

SBI Cards and Payments (SBICAR)

CMP: ₹ 830

Target: ₹ 1000 (20%)

Target Period: 12 months

May 2, 2022

BUY

Lower credit costs boost profitability...

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 18.9% and spends is 19.2%
- High margin business with strong return ratios, +5% RoA and +20% RoE

Q4FY22 Results: SBI Cards & Payments reported a mixed operating performance.

- Spends up 51% YoY but down 2% QoQ at ₹ 54134 crore
- NII up 19% YoY & flat QoQ to ₹ 999 crore, NIMs down 80 bps QoQ to 13.2%
- C/I ratio down 42 bps YoY to 57.4%; provision down 39% YoY to ₹ 393 crore
- GNPA down 18 bps QoQ at 2.2%, RBI Re at 1% of net loans

What should investors do? SBI Cards' stock price has given over 25% returns since its listing in March 2020. With a correction in price in past few months, we believe it is attractive considering strong profitability and growth potential.

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

Target Price and Valuation: We value SBI Cards at ~34x FY24E EPS (~8x FY24E ABV) and maintain our target price at ₹ 1000.

Key triggers for future price performance:

- Business growth to improve, especially in the travel segment with better economic activity as the impact of pandemic wanes
- Bottoming out of revolver and EMI book to aid margins ahead
- Reduction in client acquisition cost remains positive; further anticipated decline in credit costs to boost earnings
- 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 ₹ 9500



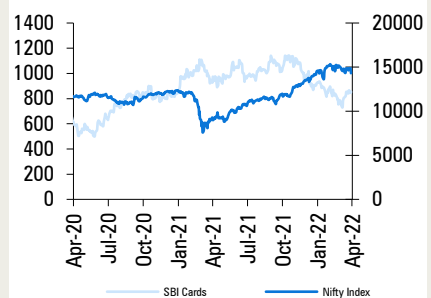
Particulars

Particulars	Values
Market Capitalisation	₹ 77567 crore
Networth	₹ 7753 crore
52 week H/L (₹)	1164 / 712
Face Value (₹)	10.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	69.4	69.5	69.4	69.5	69.6
FI	8.6	12.5	13.1	10.3	9.5
DII	6.0	6.7	9.7	11.9	12.4
Others	16.0	11.3	7.8	8.3	8.5

Price Chart



Recent Event & Key risks

- GNPA down 18 bps QoQ at 2.2%, RBI Re at 1% 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	FY22	3 year CAGR (FY19-22E)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	3,540	3,884	3,839	14.4	4,610	5,935	24.3
PPP	3,670	3,962	4,428	21.3	5,690	7,209	27.6
PAT	1,245	985	1,616	23.2	1,983	2,490	24.1
EPS (₹)	13	10	15		21	29	
ABV (₹)	55.2	64.1	76.6		93.3	125.3	
P/ABV	15.0	13.0	10.8		8.9	6.6	
RoA	5.5	3.8	5.2		5.2	5.3	
RoE	27.9	16.9	23.0		23.6	24.9	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Strong on growth front, modest operational show

- SBI Cards reported NII growth of 19.2% YoY and 0.3% QoQ at ₹ 999 crore. The sequential performance was flattish as net interest margins declined 80 bps QoQ to 13.2%. Despite a reduction in cost of funds, margins went down as yields declined from 17.9% YoY to 16.8% QoQ
- Other income was up 26% YoY to ₹ 1750 crore, mostly driven by 28% uptick in fee income while business development incentive was up 42% YoY
- Opex declined 4.9% sequentially to ₹ 1577 crore and cost to income (calculated) was down 55 bps sequentially to 57.3%
- Credit cost declined meaningfully as asset quality improved while there was also some utilisation of the management overlay provisions as well. Total provisions for the quarter were down 39% YoY and 37% QoQ to ₹ 393 crore
- Net profit, thus, helped by lower provisions, was up over 3x YoY to ₹ 581 crore, thus generating strong RoE of 30.4% for the quarter
- Spends growth on a YoY basis were healthy at 51% to ₹ 54134 crore with corporate spends rising 101% YoY and retail spends up 40% YoY to ₹ 41872 crores. However, sequentially spends were down 2.3% as the pandemic dented growth for the initial period of the quarter and also prior quarter had high base due to festive season
- Revolver book, highest yielding book (~35-40%), was down 2% QoQ to 25% of total receivables, thus impacting overall blended yields for the company

Q4FY22 Earnings Conference Call highlights

- Currently travel and entertainment are the only two categories, which are below pre-Covid levels
- Witnessing strong traction in conversion of spends into EMI
- The bank has written off total ₹ 2800 crore loans in FY22, comprising around 10% of net advances and was higher than previous year's write-off of 9%
- Decline in RBI RE book was driven by repayments and loan closures
- ECL provisions, excluding management overlay provisions, were at 3.5%
- The management also indicated that ~25% of POS spends are currently going through contactless process
- Online spends grew robustly in essential categories like departmental stores, health, utilities, education and direct marketing. However, there has been a marked decline in online spends in the apparel and jewellery category
- Mix of new customer acquisitions is steadily shifting towards self-employed and Tier-3 cities

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 Finserv (BAFINS)	14,852	18,900	Buy	2,359	176.2	708.4	416.3	531.0	84.3	21.0	35.7	28.0	6.8	5.1	4.5	3.9	8.3	27.7	13.4	14.8
Bajaj Finance (BAJFI)	6,605	9,500	Buy	3,999	73.6	116.5	158.7	201.4	89.8	56.7	41.6	32.8	11.1	9.4	7.8	5.9	12.8	17.4	19.9	20.0
SBI Cards (SBICARD)	830	1,000	Buy	773	10.5	14.9	21.1	29.1	79.3	55.6	39.4	28.5	13.0	10.8	8.9	6.6	16.9	23.0	23.6	24.9
Muthoot Finance (MUTFIN)	1,261	1,700	Buy	506	8.0	9.5	12.0	13.0	158.3	132.3	104.7	96.7	3.4	3.0	2.4	2.0	27.8	24.6	24.1	24.3

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
NII	999	838	19.2	996	0.3	Yearly growth healthy on rising spends
NIM (%)	13.2	13.2	0 bps	14.0	-80 bps	Drop in revolver rate drives down margin
Other Income	1,750	1,385	26.4	1,866	-6.2	Fee income major contributor
Net Total Income	2,749	2,223	23.7	2,862	-3.9	
Staff cost	121	126	-4.0	121	0.0	
Other Operating Expenses	1,456	1,220	19.3	1,598	-8.9	Control over opex aids C/I ratio
PPP	1,172	877	33.7	1,144	2.5	
Provision	393	643	-38.9	625	-37.1	Better asset quality and use of management overlay
PBT	779	234	233.0	519	50.3	
Tax Outgo	198	59	235.6	133	48.9	
PAT	581	175	232.1	386	50.7	Lower credit cost boosts profitability
Key Metrics						
GNPA	2.2	5.0	-277 bps	2.4	-18 bps	Improved recoveries help asset quality
NNPA	0.8	1.2	-37 bps	0.8	-5 bps	
Spends	54,134	35,943	50.6	55,397	-2.3	Sequential decline due to higher base
Loans	30,187	23,459	28.7	27,969	7.9	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	4,813.6	4,610.2	-4.2	6,174.5	5,935.5	-3.9
Pre Provision Profit	5,920.4	5,690.5	-3.9	7,592.1	7,208.7	-5.1
NIM(%) (calculated)	13.7	13.6	-11 bps	14.2	13.7	-49 bps
PAT	2,040.7	1,982.6	-2.8	2,708.4	2,490.5	-8.0
ABV per share (₹)	93.7	93.3	-0.5	127.9	125.3	-2.1

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
NII (₹ crore)	4,610.2	5,935.5	4,813.6	6,174.5
NIM Calculated (%)	13.6	13.7	13.7	14.2
Cost-to-income (%)	56.4	57.0	54.5	53.9
PAT	1,982.6	2,490.5	2,040.7	2,708.4
Loans (₹ cr)	37,029.3	47,491.9	37,913.4	46,952.0

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	6345.0	8092.9	
Finance costs	1043.4	1027.3	1734.8	2157.4	
Net Interest Income	3884.3	3838.7	4610.2	5935.5	
Income from fees and services	4041.9	5358.8	6918.2	8867.3	
Business development incentive	299.2	447.6	897.7	1151.3	
Other Income	444.9	629.1	637.8	796.2	
Total Income	8670.2	10274.2	13063.9	16750.3	
Employee benefits expenses	491.6	472.7	707.7	863.4	
Depreciation & Amortisation	184.7	148.6	115.5	127.0	
Operating and other expenses	4031.6	5224.9	6550.2	8551.2	
Total expenses	4707.9	5846.2	7373.4	9541.6	
PPP	3962.3	4428.0	5690.5	7208.7	
Impairment losses & bad debt	2638.6	2255.8	3047.0	3888.1	
PBT	1323.7	2172.2	2643.5	3320.6	
Tax expense	339.2	556.0	660.9	830.2	
PAT	984.5	1616.1	1982.6	2490.5	

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet

		₹ crore			
₹ crore	FY21	FY22	FY23E	FY24E	
Assets					
Cash & Bank Balance	718.1	1106.4	1014.5	1304.7	
Loans	23459.1	30187.0	37029.3	47491.9	
Investment	957.6	1297.2	500.0	1100.0	
Deferred tax assets (Net)	395.1	219.0	395.1	395.1	
Fixed Assets	56.5	39.2	68.3	75.1	
Intangible assets	261.7	414.0	316.7	348.3	
Other assets	1164.8	1385.6	2091.9	2000.8	
Total Assets	27012.9	34648.4	41415.7	52716.0	
Liabilities & Equity					
Share capital	940.5	943.2	940.5	940.5	
Reserves & Surplus	5361.5	6809.5	8074.6	10066.9	
Networth	6302.0	7752.7	9015.1	11007.5	
Debt Securities	5932.9	7106.3	10664.4	12594.8	
Borrowings	10836.8	14680.0	16529.9	22967.1	
Other financial liabilities	2001.2	2768.7	2660.7	3428.4	
Current Tax liabilities (Net)	0.0	0.0	0.0	0.0	
Provisions	542.2	477.4	683.2	717.4	
Other liabilities	1397.7	1863.3	1862.4	2000.9	
Total liabilities and equity	27012.9	34648.4	41415.7	52716.0	

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

	FY21	FY22	FY23E	FY24E
No. of shares (crore)	94.1	94.3	94.1	85.5
NIM (%)	16.3	13.8	13.6	13.7
CoF (%)	5.9	6.2	6.4	6.5
YoA	21.3	18.7	18.8	19.2
BV (₹)	67.0	82.2	95.9	128.7
ABV (₹)	64.1	76.6	93.3	125.3
P/E (x)*	79.3	55.6	39.4	28.5
P/BV*	12.4	10.1	8.7	6.4
P/ABV*	13.0	10.8	8.9	6.6
GNPA (%)	5.0	2.2	2.0	1.9
NNPA (%)	1.2	0.7	0.7	0.6
RoA (%)	3.8	5.2	5.2	5.3
RoE (%)	16.9	23.0	23.6	24.9
EPS (₹)	10.5	14.9	21.1	29.1

Source: Company, ICICI Direct Research

Exhibit 8: Growth trajectory (%)

(Year-end March)	FY21	FY22	FY23E	FY24E
Total assets	6.8	28.3	19.5	27.3
Advances	2.8	28.7	22.7	28.3
Borrowings	4.0	29.9	24.8	30.8
Total Income	2.6	18.5	27.2	28.2
Net interest income	9.7	-1.2	20.1	28.7
Operating expenses	-1.5	24.2	26.1	29.4
PPP	8.0	11.8	28.5	26.7
Net profit	-20.9	64.2	22.7	25.6
Book value	17.8	22.7	16.6	34.3
EPS	-21.6	42.7	41.1	38.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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