

CMP: ₹ 939

Target: ₹ 1100 (17%)

Target Period: 12 months

July 29, 2022

BUY

Spends gain momentum, Revolver mix improves

About the stock: SBI Cards is subsidiary of State Bank of India (69.2% stake) and is the second largest credit card issuer in India.

- Market share in terms of cards issued is 18.4% and spends is 18.6%
- High margin business with strong return ratios, +5% RoA and +20% RoE

Q1FY23 Results: Healthy operational show

- Spends up 79.4% YoY, 10% QoQ at ₹59671 crore, retail spends up 68% YoY
- NII growth at 17% YoY & 8% QoQ to ₹1079 crore, NIMs stable at 13.2%
- C/I ratio down 106 bps QoQ to 56.3%; provision fall 30% YoY to ₹450 crore
- GNPA stable at 2.24% versus 2.22% QoQ; RBI Re at 0% of net loans

What should investors do? SBI Cards' stock price has given over 25% returns since its listing in March 2020. We believe with pick up in segments like travel and entertainment as pandemic effect wanes and some regulatory changes could favour overall industry and thus SBI cards as well.

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value SBI Cards at ~34x FY24E EPS (~8.1x FY24E ABV) and revise our target price to ₹1100 from ₹ 1000 earlier.

Key triggers for future price performance:

- Improving trends in travel and entertainment segments to propel growth
- Increase in revolver rate and EMI conversion to support margins
- Prospects of UPI-linked to Rupay cards are positive for company
- Increasing competitive intensity from competitors and new age fintechs (BNPL) remains a challenge

Alternate Stock Idea: Apart from SBI Cards, in our coverage we like Bajaj Finance.

- It is a dominant player in consumer finance space and has put up a superior performance over the past many years in terms of growth and profitability.
- BUY with a target price of ₹ 8500



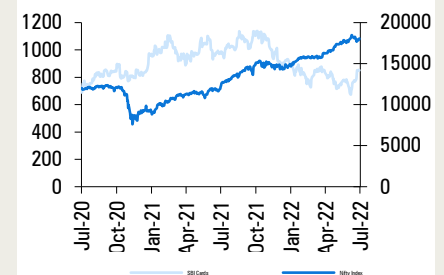
Particulars

Particulars	Values
Market Capitalisation	₹ 88562 crore
Networth	₹ 8272 crore
52 week H/L (₹)	1164 / 656
Face Value (₹)	10.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	69.4	69.5	69.6	69.6
FII	13.1	10.3	9.5	9.5
DII	9.7	11.9	12.4	12.4
Others	7.8	8.3	8.5	8.5

Price Chart



Recent Event & Key risks

- GNPA stable at 2.24% versus 2.22% QoQ; RBI Re at 0% of net loans
- Key Risk:** (i) BNPL increasing competitive intensity, (ii) Lower revolver rate can impact margins

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Key Financial Summary

₹ Crore	FY21	FY22	3 year CAGR (FY19-22E)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	3,884	3,839	14.4	4,801	6,303	28.1
PPP	3,962	4,428	21.3	6,014	7,328	28.6
PAT	985	1,616	23.2	2,201	2,737	30.1
EPS (₹)	10	17		23	32	
ABV (₹)	64.1	80.1		98.1	132.8	
P/ABV	14.7	11.7		9.6	7.1	
RoA	3.8	5.2		5.3	5.0	
RoE	16.9	23.0		25.5	25.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Uptick in key spends segment spurs overall growth

- SBI Cards reported NII growth of 17% YoY and 8% QoQ at ₹1079 crore. Net interest margin for the quarter remained steady at 13.2% on a sequential basis despite increase in cost of funds.
- Other income was up 45% YoY to ₹1877 crore, mostly driven by 40% uptick in fee income while business development incentive was up 65% YoY
- Provisions for the quarter were down 30% YoY but up 14.5% QoQ as previous quarter had around ₹76 crore worth release of management overlay provisions.
- Net profit, thus, helped by lower provisions and healthy top-line, was up 106% YoY and 8.1% QoQ to ₹628 crore.
- Spends growth was healthy at 79.4% YoY wherein corporate spends were up by 130% YoY and retail spends jumped 68% YoY.
- Revolver book, highest yielding book (~35-40%), was up 1% QoQ to 26% of total receivables while EMI book (Yield ~18-20%) also increased by 1% sequentially to 35%, thus improving blended yields for the company
- Total loan book increased 39.2% YoY and 6.3% QoQ to ₹32079 crore.
- Online spends increased to 55.2% of the total as against 54.4% in previous year. Travel & entertainment related spends increased by 31% YoY.
- New customer sourcing from self-employed segment increased from 24% to 26% QoQ.
- Asset quality was largely stable as GNPA came in at 2.24% versus 2.22% QoQ while NNPA stood at 0.79% as against 0.78% QoQ.

Q1FY23 Earnings Conference Call highlights

- Tied up with Aditya Birla group that would aid cards growth
- Travel and entertainment spends now above pre-Covid levels
- Focus on self-employed and other categories to help improve EMI in receivable mix
- Average tenor in term loan book (converted from spends) at 8-9 months
- Incremental sourcing ~50% from tier-3 and tier-4 cities
- Spends/card from Tier-3 and below cities is around 60-90% of overall spends/card
- Have issued more than 10 lakh Rupay cards and is amongst largest issuer in the industry
- Insurance bill payments and Utilities contribute around 10-14% of total spends

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	₹	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Bajaj Finance (BAJFI)	7,208	8,500	Buy	4,364	73.6	116.7	168.5	221.7	98.0	61.8	42.8	32.5	12.1	10.2	8.6	6.4	12.8	17.4	21.0	21.6
SBI Cards (SBICARD)	939	1,100	Buy	885	10.5	17.1	23.3	31.9	89.7	54.8	40.2	29.4	14.7	11.7	9.6	7.1	16.9	23.0	25.5	25.8
Muthoot Finance (MUTFIN)	1065	1,300	Buy	427	8.0	9.5	12.0	13.0	133.7	111.7	88.5	81.7	2.9	2.5	2.1	1.8	27.8	23.5	22.9	23.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
NII	1,079	924	16.8	999	8.0	Driven by steady nims and uptick in loans
NIM (%)	13.2	14.8	-160 bps	13.2	0 bps	increased revolver rate helps margins
Other Income	1,877	1,298	44.6	1,750	7.2	strong growth in spends aids fee income
Net Total Income	2,956	2,222	33.0	2,749	7.5	
Staff cost	139	116	19.8	121	14.9	
Other Operating Expenses	1,525	1,052	45.0	1,456	4.7	C/I ratio down 106 bps to 56.3%
PPP	1,292	1,054	22.6	1,172	10.2	
Provision	450	644	-30.1	393	14.5	credit cost decline YoY as asset quality improves
PBT	842	410	105.4	779	8.1	
Tax Outgo	214	105	103.8	198	8.1	
PAT	628	305	105.9	581	8.1	Boosted by healthy top-line and low credit cost
Key Metrics						
GNPA	2.2	3.9	-167 bps	2.2	2 bps	Largely stable as business activity remains normal
NNPA	0.79	0.9	-9 bps	0.78	1 bps	
Spends	59,671	33,260	79.4	54,134	10.2	Corporate and retail spends drive growth
Loans	32,079	23,041	39.2	30,187	6.3	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	4,610.2	4,800.6	4.1	5,935.5	6,302.7	6.2
Pre Provision Profit	5,690.5	6,013.8	5.7	7,208.7	7,328.5	1.7
NIM(%) (calculated)	13.6	13.3	-32 bps	13.7	13.4	-30 bps
PAT	1,982.6	2,201.1	11.0	2,490.5	2,737.5	9.9
ABV per share (₹)	93.3	98.1	5.2	125.3	132.8	6.0

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
NII (₹ crore)	4,800.6	6,302.7	4,610.2	5,935.5
NIM Calculated (%)	13.3	13.4	13.6	13.7
Cost-to-income (%)	55.2	56.4	56.4	57.0
PAT	2,201.1	2,737.5	1,982.6	2,490.5
Loans (₹ cr)	39,553.5	51,399.8	37,029.3	47,491.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
₹ crore	FY21	FY22	FY23E	FY24E
Interest Income	4927.7	4866.0	6363.8	8413.2
Finance costs	1043.4	1027.3	1563.2	2110.5
Net Interest Income	3884.3	3838.7	4800.6	6302.7
Income from fees and services	4041.9	5358.8	6826.6	8208.8
Business development incentive	299.2	447.6	1020.7	1326.4
Other Income	444.9	629.1	785.9	981.8
Total Income	8670.2	10274.2	13433.9	16819.8
Employee benefits expenses	491.6	472.7	576.7	703.6
Depreciation & Amortisation	184.7	148.6	244.6	269.1
Operating and other expenses	4031.6	5224.9	6598.7	8518.6
Total expenses	4707.9	5846.2	7420.1	9491.3
PPP	3962.3	4428.0	6013.8	7328.5
Impairment losses & bad debt	2638.6	2255.8	3079.1	3678.5
PBT	1323.7	2172.2	2934.7	3650.0
Tax expense	339.2	556.0	733.7	912.5
PAT	984.5	1616.1	2201.1	2737.5

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
₹ crore	FY21	FY22	FY23E	FY24E
Assets				
Cash & Bank Balance	718.1	1106.4	1437.8	1869.1
Loans	23459.1	30187.0	39553.5	51399.8
Investment	957.6	1297.2	500.0	1100.0
Deferred tax assets (Net)	395.1	219.0	219.0	219.0
Fixed Assets	56.5	39.2	499.4	549.3
Intangible assets	261.7	414.0	316.1	347.7
Other assets	1164.8	1385.6	6023.4	4441.2
Total Assets	27012.9	34648.4	48549.2	59926.2
Liabilities & Equity				
Share capital	940.5	943.2	943.0	943.0
Reserves & Surplus	5361.5	6809.5	8570.8	10760.8
Networth	6302.0	7752.7	9513.8	11703.8
Debt Securities	5932.9	7106.3	11075.0	12233.2
Borrowings	10836.8	14680.0	24776.6	32197.2
Other financial liabilities	2001.2	2768.7	1799.7	2338.7
Current Tax liabilities (Net)	0.0	0.0	0.0	0.0
Provisions	542.2	477.4	500.9	525.9
Other liabilities	1397.7	1863.3	883.2	927.4
Total liabilities and equity	27012.9	34648.4	48549.2	59926.2

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios				
	FY21	FY22	FY23E	FY24E
No. of shares (crore)	94.1	94.3	94.3	85.7
NIM (%)	16.3	13.8	13.3	13.4
CoF (%)	5.9	4.6	4.8	5.0
YoA	21.3	18.1	18.3	18.5
BV (₹)	67.0	82.2	100.9	136.5
ABV (₹)	64.1	80.1	98.1	132.8
P/E (x)*	89.7	54.8	40.2	29.4
P/BV*	14.0	11.4	9.3	6.9
P/ABV*	14.7	11.7	9.6	7.1
GNPA (%)	5.0	2.2	2.0	1.9
NNPA (%)	1.2	0.7	0.7	0.6
RoA (%)	3.8	5.2	5.3	5.0
RoE (%)	16.9	23.0	25.5	25.8
EPS (₹)	10.5	17.1	23.3	31.9

Source: Company, ICICI Direct Research

Exhibit 8: Growth trajectory (%)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Total assets	6.8	28.3	40.1	23.4
Advances	2.8	28.7	31.0	30.0
Total Income	2.6	18.5	30.8	25.2
Net interest income	9.7	-1.2	25.1	31.3
Operating expenses	-1.5	24.2	26.9	27.9
PPP	8.0	11.8	35.8	21.9
Net profit	-20.9	64.2	36.2	24.4
Book value	17.8	22.7	22.7	35.3
EPS	-21.6	63.7	36.2	36.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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