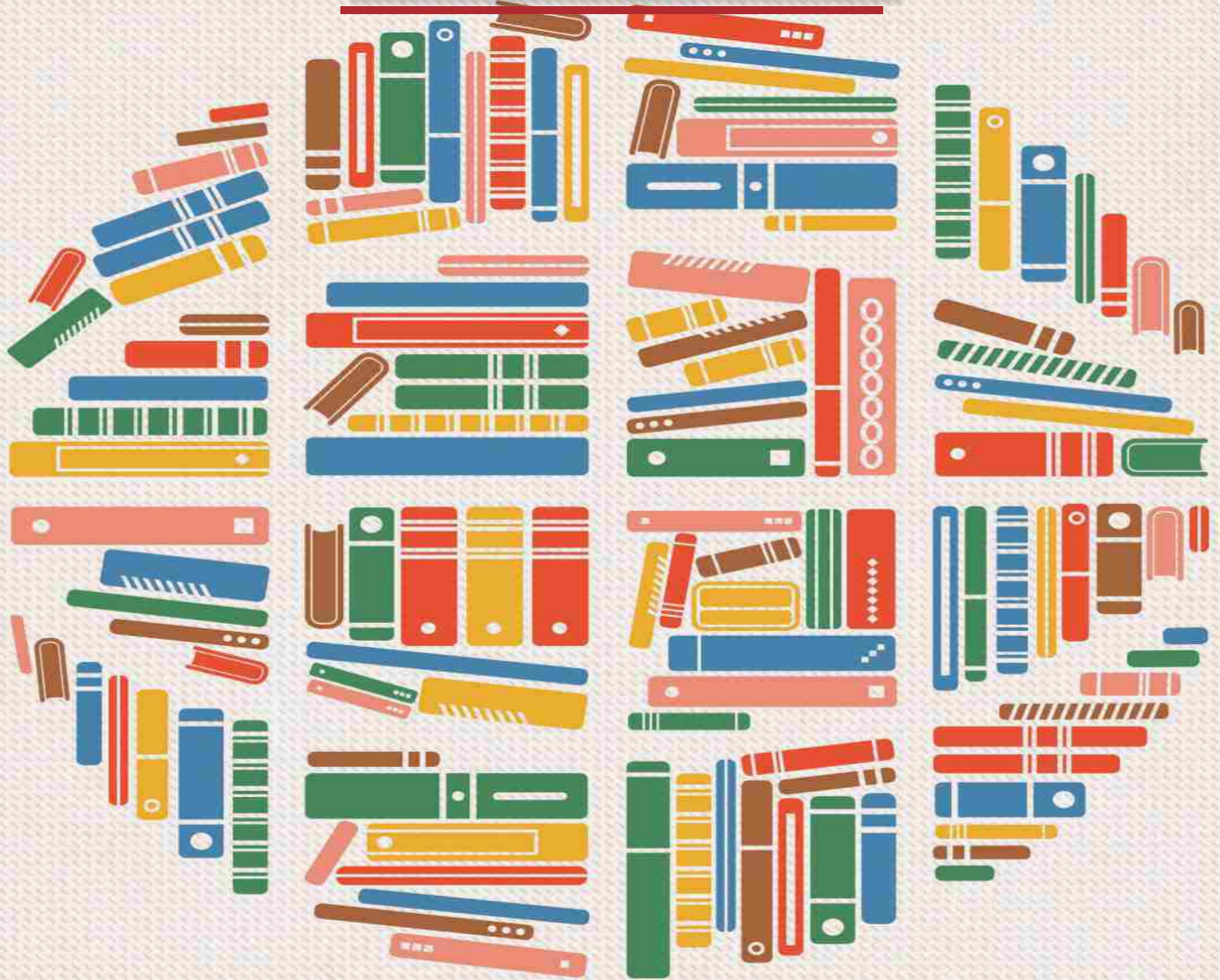


Stock **TALES**



Stock Tales are concise, holistic stock reports across wider spectrum of sectors. Updates will not be periodical but based on significant events or change in price.

CMP: ₹ 930

Target: ₹ 1100 (18%)

Target Period: 12 months

March 26, 2021

BUY

Digital, consumption – both themes favourable...

SBI Cards and Payment Services is a subsidiary of State Bank of India (69% stake) and is the second largest credit card issuer in India with 19% market share (December 2020) in terms of spends and number of cards. It offers an extensive credit card portfolio to individual cardholders & corporate clients, including lifestyle, travel, etc, and corporate cards covering all major segments. Strong business model with higher return ratios and favourable digital and consumption trends make the stock an attractive BUY.

Investment rationale

Digital wave offering healthy growth visibility: SBI Cards is set to forge ahead on a healthy growth trajectory as we believe under penetrated market (three cards/100 population), potential within the group (existing-to-bank customers at ~49%) and increasing digital transactions (73% CAGR in FY15-20) would lever growth. Industry spends have grown at 29% CAGR in FY13-20, FY21E being an exception due to pandemic. Industry growth, in terms of spends, is set to be 20%+, going ahead, with SBI Cards in a comfortable position to benefit and gain market share as well.

Strong margins, return ratio profile defining business factors: Credit card business is a high margin, high profitability segment compared to any other lending segments. Yields on revolver/rollover balances is as high as 36-40% while in case of EMI conversion it can go up-to 24% while CoF for SBI Cards is ~6-7%. This results in strong 15%+ NIMs while with digitisation, rising spends per card has led to a decline in C/I ratio in the past few years. Thus, the company has a strong return profile with 25%+RoE and +5% RoA.

Strong financials: It has maintained a strong operating performance over the years as NII has grown at 38% CAGR in FY17-20 while PAT has zoomed at 49% CAGR to ₹ 1245 crore in the same period. NIMs have improved from 15.3% in FY17 to 16.8% FY20. Capital position is strong with CRAR of 23.7%. Return ratios are strong with RoE of 27.9%, RoA of 5.5% in FY20.

Key risk

- Continued effect of pandemic can lead to higher delinquencies (Proforma GNPA at 4.5% + Restructured book at 9.6% for Dec-20)
- Any regulatory changes in MDR rate can be disruptive
- Increasing competition from other banks, UPI services, e-wallets etc

Valuation & outlook

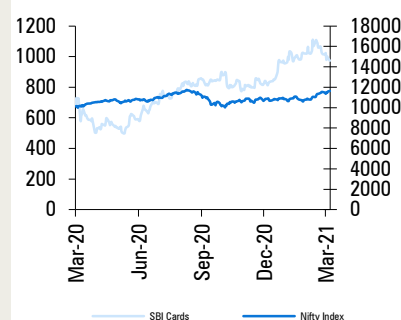
SBI Cards is a multiyear growth story and provides a unique opportunity to participate in high potential credit segment with strong profitability. It is a proxy to the fast-growing digital payments with a strong parentage. We believe SBI Cards would post a healthy PAT growth of 45% CAGR in FY21E-FY23E and reach RoA, RoE of 5.9%, 25.6%, respectively, by FY23E. We value SBI Cards at ~10x FY23E ABV to arrive at a target price of ₹ 1100/share. We have a **BUY** rating on the stock.



Particulars

Particulars	Values
Market Capitalisation	₹ 89980 crore
Networth	₹ 6115 crore
52 week H/L (₹)	1149 / 495
Face Value (₹)	10.0
DII Holding (%)	3.9
FII Holding (%)	5.8

Price performance



Key Highlights

- Second largest card issuer in India in terms of spends and cards in force
- Value stock at ~10x FY23E BV with a target price of ₹ 1100

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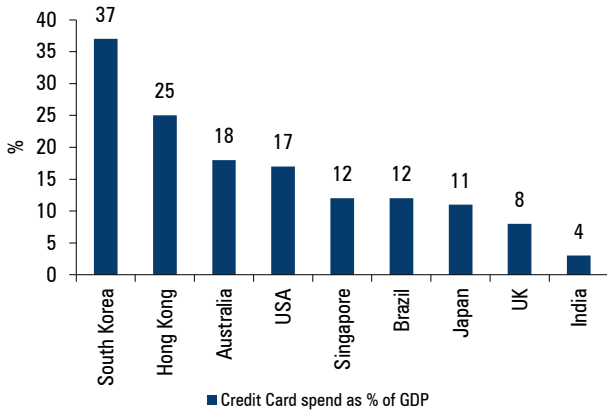
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Key Financial Summary

₹ Crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
NII	2,566	3,540	3,961	4,883	6,280	25.9
PPP	2,483	3,670	4,242	5,398	6,833	26.9
PAT	865	1,245	1,129	2,033	2,521	49.4
EPS (₹)	9	13	12	22	27	
ABV (₹)	41.0	55.2	64.0	83.3	107.4	
P/ABV	22.7	16.8	14.5	11.2	8.7	
RoA	4.8	5.5	4.4	6.5	6.3	
RoE	29.1	27.9	19.3	28.0	27.0	

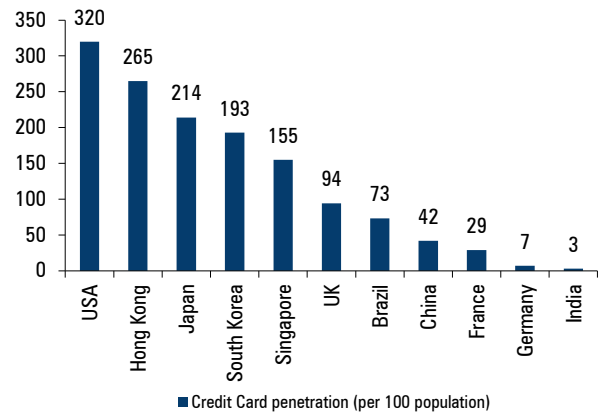
Industry snapshot

Exhibit 15: Low spends as percentage of GDP for India



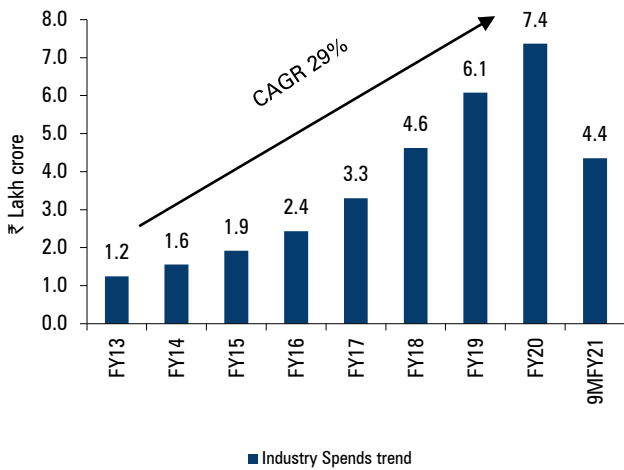
Source: Company, MOSPI, ICICI Direct Research

Exhibit 16: Under penetrated market in India



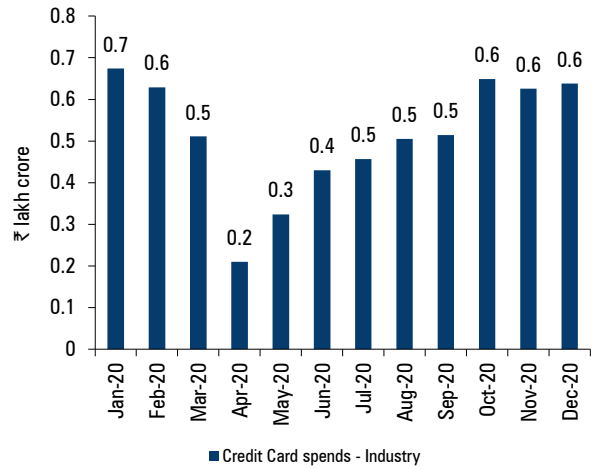
Source: Company, ICICI Direct Research

Exhibit 17: Spends rise at CAGR of 29% over FY13-20



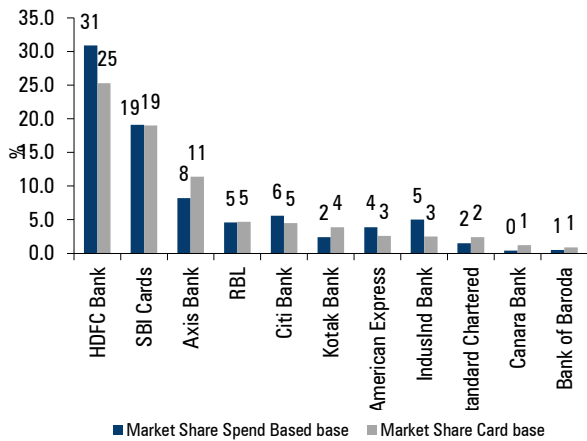
Source: Company, RBI, ICICI Direct Research

Exhibit 18: Monthly spends near pre-Covid levels



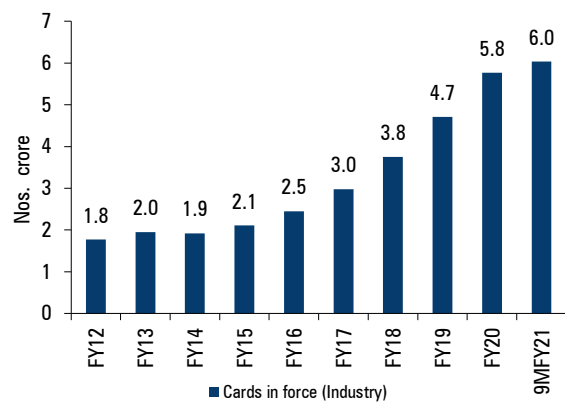
Source: Company, RBI, ICICI Direct Research

Exhibit 19: Market share of industry players



Source: Company, RBI, ICICI Direct Research

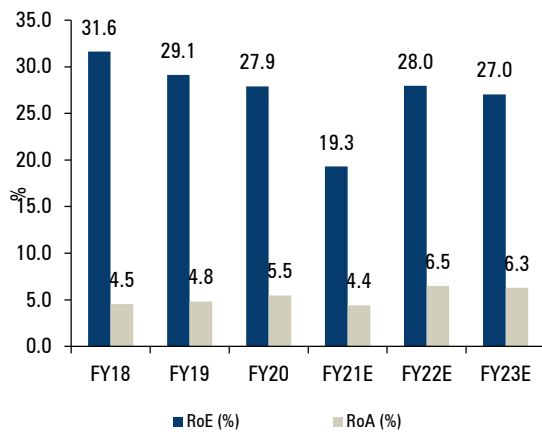
Exhibit 20: Industry- Steady rise in cards-in-force



Source: Company, RBI, ICICI Direct Research

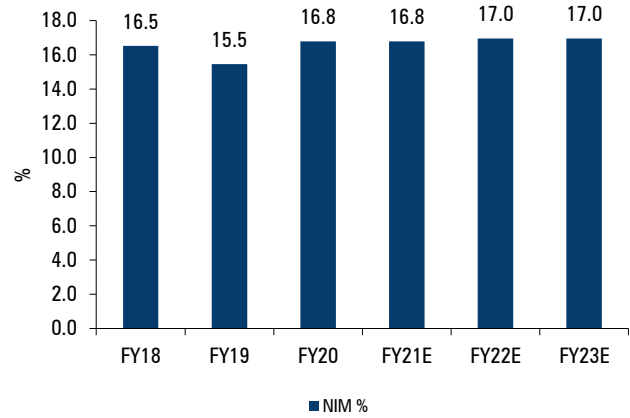
Business story in charts

Exhibit 15: Strong return ratios



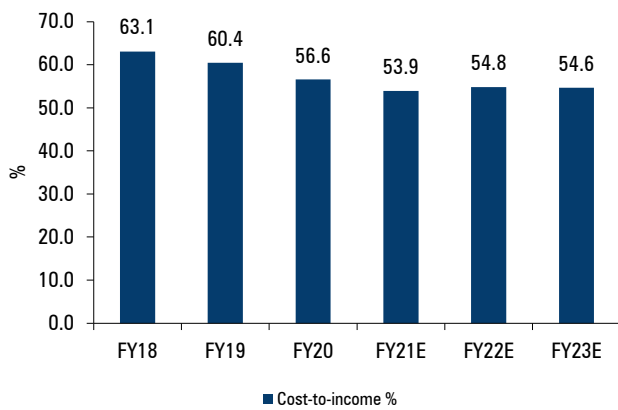
Source: Company, ICICI Direct Research

Exhibit 16: Healthy margins to stay



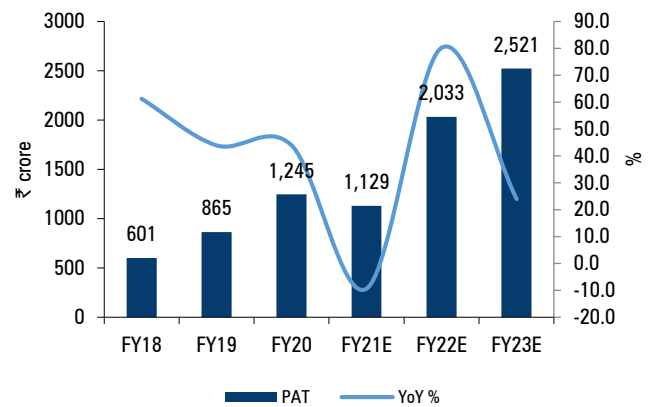
Source: Company, ICICI Direct Research

Exhibit 17: Cost-to-income to decline with rise in spends



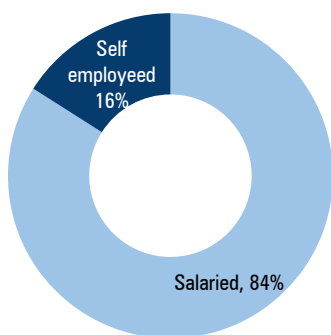
Source: Company, ICICI Direct Research

Exhibit 18: Strong earnings trend



Source: Company, ICICI Direct Research

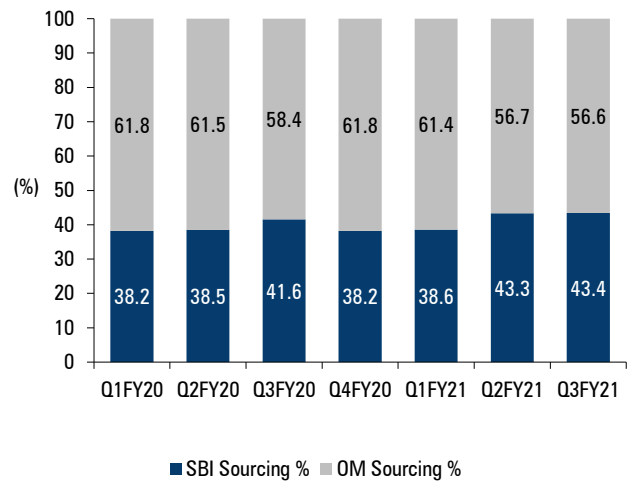
Exhibit 19: Customer profile



Customer Profile

Source: Company, ICICI Direct Research

Exhibit 20: Customer sourcing mix



Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement					
₹ crore					
₹ crore	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	3575.7	4841.3	5035.8	6234.2	8066.8
Finance costs	1009.4	1300.9	1075.2	1351.3	1787.0
Net Interest Income	2566.4	3540.4	3960.7	4882.9	6279.8
Income from fees and services	3197.9	4096.5	4460.9	6198.3	7596.8
Business development incentive	216.7	327.3	405.3	389.0	595.1
Other Income	296.6	487.2	382.4	476.7	594.3
Total Income	6277.5	8451.4	9209.3	11946.9	15066.1
Employee benefits expenses	378.9	468.4	515.2	618.3	741.9
Depreciation & Amortisation	55.2	103.8	110.4	121.4	133.6
Operating and other expenses	3360.5	4209.3	4341.4	5808.8	7357.6
Total expenses	3794.7	4781.5	4967.0	6548.5	8233.1
PPP	2482.8	3669.9	4242.3	5398.4	6833.0
Impairment losses & bad debt	1147.7	1940.2	2737.4	2687.3	3472.2
PBT	1335.1	1729.6	1504.9	2711.1	3360.7
Tax expense	470.1	484.8	376.2	677.8	840.2
PAT	865.0	1244.8	1128.6	2033.3	2520.6

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet					
₹ crore					
₹ crore	FY19	FY20	FY21E	FY22E	FY23E
Assets					
Cash & Bank Balance	776.8	676.0	743.6	818.0	899.8
Loans	17908.7	22811.6	22968.8	33068.8	39279.3
Investment	1.5	1.5	0.0	0.0	0.0
Deferred tax assets (Net)	163.3	275.1	275.1	275.1	275.1
Fixed Assets	131.6	63.9	70.2	77.3	85.0
Intangible assets	84.8	270.7	297.8	327.6	360.3
Other assets	1079.6	1204.0	1617.9	1886.5	2855.4
Total Assets	20146.2	25302.8	25973.5	36453.3	43755.0
Liabilities & Equity					
Share capital	837.2	939.0	941.0	941.0	941.0
Reserves & Surplus	2750.6	4402.3	5418.0	7248.0	9516.5
Networth	3587.8	5341.2	6359.0	8189.0	10457.5
Debt Securities	4079.3	5685.4	5489.7	8228.5	9773.9
Borrowings	8273.3	10432.8	10073.7	15099.4	17935.2
Other financial liabilities	2154.5	1918.0	1942.2	2616.6	3036.6
Current Tax liabilities (Net)	76.2	0.0	0.0	0.0	0.0
Provisions	628.4	602.6	662.9	729.2	802.1
Other liabilities	1346.7	1322.7	1446.0	1590.5	1749.6
Total liabilities and equity	20146.2	25302.8	25973.5	36453.3	43755.0

Source: Company, ICICI Direct Research

Exhibit 2: Key Ratios					
	FY19	FY20	FY21E	FY22E	FY23E
No. of shares (crore)	83.7	93.9	94.1	94.1	94.1
NIM (%)	15.5	16.8	16.8	17.0	17.0
CoF (%)	8.1	8.4	6.3	6.5	6.5
YoA	22.4	23.8	22.0	22.3	22.3
BV (₹)	42.9	56.9	67.6	87.0	111.1
ABV (₹)	41.0	55.2	64.0	83.3	107.4
P/E (x)*	98.4	69.7	77.5	43.0	34.7
P/BV*	21.7	16.3	13.8	10.7	8.4
P/ABV*	22.7	16.8	14.5	11.2	8.7
GNPA (%)	2.4	2.0	4.5	3.2	2.7
NNPA (%)	0.8	0.7	1.5	1.1	0.9
RoA (%)	4.8	5.5	4.4	6.5	6.3
RoE (%)	29.1	27.9	19.3	28.0	27.0
EPS (₹)	9.5	13.4	12.0	21.6	26.8

Source: Company, ICICI Direct Research

Exhibit 4: Growth trajectory (%)					
(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Total assets	28.4	25.6	2.7	40.3	20.0
Advances	27.5	27.4	0.7	44.0	18.8
Borrowings	18.6	30.5	-3.4	49.9	18.8
Total Income	34.7	34.6	9.0	29.7	26.1
Net interest income	25.3	38.0	11.9	23.3	28.6
Operating expenses	29.1	26.0	3.9	31.8	25.7
PPP	44.4	47.8	15.6	27.3	26.6
Net profit	43.9	43.9	-9.3	80.2	24.0
Book value	43.0	32.7	18.8	28.8	27.7
EPS	27.7	41.3	-10.2	80.2	24.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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