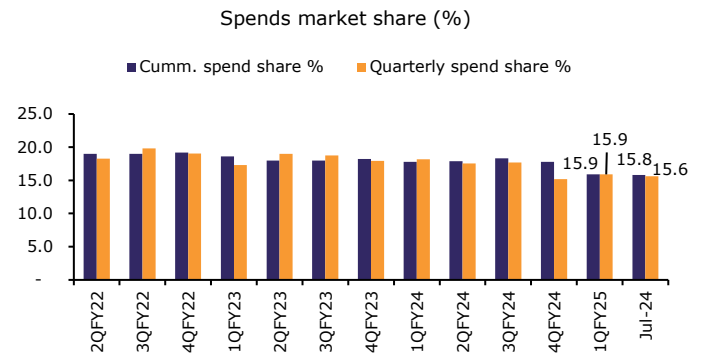
Story in Charts

Exhibit 1: CIF market share remained stable in Jul-24...



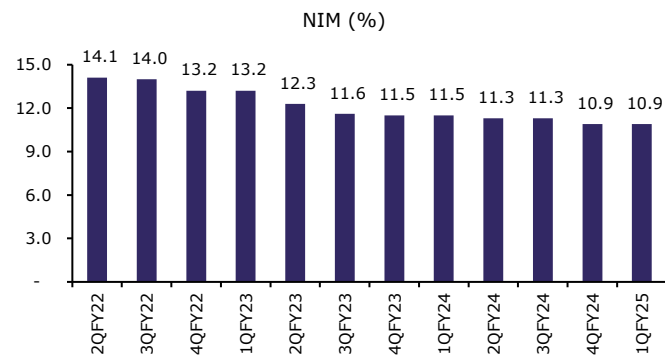
Source: Emkay Research

Exhibit 2: ..but the spends share has been declining



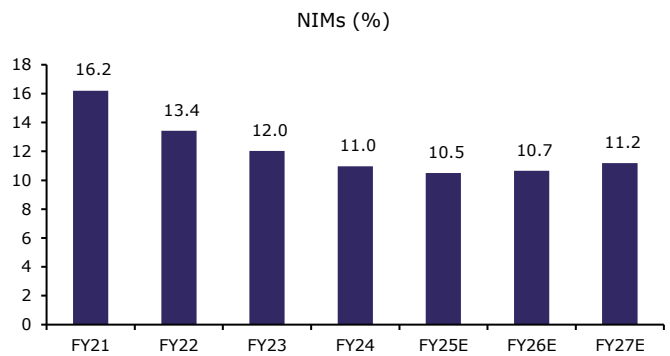
Source: Emkay Research

Exhibit 3: NIMs have largely bottomed-out



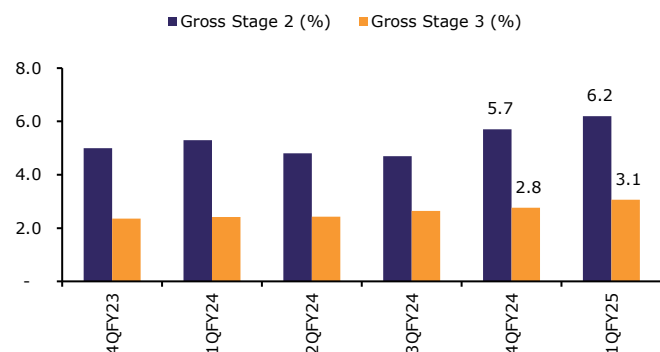
Source: Company, Emkay Research

Exhibit 4: We expect NIMs to improve in FY26E due to moderation in cost, led by policy rate cut and thereby the borrowing rate



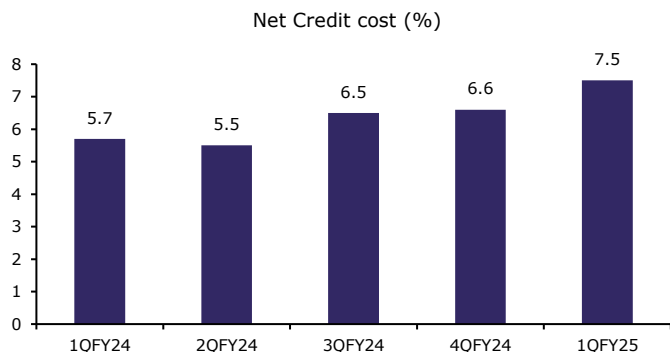
Source: Emkay Research

Exhibit 5: Asset quality continues to deteriorate



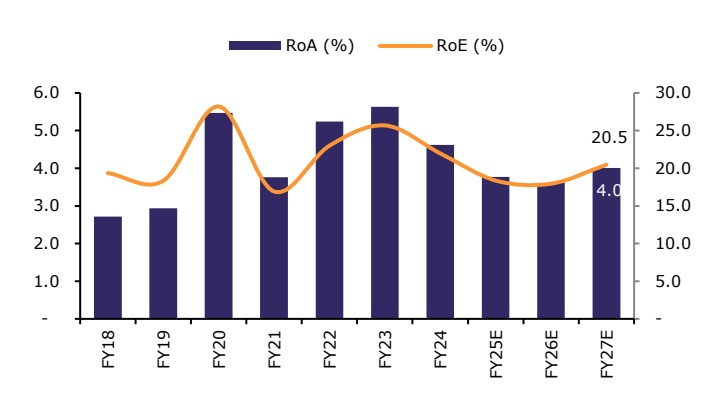
Source: Company, Emkay Research

Exhibit 6: Net credit cost is on the rise



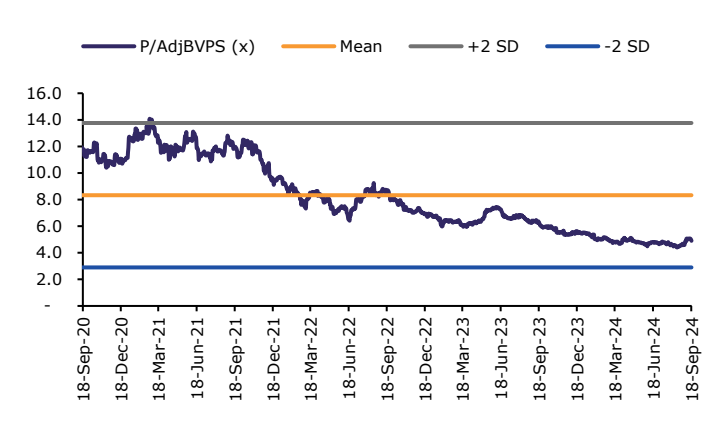
Source: Company, Emkay Research

Exhibit 7: We expect SBIC's RoA/RoE to further moderate, mainly due to slowing growth and rising LLP



Source: Emkay Research

Exhibit 8: The stock currently trades at 4.9x 1Y-forward P/ABV



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	96,112	116,247	144,526
Interest Expense	16,476	25,952	33,355	40,408	47,762
Net interest income	45,053	53,319	62,757	75,839	96,764
NII growth (%)	17.4	18.3	17.7	20.8	27.6
Other income	81,293	95,565	103,203	116,999	137,293
Total Income	126,346	148,884	165,960	192,838	234,057
Operating expenses	74,486	83,693	89,712	103,119	120,894
PPOP	51,860	65,192	76,249	89,719	113,163
PPOP growth (%)	17.1	25.7	17.0	17.7	26.1
Core PPOP	51,860	65,192	76,249	89,719	113,163
Provisions & contingencies	21,554	32,874	43,828	52,601	63,076
PBT	30,306	32,317	32,421	37,119	50,087
Extraordinary items	0	0	0	0	0
Tax expense	7,721	8,240	8,267	9,465	12,772
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	22,585	24,078	24,154	27,654	37,315
PAT growth (%)	39.7	6.6	0.3	14.5	34.9
Adjusted PAT	22,585	24,078	24,154	27,654	37,315
Diluted EPS (Rs)	23.7	25.2	25.2	28.9	38.9
Diluted EPS growth (%)	39.4	6.2	0.1	14.5	34.9
DPS (Rs)	11.3	14.0	16.0	17.8	18.8
Dividend payout (%)	12.6	9.9	11.8	13.8	12.7
Effective tax rate (%)	25.5	25.5	25.5	25.5	25.5
Net interest margins (%)	12.0	11.0	10.5	10.7	11.2
Cost-income ratio (%)	59.0	56.2	54.1	53.5	51.7
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	132,631	156,481	189,041
Net worth	98,301	120,841	142,141	165,991	198,551
Deposits	0	0	0	0	0
Borrowings	297,491	399,862	489,440	623,262	776,394
Interest bearing liab.	297,491	399,862	489,440	623,262	776,394
Other liabilities & prov.	59,664	61,010	63,299	48,427	50,032
Total liabilities & equity	455,456	581,712	694,880	837,680	1,024,976
Net advances	393,610	490,790	587,642	701,372	847,580
Investments	21,397	35,191	43,252	53,216	66,414
Cash, other balances	9,898	27,296	10,912	11,458	12,031
Interest earning assets	428,551	553,277	653,543	786,453	961,427
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	694,880	837,680	1,024,976
BVPS (Rs)	103.9	127.1	149.5	174.5	208.8
Adj. BVPS (INR)	101.1	123.1	143.9	167.6	200.6
Gross advances	407,216	508,460	612,159	731,444	883,294
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	7.4	7.1	6.7
Loans-to-Assets (%)	86.4	83.7	84.6	83.7	82.7
Net advances growth (%)	30.4	24.7	19.7	19.4	20.8
Deposit growth (%)	0.0	0.0	0.0	0.0	0.0
Book value growth (%)	26.4	22.3	17.6	16.8	19.6

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	20,196.9	25,329.4	29,663.7
Net NPLs	3,544.9	5,033.6	7,068.9	8,865.3	10,382.3
GNPA ratio (%)	2.4	2.8	3.4	3.5	3.4
NNPA ratio (%)	0.9	1.0	1.2	1.3	1.2
Provision coverage (%)	63.0	64.1	65.0	65.0	65.0
Gross slippages	21,529.4	27,445.0	34,243.9	39,481.0	43,343.1
Gross slippage ratio (%)	5.4	5.5	5.7	5.5	5.0
LLP ratio (%)	6.1	7.3	8.0	8.0	8.0
NNPA to networth (%)	3.4	3.9	4.7	5.1	5.0
Capital adequacy					
Total CAR (%)	23.1	22.4	21.8	20.4	19.9
Tier-1 (%)	20.4	20.1	19.8	18.9	18.7
CET-1 (%)	20.4	20.1	19.8	18.9	18.7
RWA-to-Total Assets (%)	92.0	94.0	95.0	98.0	98.0
Miscellaneous					
Total income growth (%)	26.4	22.4	14.0	17.0	20.8
Opex growth (%)	27.4	12.4	7.2	14.9	17.2
Core PPOP growth (%)	17.1	25.7	17.0	17.7	26.1
PPOP margin (%)	36.3	37.3	38.3	38.5	40.2
PAT/PPOP (%)	43.6	36.9	31.7	30.8	33.0
LLP-to-Core PPOP (%)	41.6	50.4	57.5	58.6	55.7
Yield on advances (%)	17.5	17.7	17.6	17.9	18.5
Cost of funds (%)	6.1	7.3	7.4	7.1	6.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	32.6	30.7	30.7	26.8	19.9
P/B (x)	7.5	6.1	5.2	4.5	3.7
P/ABV (x)	7.7	6.3	5.4	4.7	3.9
P/PPOP (x)	13.2	10.5	9.0	7.6	6.1
Dividend yield (%)	1.4	1.8	2.1	2.3	2.4
DuPont-RoE split (%)					
NII/avg assets	11.2	10.2	9.8	9.9	10.4
Other income	20.3	18.3	16.1	15.3	14.7
Fee income	18.7	17.3	15.6	14.9	14.4
Opex	18.6	16.1	14.0	13.5	13.0
PPOP	12.9	12.6	11.9	11.7	12.2
Core PPOP	12.9	12.5	11.9	11.7	12.2
Provisions	5.4	6.3	6.9	6.9	6.8
Tax expense	1.9	1.6	1.3	1.2	1.4
RoA (%)	5.6	4.6	3.8	3.6	4.0
Leverage ratio (x)	4.6	4.8	4.9	5.0	5.1
RoE (%)	25.7	21.9	18.3	17.9	20.5
Quarterly data					
Rs mn, Y/E Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
NII	12,332	12,969	13,870	14,148	14,765
NIM (%)	12.4	11.9	11.9	11.5	11.6
PPOP	15,151	15,509	16,205	18,326	18,998
PAT	5,933	6,030	5,491	6,624	5,945
EPS (Rs)	6.27	6.37	5.80	7.00	6.28

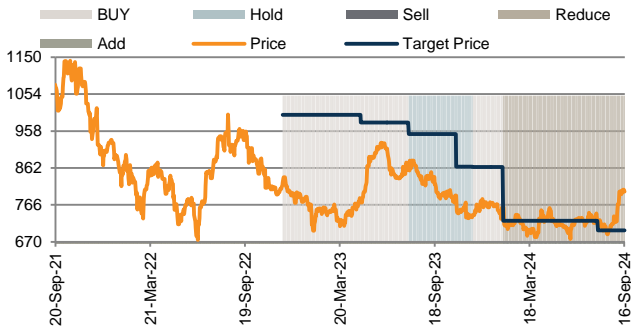
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Jul-24	722	700	Reduce	Anand Dama
28-Apr-24	750	725	Reduce	Anand Dama
27-Jan-24	760	725	Reduce	Anand Dama
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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Ratings	Expected Return within the next 12-18 months.
BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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