

CMP: ₹ 830

Target: ₹ 950 (14%)

Target Period: 12 months

HOLD

October 31, 2022

Near term pressure; gradual revival anticipated...

About the stock: SBI Cards is a 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 19.1% and spends is 18.0%
- High margin business with strong return ratios, +5% RoA and +20% RoE

Q2FY23 Results: Continued downward trend in revolver & NIM.

- Spends up 43% YoY, 4.4% QoQ at ₹ 62306 crore, retail spends up 45% YoY
- NII growth at 21.4% YoY & 3.4%QoQ to ₹ 1116 crore, NIMs decline to 12.3%
- C/I ratio up 522 bps QoQ to 59.4%; provision fell 8.1% YoY to ₹ 546 crore
- GNPA declined to 2.1% vs. 2.2% QoQ; RBI Re at 0% of net loans

What should investors do? SBI Cards' stock price has given over 31% returns since its listing in March 2020. Uptick in funding cost & lower revolver rate remain near term headwinds, though pick-up in spends and steady market share bode well.

- We downgrade the stock from BUY to **HOLD** rating

Target Price and Valuation: We value SBI Cards at ~30x FY24E EPS (~7.1x FY24E ABV) and lower our target price from ₹ 1100 to ₹ 950.

Key triggers for future price performance:

- Lower revolver, increase in CoF and regulatory restrictions on fees and penalties to act as near term overhang
- Investments in marketing & distribution to aid improving trends in travel, hotel, leisure and entertainment spends
- Steady market share, product launches and pick up in spends to gradually convert into revolvers, thereby aiding valuation ahead

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 ₹ 8650



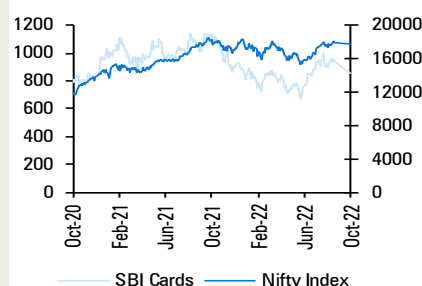
Particulars

Particulars	Values
Market Capitalisation	₹ 77259 crore
Networth	₹ 8991 crore
52 week H/L (₹)	1130 / 656
Face Value (₹)	10.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	69.4	69.5	69.6	69.6	69.4
FII	13.1	10.3	9.5	9.5	8.8
DII	9.7	11.9	12.4	12.4	8.2
Others	7.8	8.3	8.5	8.5	13.6

Price Chart



Recent Event & Key risks

- GNPA down 10 bps to 2.1% vs. 2.2% QoQ; RBI Re at 0% of net loans
- Key Risk:** (i) increased CoF to impact margins in near term, (ii) Decline in cost to aid earnings trajectory

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Key Financial Summary

₹ Crore	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	3,884	3,839	14.4	4,365	5,907	24.1
PPP	3,962	4,428	21.3	5,412	6,827	24.2
PAT	985	1,616	23.2	2,248	2,747	30.4
EPS (₹)	10	17		24	32	
ABV (₹)	64.1	80.1		98.5	133.2	
P/ABV	13.0	10.4		8.4	6.2	
RoA	3.8	5.2		5.4	5.0	
RoE	16.9	23.0		26.0	25.8	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Spends momentum healthy; operationally muted

- SBI Cards reported NII growth of 21.4% YoY and 3.4% QoQ at ₹ 1116 crore. Net interest margin for the quarter declined 90 bps to 12.3% on a sequential basis, mainly due to increase in cost of funds
- Other income was up 29.3% YoY to ₹ 1969 crore, mostly driven by 29% uptick in fee income while business development incentive was up 34% YoY
- Provisions for the quarter were down 8.1% YoY but up 21.3% QoQ, mainly due to increase in stage 1 assets. PAT was up 52.4% YoY & down 16.4% QoQ to ₹ 525 crore
- Spends growth was healthy at 43.7% YoY wherein corporate spends were up 34.4% YoY and retail spends were up 45% YoY. Online spends increased to 57.8% in H1FY23 vs. 55.2% in Q1FY23 of total spends
- Total loan book increased 43.7% YoY and 13.8% QoQ to ₹ 36500 crore
- Asset quality improved as GNPA came in at 2.1% vs. 2.2% QoQ while NNPA was at 0.78% against 0.79% QoQ

Q2FY23 Earnings Conference Call highlights

- Industry spends were up 53% YoY in September 2022, led by festive season spends, improving economic activities, etc
- MoM there was a marginal decline in total cards as RBI norms on inactive cards kicked in. The company has maintained a strategy of fee based card. As more than 95% of portfolio consist of spends or balance active cards, the impact of RBI norms on the company is limited
- Linking Rupay credit card to UPI is expected to expand the usage of credit cards. Hence, credit card user base is expected to expand from current 250 mn to 750 mn in the next five years
- Healthy growth in electronics, hotel, restaurant, entertainment and furnishing segment
- Customer acquisition was led by end to end digital journey. Sustained growth during the quarter was driven by key initiatives like cashback SBI card, 1600 plus offers
- Spends per average card increased from ₹ 1.42 lakh to ₹ 1.7 lakh
- Cost to income was on account of investment to drive business volume of new accounts. CI is expected to remain elevated in Q3FY23 on increased focus on new customer acquisition
- Gross credit cost at 6.2% from 5.6% in Q1FY23, mainly due to increase in stage 1 asset
- CoF increased from 5.1% to 5.4% QoQ. The full impact of higher rates is expected to be seen in further quarters
- The management is hopeful of seeing healthy discretionary spends in coming quarters
- Margins likely to be ~10 bps +/- with cost of fund going up by 40-50 bps

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)	7,342	8,650	Buy	4,445	73.6	116.7	190.5	226.4	99.8	62.9	38.5	32.4	12.3	10.3	8.5	6.4	12.8	17.4	23.4	21.6
SBI Cards (SBICARD)	830	950	Hold	772	10.5	17.1	23.8	32.0	79.3	48.4	34.8	25.9	13.0	10.4	8.4	6.2	16.9	23.0	26.0	25.8
Muthoot Finance (MUTFIN)	1,059	1,300	Hold	425	92.8	98.5	106.2	134.0	11.4	10.7	10.0	7.9	2.9	2.5	2.1	1.8	27.8	23.5	21.5	23.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	1,116	919	21.4	1,079	3.4	Driven by uptick in loans
NIM (%)	12.3	14.1	-180 bps	13.2	-90 bps	Led by elevated CoF
Other Income	1,969	1,523	29.3	1,877	4.9	Strong growth in spends aids fee income
Net Total Income	3,085	2,442	26.4	2,956	4.4	
Staff cost	129	115	12.2	139	-7.2	
Other Operating Expenses	1,705	1,269	34.4	1,525	11.8	C/I ratio up 276 bps YoY to 59.4%
PPP	1,251	1,058	18.3	1,292	-3.2	
Provision	546	594	-8.1	450	21.3	Credit cost up 53 bps QoQ
PBT	705	464	52.1	842	-16.3	
Tax Outgo	180	119	51.3	214	-15.9	
PAT	525	345	52.4	628	-16.4	YoY performance driven by decent topline
Key Metrics						
GNPA	2.1	3.4	-122 bps	2.2	-10 bps	Largely stable as business activity remains normal
NNPA	0.78	0.9	-13 bps	0.79	-1 bps	
Spends	62,306	43,560	43.0	59,671	4.4	Corporate and retail spends drive growth
Loans	36,500	25,394	43.7	32,079	13.8	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	4,800.6	4,364.8	-9.1	6,302.7	5,907.3	-6.3
Pre Provision Profit	6,013.8	5,412.5	-10.0	7,328.5	6,827.2	-6.8
NIM(%) (calculated)	13.3	12.1	-121 bps	13.4	12.4	-93 bps
PAT	2,201.1	2,248.1	2.1	2,737.5	2,747.2	0.4
ABV per share (₹)	98.1	98.5	0.4	132.8	133.2	0.4

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
NII (₹ crore)	4,364.8	5,907.3	4,800.6	6,302.7
NIM Calculated (%)	12.1	12.4	13.3	13.4
Cost-to-income (%)	56.2	57.6	55.2	56.4
PAT	2,248.1	2,747.2	2,201.1	2,737.5
Loans (₹ cr)	39,553.5	52,063.1	39,553.5	51,399.8

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	5927.9	8245.5	
Finance costs	1043.4	1027.3	1563.2	2338.2	
Net Interest Income	3884.3	3838.7	4364.8	5907.3	
Income from fees and services	4041.9	5358.8	6571.4	8376.4	
Business development incentive	299.2	447.6	638.0	829.0	
Other Income	444.9	629.1	785.9	981.8	
Total Income	8670.2	10274.2	12360.0	16094.6	
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	6126.2	8294.8	
Total expenses	4707.9	5846.2	6947.6	9267.5	
PPP	3962.3	4428.0	5412.5	6827.2	
Impairment losses & bad debts	2638.6	2255.8	2415.0	3164.3	
PBT	1323.7	2172.2	2997.5	3662.9	
Tax expense	339.2	556.0	749.4	915.7	
PAT	984.5	1616.1	2248.1	2747.2	

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	52063.1	
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	6061.1	4426.9	
Total Assets	27012.9	34648.4	48586.9	60575.1	

Liabilities & Equity

Share capital	940.5	943.2	943.0	943.0
Reserves & Surplus	5361.5	6809.5	8608.5	10806.2
Networth	6302.0	7752.7	9551.5	11749.2
Debt Securities	5932.9	7106.3	11075.0	12391.0
Borrowings	10836.8	14680.0	24776.6	32612.7
Other financial liabilities	2001.2	2768.7	1799.7	2368.9
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	48586.9	60575.1

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	12.1	12.4
CoF (%)		5.9	4.6	4.8	5.5
YoA		21.3	18.1	17.0	18.0
BV (₹)		67.0	82.2	101.3	137.1
ABV (₹)		64.1	80.1	98.5	133.2
P/E (x)*		79.3	48.4	34.8	25.9
P/BV*		12.4	10.1	8.2	6.1
P/ABV*		13.0	10.4	8.4	6.2
GNPA (%)		5.0	2.2	2.0	1.9
NNPA (%)		1.2	0.7	0.7	0.6
RoA (%)		3.8	5.2	5.4	5.0
RoE (%)		16.9	23.0	26.0	25.8
EPS (₹)		10.5	17.1	23.8	32.0

Source: Company, ICICI Direct Research

Exhibit 8: Growth trajectory (%)		FY21	FY22	FY23E	FY24E
(Year-end March)					
Total assets		6.8	28.3	40.2	24.7
Advances		2.8	28.7	31.0	31.6
Total Income		2.6	18.5	20.3	30.2
Net interest income		9.7	-1.2	13.7	35.3
Operating expenses		-1.5	24.2	18.8	33.4
PPP		8.0	11.8	22.2	26.1
Net profit		-20.9	64.2	39.1	22.2
Book value		17.8	22.7	23.2	35.3
EPS		-21.6	63.7	39.1	34.4

Source: Company, ICICI Direct Research

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Sell: <-15%



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