

SBI Cards and Payments (SBICAR)

CMP: ₹ 850

Target: ₹ 1000 (18%)

Target Period: 12 months

January 27, 2022

BUY

Healthy rise in spends aids performance...

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 19.2% and spends is 19.0%
- High margin business with strong return ratios, +5% RoA and +20% RoE

Q3FY22 Results: Festive season boosts spends, slight niddle on margins.

- Spends up 47% YoY, 27% QoQ at ₹ 55397 crore
- NII up 9.8% YoY to ₹ 996 crore, NIMs down 10 bps QoQ to 14%
- C/I ratio up 586 bps QoQ to 60%, credit cost elevated, up 8.2% QoQ
- GNPA down 96 bps QoQ at 2.4%, RBI Re at 2% of net loans

What should investors do? SBI Cards' stock price has given ~13% returns since its listing but this was post more than 25% correction in the past few months. We believe it is attractive considering strong prospects on growth and profitability.

- We maintain BUY rating on the stock

Target Price and Valuation: We roll over and value SBI Cards at ~32x FY24E EPS (7.8x FY24E ABV) and revise our target price to ₹ 1000 from ₹ 1200 earlier.

Key triggers for future price performance:

- Digitisation and, thus, healthy recovery in spends to aid business growth
- Bottoming out of revolver book to aid margins ahead
- BNPL remains a competition; levers available to safeguard earnings
- Strong return ratio profile to aid valuations

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

- It is a dominant player in the consumer finance space and has given superior performance over past many years in terms of growth and profitability
- BUY with target price of ₹ 9500



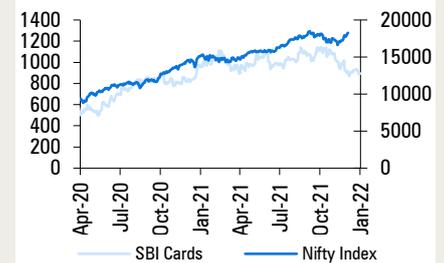
Particulars

Particulars	Values
Market Capitalisation	₹ 80186 crore
Networth	₹ 7396 crore
52 week H/L (₹)	1164 / 781
Face Value (₹)	10.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	69.4	69.4	69.5	69.4	69.5
FII	5.8	8.6	12.5	13.1	10.3
DII	3.9	6.0	6.7	9.7	11.9
Others	20.9	16.0	11.3	7.8	8.3

Price Chart



Recent Event & Key risks

- GNPA down 96 bps QoQ at 2.4%, RBI Re at 2% of net loans
- Key Risk:** (i) BNPL increasing competitive intensity, (ii) Regulatory cap on MDR

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Key Financial Summary

₹ Crore	FY20	FY21	4 year CAGR (FY17-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
NII	3,540	3,884	30.0	3,678	4,814	6,174	16.7
PPP	3,670	3,962	37.7	4,576	5,920	7,592	24.2
PAT	1,245	985	27.5	1,409	2,041	2,708	40.1
EPS (₹)	13	10		15	22	32	
ABV (₹)	55.2	64.1		76.8	93.7	127.9	
P/ABV	15.4	13.3		11.1	9.1	6.6	
RoA	5.5	3.8		4.5	5.2	5.7	
RoE	27.9	16.9		20.5	24.8	26.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results: Strong on growth front, modest operational show

- SBI Cards reported NII growth of 9.8% YoY and 8.4% QoQ at ₹ 996 crore. This was largely driven by 18% YoY uptick in loans as the margin performance was subdued. NIMs declined 50 bps YoY and 10 bps QoQ due to lower revolver rate
- Other income was up 36% YoY to ₹ 1866 crore, driven by 32% rise in fee income and 46% rise in business development incentive. Provision write back of ~₹ 108 crore due to GST refund also aided income
- Opex was on the higher side, up 29.9% QoQ. This was mainly due to higher expense on customer acquisition, campaigning and increased volumes
- Provisions were elevated at ₹ 625 crore, up 5.2% QoQ. This was owing to higher write-off and ₹ 76 crore worth overlay provisions created. The company now has management overlay provisions of ₹ 162 crore
- Net profit for the quarter was up 83% YoY, 11.9% QoQ to ₹ 386 crore
- Spends growth recovery continued ~47% YoY and 27% QoQ. Retail spends were up 36% YoY and 21% QoQ while corporate spends reported sharp increase of 93% YoY and 53% QoQ. The company has also benefitted from spend growth during the seasonally strong period
- Revolver book was stable QoQ at 27% of receivables but much lower than pre-Covid levels of ~40%. New card sourcing 10 lakh for the quarter grew 9.8% on a YoY basis

Q3FY22 Earnings Conference Call highlights

- Currently travel and entertainment are the only two categories, which are below pre-Covid levels
- Revolver book has bottomed out in October and since then grown at a faster pace than the overall receivable book. It is expected to pick up gradually and would take three to four quarters to normalise. Pick-up in high ticket spends like travel would aid revolve balance
- Witnessing strong traction in conversion of spends into EMI
- Of the total pool of ~45 crore banca customers, eligible customers were at ~20 crore, of which SBI Cards had issued cards to ~0.6 crore customers. Thus, significant opportunity persists in this space
- The bank has written off ~2% of loans during the quarter
- Decline in RBI RE book was driven by repayments and loan closures
- ECL provisions, excluding management overlay provisions, were at 3.4%
- The discussion paper from the RBI on MDR is still awaited

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	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Bajaj Finserv (BAFINS)	15,127	20,000	Buy	2,407	235.6	266.9	418.8	64.2	56.7	36.1	6.7	6.0	5.1	11.0	11.2	15.3
Bajaj Finance (BAJFI)	6,821	9,500	Buy	4,117	73.6	107.4	146.5	92.7	63.5	46.6	11.4	10.3	7.6	12.8	16.2	17.6
SBI Cards (SBICARD)	850	1,000	Buy	801	10.5	15.0	21.7	81.2	56.7	39.2	13.3	11.1	9.1	16.9	20.5	24.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
NII	996	907	9.8	919	8.4	Decent growth despite spends due to fall in NIMS
NIM (%)	14.0	14.5	-50 bps	14.1	-10 bps	Margins subdued due to low revolver rates
Other Income	1,866	1,372	36.0	1,523	22.6	Driven by rise in fee income
Net Total Income	2,862	2,279	25.6	2,442	17.2	
Staff cost	121	131	-7.6	115	5.2	
Other Operating Expenses	1,598	1,217	31.3	1,269	25.9	Higer opex due to promotions and campaigns
PPP	1,144	931	22.8	1,058	8.1	
Provision	625	648	-3.5	594	5.2	Credit cost elevated due to write-offs
PBT	519	283	83.0	464	11.8	
Tax Outgo	133	73	82.2	119	11.8	
PAT	386	210	83.3	345	11.9	PAT up as YoY provisions fall and topline improves
Key Metrics						
GNPA	2.4	1.6	79 bps	3.4	-96 bps	Accelerated write-off helps improve asset quality
NNPA	0.8	0.6	27 bps	0.9	-8 bps	
Spends	55,397	37,797	46.6	43,560	27.2	Improving spends due to festive boost
Loans	27,969	23,696	18.0	25,394	10.1	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	3,941.8	3,678.5	-6.7	5,123.8	4,813.6	-6.1	6,174.5
Pre Provision Profit	4,478.6	4,576.1	2.2	5,729.2	5,920.4	3.3	7,592.1
NIM(%) (calculated)	14.6	13.3	-135 bps	15.2	13.7	-149 bps	14.2
PAT	1,423.6	1,408.7	-1.0	2,233.4	2,040.7	-8.6	2,708.4
ABV per share (₹)	76.0	76.8	1.2	94.6	93.7	-1.0	127.9

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier	
	FY22E	FY23E	FY24E	FY22E	FY23E
NII (₹ crore)	3,678.5	4,813.6	6,174.5	3,941.8	5,123.8
NIM Calculated (%)	13.3	13.7	14.2	14.6	15.2
Cost-to-income (%)	55.2	54.5	53.9	54.8	54.6
PAT	1,408.7	2,040.7	2,708.4	1,423.6	2,233.4
Loans (₹ cr)	30,470.4	37,913.4	46,952.0	28,962.3	36,645.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement ₹ crore

₹ crore	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	4841.3	4927.7	5028.9	6564.8	8359.2
Finance costs	1300.9	1043.4	1350.4	1751.3	2184.8
Net Interest Income	3540.4	3884.3	3678.5	4813.6	6174.5
Income from fees and services	4096.5	4041.9	5506.3	6687.5	8422.7
Business development incentive	327.3	299.2	513.5	866.6	1091.9
Other Income	487.2	444.9	511.0	637.8	796.2
Total Income	8451.4	8670.2	10209.3	13005.5	16485.2
Employee benefits expenses	468.4	491.6	580.1	696.1	835.3
Depreciation & Amortisation	103.8	184.7	105.0	115.5	127.0
Operating and other expenses	4209.3	4031.6	4948.2	6273.5	7930.8
Total expenses	4781.5	4707.9	5633.2	7085.1	8893.1
PPP	3669.9	3962.3	4576.1	5920.4	7592.1
Impairment losses & bad debt	1940.2	2638.6	2697.8	3199.4	3980.9
PBT	1729.6	1323.7	1878.3	2721.0	3611.2
Tax expense	484.8	339.2	469.6	680.2	902.8
PAT	1244.8	984.5	1408.7	2040.7	2708.4

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet ₹ crore

₹ crore	FY20	FY21	FY22E	FY23E	FY24E
Assets					
Cash & Bank Balance	676.0	718.1	789.9	1014.5	1304.7
Loans	22811.6	23459.1	30470.4	37913.4	46952.0
Investment	1.5	957.6	0.0	0.0	0.0
Deferred tax assets (Net)	275.1	395.1	395.1	395.1	395.1
Fixed Assets	63.9	56.5	62.1	68.3	75.1
Intangible assets	270.7	261.7	287.9	316.7	348.3
Other assets	1204.0	1164.8	3823.1	3019.2	3304.4
Total Assets	25302.8	27012.9	35828.5	42727.2	52379.6
Liabilities & Equity					
Share capital	939.0	940.5	940.5	940.5	940.5
Reserves & Surplus	4402.3	5361.5	6488.5	8121.1	10287.8
Networth	5341.2	6302.0	7429.0	9061.6	11228.3
Debt Securities	5685.4	5932.9	9263.0	10054.6	12451.7
Borrowings	10432.8	10836.8	14357.7	18334.9	22706.0
Other financial liabilities	1918.0	2001.2	2507.5	2850.0	3401.0
Current Tax liabilities (Net)	0.0	0.0	0.0	0.0	0.0
Provisions	602.6	542.2	650.7	683.2	717.4
Other liabilities	1322.7	1397.7	1620.7	1742.9	1875.3
Total liabilities and equity	25302.8	27012.9	35828.5	42727.2	52379.6

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
No. of shares (crore)	93.9	94.1	94.1	94.1	85.5
NIM (%)	16.8	16.3	13.3	13.7	14.2
CoF (%)	8.4	5.9	6.2	6.3	6.4
YoA	23.8	21.3	18.7	19.2	19.7
BV (₹)	56.9	67.0	79.0	96.3	131.3
ABV (₹)	55.2	64.1	76.8	93.7	127.9
P/E (x)*	63.7	81.2	56.7	39.2	26.8
P/BV*	14.9	12.7	10.8	8.8	6.5
P/ABV*	15.4	13.3	11.1	9.1	6.6
GNPA (%)	2.0	5.0	2.2	2.0	1.9
NNPA (%)	0.7	1.2	0.7	0.7	0.6
RoA (%)	5.5	3.8	4.5	5.2	5.7
RoE (%)	27.9	16.9	20.5	24.8	26.7
EPS (₹)	13.4	10.5	15.0	21.7	31.7

Source: Company, ICICI Direct Research

Exhibit 8: Growth trajectory (%)

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Total assets	25.6	6.8	32.6	19.3	22.6
Advances	27.4	2.8	29.9	24.4	23.8
Borrowings	30.5	4.0	40.9	20.2	23.8
Total Income	34.6	2.6	17.8	27.4	26.8
Net interest income	38.0	9.7	-5.3	30.9	28.3
Operating expenses	26.0	-1.5	19.7	25.8	25.5
PPP	47.8	8.0	15.5	29.4	28.2
Net profit	43.9	-20.9	43.1	44.9	32.7
Book value	32.7	17.8	17.9	22.0	36.3
EPS	41.3	-21.6	43.1	44.9	46.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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