

HOLD SBI Cards**Asset-quality niggles persist; retain HOLD**BFSI - Banks ▶ Result Update ▶ **October 29, 2023****TARGET PRICE (Rs): 865**

SBI Cards (SBIC) reported in-line, albeit relatively moderate, PAT at Rs6bn/ROA at 4.9%, as asset quality continues to hurt, leading to elevated write-offs. Company indicates that it is keeping close track of its portfolio, while taking corrective measures to limit incremental stress. SBIC lost some market share in CIF/spends at 19.2%/17.9% in 1H from 19.7%/18.2% as of FY23, possibly due to devaluation of the high-selling cashback card. Gross receivables growth too was modest, at 20% YoY, due to moderation in spends as well as some base effect due to the festive season occurring in 2Q last year. Share of the revolver book remains low at 24% which, coupled with rising CoF, weighed on NIMs—down by 12bps QoQ to 11.3%. Factoring-in the operational softness in business/fees and higher LLP due to rising stress, we have lowered our FY24-26E earnings by 11-13% and our RoA/RoE expectations to ~4.7-4.9%/23%. Based on our ERE model, we have revised down our TP to Rs865/share (from Rs950), implying 5.2x its Sep-25 ABV/25x EPS. We retain HOLD on the stock.

SBI Cards: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	16,161	22,585	24,867	30,664	37,393
Loan growth (%)	28.7	30.4	24.4	24.9	25.4
NII growth (%)	(1.7)	17.4	20.4	30.4	30.9
NIM (%)	13.4	12.0	11.4	11.9	12.5
PPOP growth (%)	11.8	17.1	22.2	27.1	28.0
Adj. EPS (Rs)	17.2	23.9	26.3	32.4	39.5
Adj. EPS growth (%)	63.8	39.3	9.9	23.3	21.9
Adj. BV (INR)	80.3	101.1	123.3	150.7	183.8
Adj. BVPS growth (%)	23.5	26.4	21.3	21.9	21.8
RoA (%)	5.2	5.6	4.9	4.8	4.7
RoE (%)	23.0	25.7	22.8	23.0	23.0
P/E (x)	46.2	33.2	30.2	24.5	20.1
P/ABV (x)	9.9	7.8	6.4	5.3	4.3

Source: Company, Emkay Research

Market-share loss accelerates; margin, too, slips QoQ, amid rising CoF

New card addition moderated to 1.1mn vs 1.2mn last year, partly due to the base effect as well as devaluation of the cash-back card from May-23, the impact of which is now visible, as expected. Further, card drop rate has accelerated to 51% of new card adds vs mid-40s range earlier. CIF growth is 21% YoY to 17.9mn, while growth in spends is 25.5% YoY. But SBIC lost QoQ mkt -share in CIF/spends to 19.2%/17.9% from the 19.7%/18.2% peak in Mar-23, owing to its own slower growth along with aggressive growth by some peers, incl. HDFCB, Axis Bank and Kotak Mahindra Bank. Receivables growth was even lower, at 19% YoY/4% QoQ, given the subdued 24% revolver share and base effect, as last year the festive season mainly occurred in 2Q. Also, NIM slipped yet again, by 20bps to 11.3%, on rising CoF. Going forward, the management expects business growth to pick-up, as also the margins, as pace of the CoF rise moderates.

Stress comes back to haunt the card industry, as also SBIC

Stage-3 assets continued to rise, by 6bps QoQ to 2.4%, due to stress in the old 2019 pool earlier being camouflaged by the Covid-19 stress. SBIC identified the stress pool some time ago and has already initiated action. Thus, SBIC expects asset fall-out and hence the provisions/charge-offs are likely to be limited in H2. But we conservatively build-in a higher LLP/charge-off rate over FY24-26E, factoring-in the rising macro disruptions and the expected rise in revolver rate, typically prone to asset-quality risk.

We retain HOLD, but lower our TP to Rs865/share

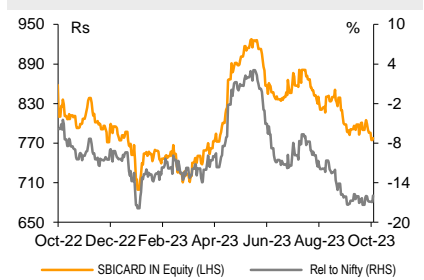
Factoring-in the operational softness in business/fees and the higher LLP due to rising stress, we have lowered our FY24-26E earnings by 11-13% and RoA/RoE expectations to 4.7-4.9%/23%. Based on our ERE model, we have revised down our TP to Rs865/share (from Rs950), implying 5.2x its Sep-25 ABV/25x EPS. We retain HOLD. SBIC has also hired a new MD and CEO, Abhijit Chakravorty, to replace Rama Mohan Rao, who is moving to parent SBI. Key downside risks to our TP: Slower-than-expected growth in spends/market-share, prolonged funding cost pressures, KMP attrition, rising asset-quality stress and industry-wide regulatory cut in MDR/ICF.

Target Price – 12M	Sep-24
Change in TP (%)	(8.9)
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	9.4
CMP (27-Oct-23) (Rs)	790.4

Stock Data	Ticker
52-week High (Rs)	933
52-week Low (Rs)	691
Shares outstanding (mn)	946.7
Market-cap (Rs bn)	748
Market-cap (USD mn)	8,989
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,023.7
ADTV-3M (USD mn)	12.3
Free float (%)	31.0
Nifty-50	19,047
INR/USD	83.2
Shareholding, Sep-23	
Promoters (%)	68.9
FPIs/MFs (%)	9.1/17.3

Price Performance

(%)	1M	3M	12M
Absolute	0.1	(7.9)	(7.9)
Rel. to Nifty	3.6	(4.9)	(14.2)

1-Year share price trend (Rs)**Anand Dama**

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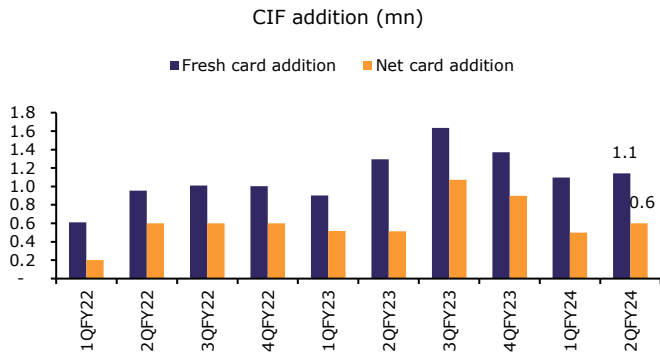
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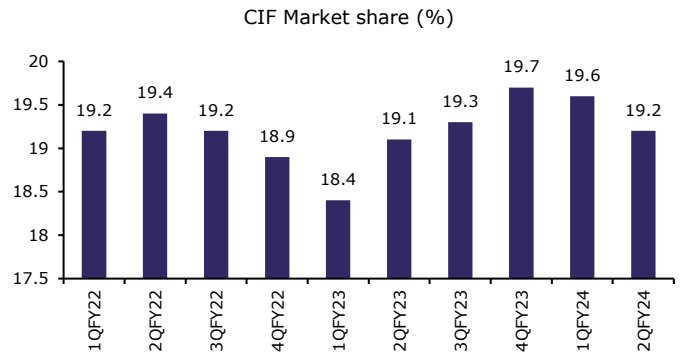
Story in Charts

Exhibit 1: Net card addition moderation due to lower new card addition and higher drop rate



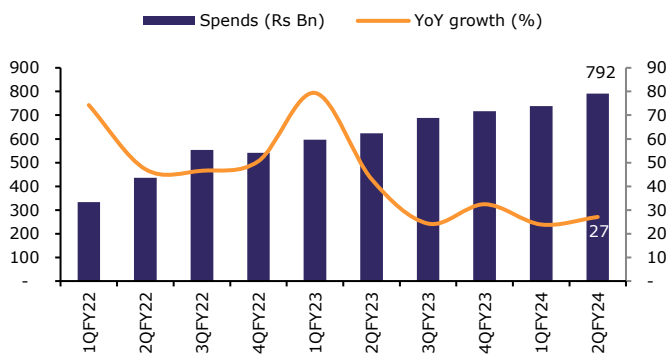
Source: Company, Emkay Research

Exhibit 2: SBIC continues to lose market share from the peak in 4Q



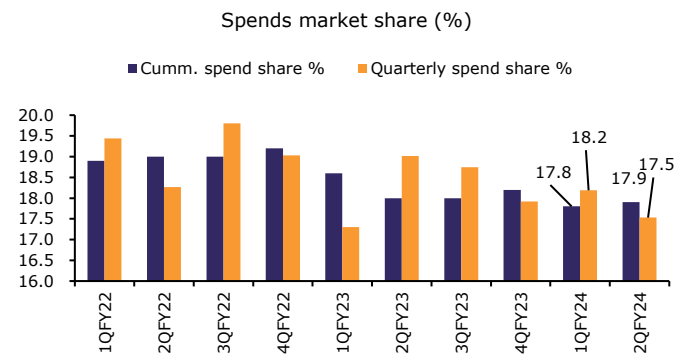
Source: Company, Emkay Research

Exhibit 3: Spends growth remains healthy...



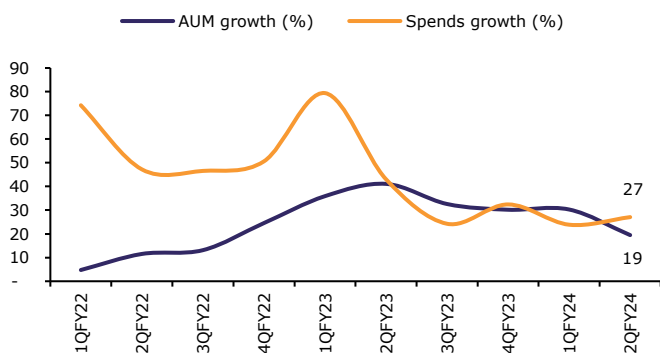
Source: Company, Emkay Research

Exhibit 4: ...but still loses some market share on QoQ basis



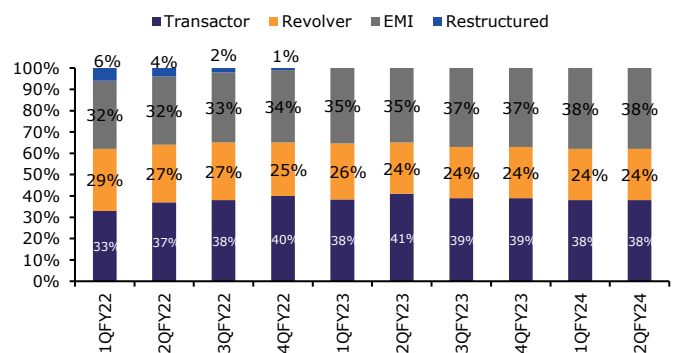
Source: Company, Emkay Research

Exhibit 5: Gross receivables growth slipped at a faster pace due to lower revolver share and some base effect



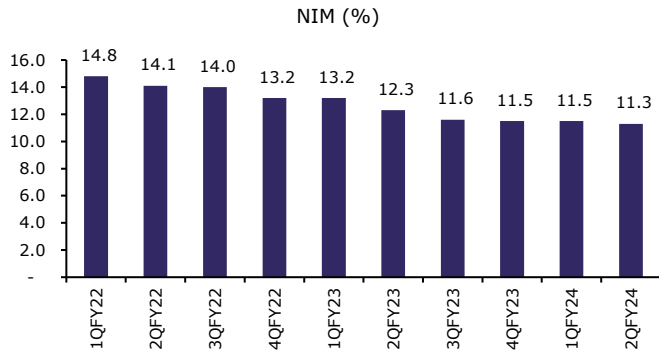
Source: Company, Emkay Research

Exhibit 6: Revolver share remains persistently low at 24%, as also for other players



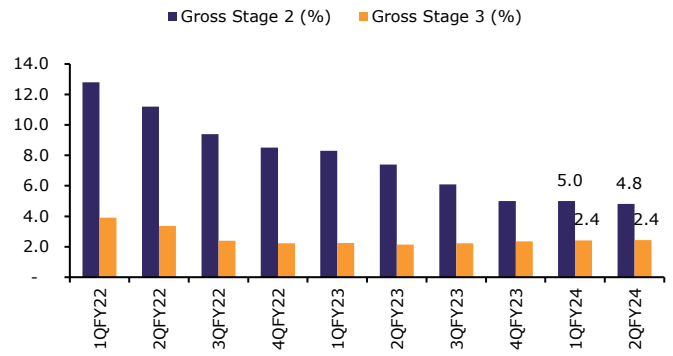
Source: Company, Emkay Research

Exhibit 7: NIM slips after being stable for the past 2 quarters



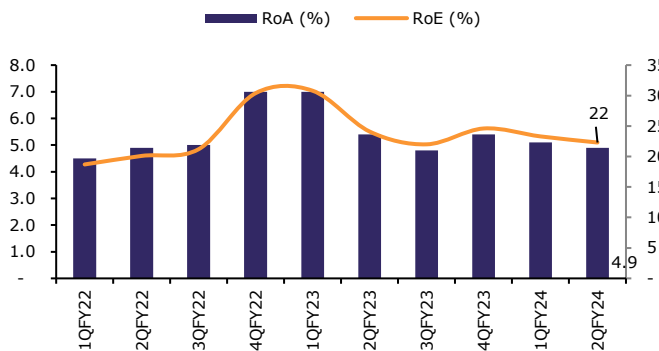
Source: Company, Emkay Research

Exhibit 8: Stage-3 assets continued to inch up due to rising stress in the card portfolio for the industry, and hence for SBIC too



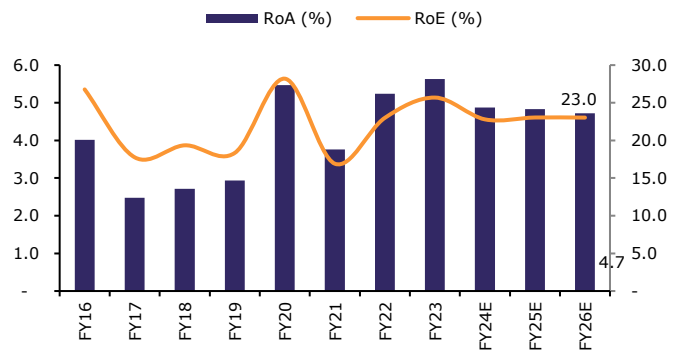
Source: Company, Emkay Research

Exhibit 9: Margin pressure and higher LLP hurts RoA



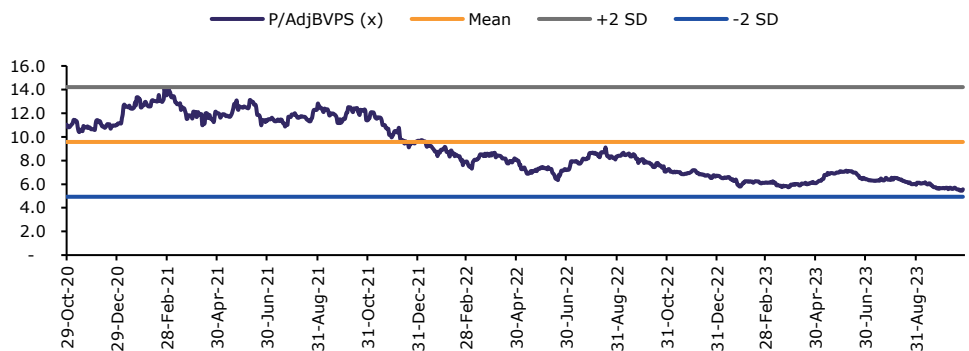
Source: Company, Emkay Research

Exhibit 10: We expect SBIC's RoA/RoE to moderate, mainly due to rising LLP



Source: Company, Emkay Research

Exhibit 11: The stock currently trades at 5.2x one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 12: Actuals vs. Estimates (Q1FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	36,165	37,300	36,276	-3%	0%	Lower NII and other income led to a shortfall
PPOP	15,509	15,463	14,996	0%	3%	Lower opex partly offset by lower net income led to in-line PPOP
PAT	6,030	5,906	5,954	2%	1%	In-line PPOP and lower provisions led to a PAT beat

Source: Company, Bloomberg, Emkay Research

Exhibit 13: Quarterly Summary

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)
Interest Earned	14,845	16,089	16,724	18,042	19,018	28	5	61,530	79,234	29
Interest Exp	3,677	4,643	5,073	5,711	6,049	64	6	16,476	24,968	52
Net Interest Income	11,168	11,446	11,651	12,332	12,969	16	5	45,053	54,266	20
Non-interest Income	19,689	20,473	22,442	22,419	23,196	18	3	45,053	54,266	20
Operating Expenses	18,340	19,745	19,799	19,599	20,656	13	5	74,486	86,345	16
PPOP	12,517	12,174	14,294	15,151	15,509	24	2	51,860	63,388	22
Provision & Contingencies	5,460	5,330	6,298	7,186	7,416	36	3	21,554	30,009	39
PBT	7,057	6,843	7,997	7,966	8,094	15	2	30,306	33,379	10
Income Tax Expense (Gain)	1,800	1,749	2,032	2,033	2,064	15	2	7,721	8,512	10
Net Profit/(Loss)	5,257	5,095	5,965	5,933	6,030	15	2	22,585	24,867	10
Gross NPA (%)	2.1	2.2	2.4	2.4	2.4	29bps	2bps	2.4	2.5	9bps
Net NPA (%)	0.8	0.8	0.9	0.9	0.9	11bps	0bps	0.9	0.9	-2bps
CIF (mn)	14.8	15.9	16.8	17.3	17.9	21	3	16.8	19.6	16
Spends (Rs bn)	623.1	688.4	716.9	739.1	791.6	27	7	2,625	3,280	25
Net Advances (Rs bn)	365.0	373.5	393.6	418.1	435.6	19	4	393.6	489.6	24.38
RoA % (annualized)	5.4	4.8	5.4	5.1	4.9	-50bps	-20bps	5.6	4.9	-76bps
RoE % (annualized)	24.1	22.0	24.6	23.3	22.3	-180bps	-100bps	25.7	22.8	-289bps

Source: Company, Emkay Research

Exhibit 14: Revision in Estimates

Y/E March (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	1,57,961	1,49,733	-5.2%	2,00,508	1,83,613	-8.4%	2,52,171	2,26,680	-10.1%
PPOP	66,018	63,388	-4.0%	87,595	80,535	-8.1%	1,15,117	1,03,078	-10.5%
PAT	28,082	24,867	-11.4%	34,955	30,664	-12.3%	43,015	37,393	-13.1%
EPS (Rs)	29.7	26.3	-11.4%	36.9	32.4	-12.3%	45.5	39.5	-13.1%
BV (Rs)	130.1	126.7	-2.6%	163.0	154.6	-5.2%	203.5	188.6	-7.3%

Source: Emkay Research

Exhibit 15: Key Assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	30.4	24.4	24.9	25.4
CIF Growth (%)	21.7	16.4	16.9	16.9
NIM (%)	12.0	11.4	11.9	12.5
GNPA (%)	2.4	2.5	2.5	2.6
Credit Cost (%)	6.1	6.7	7.0	7.5

Source: Emkay Research

SBI Cards: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	48,660	61,530	79,234	1,01,467	1,30,785
Interest Expense	10,273	16,476	24,968	30,717	38,166
Net interest income	38,387	45,053	54,266	70,750	92,619
NII growth (%)	(1.7)	17.4	20.4	30.4	30.9
Other income	64,355	81,293	95,467	1,12,862	1,34,061
Total Income	1,02,742	1,26,346	1,49,733	1,83,613	2,26,680
Operating expenses	58,462	74,486	86,345	1,03,078	1,23,602
PPOP	44,280	51,860	63,388	80,535	1,03,078
PPOP growth (%)	11.8	17.1	22.2	27.1	28.0
Core PPOP	44,280	51,860	63,388	80,535	1,03,078
Provisions & contingencies	22,558	21,554	30,009	39,375	52,887
PBT	21,722	30,306	33,379	41,160	50,192
Extraordinary items	0	0	0	0	0
Tax expense	5,560	7,721	8,512	10,496	12,799
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	16,161	22,585	24,867	30,664	37,393
PAT growth (%)	64.2	39.7	10.1	23.3	21.9
Adjusted PAT	16,161	22,585	24,867	30,664	37,393
Diluted EPS (Rs)	17.0	23.7	26.1	32.2	39.2
Diluted EPS growth (%)	64.0	39.4	9.9	23.3	21.9
DPS (Rs)	7.1	11.3	14.0	15.0	16.0
Dividend payout (%)	14.6	12.6	13.3	13.9	13.9
Effective tax rate (%)	25.6	25.5	25.5	25.5	25.5
Net interest margins (%)	13.4	12.0	11.4	11.9	12.5
Cost-income ratio (%)	56.9	59.0	57.7	56.1	54.5
Shares outstanding (mn)	943.2	946.1	946.1	946.1	946.1

Source: Company, Emkay Research

Asset Quality and Other Metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	6,934.2	9,575.3	12,351.5	15,587.6	20,275.3
Net NPLs	2,409.0	3,544.9	4,323.0	4,988.0	6,082.6
GNPA ratio (%)	2.3	2.4	2.5	2.5	2.6
NNPA ratio (%)	0.8	0.9	0.9	0.8	0.8
Provision coverage (%)	65.3	63.0	65.0	68.0	70.0
Gross slippages	22,564.3	21,529.4	13,881.2	16,180.3	23,438.5
Gross slippage ratio (%)	7.4	5.4	2.8	2.6	3.0
LLP ratio (%)	8.2	6.1	6.7	7.0	7.5
NNPA to networth (%)	2.9	3.4	3.4	3.2	3.2
Capital adequacy					
Total CAR (%)	23.8	23.1	22.8	22.1	20.9
Tier-1 (%)	21.0	20.4	20.5	20.2	19.4
CET-1 (%)	21.0	20.4	20.5	20.2	19.4
RWA-to-Total Assets (%)	90.0	92.0	94.0	95.0	98.0
Miscellaneous					
Total income growth (%)	16.3	26.4	22.3	22.7	23.6
Opex growth (%)	24.2	27.4	15.9	19.4	19.9
Core PPOP growth (%)	11.8	17.1	22.2	27.1	28.0
PPOP margin (%)	39.2	36.3	36.3	37.6	38.9
PAT/PPOP (%)	36.5	43.6	39.2	38.1	36.3
LLP-to-Core PPOP (%)	50.9	41.6	47.3	48.9	51.3
Yield on advances (%)	18.1	17.5	17.8	18.3	18.8
Cost of funds (%)	5.0	6.1	7.1	6.8	6.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	9,432	9,461	9,461	9,461	9,461
Reserves & surplus	68,095	88,840	1,10,396	1,36,803	1,68,992
Net worth	77,527	98,301	1,19,857	1,46,264	1,78,453
Deposits	0	0	0	0	0
Borrowings	2,17,864	2,97,491	3,80,788	4,95,025	6,33,631
Interest bearing liab.	2,17,864	2,97,491	3,80,788	4,95,025	6,33,631
Other liabilities & prov.	51,093	59,664	63,855	62,647	68,468
Total liabilities & equity	3,46,484	4,55,456	5,64,500	7,03,935	8,80,553
Net advances	3,01,873	3,93,610	4,89,583	6,11,720	7,67,090
Investments	12,972	21,397	25,676	29,528	33,957
Cash, other balances	7,582	9,898	10,393	10,912	11,458
Interest earning assets	3,25,908	4,28,551	5,31,040	6,62,622	8,29,543
Fixed assets	4,537	5,737	6,101	7,205	8,478
Other assets	16,039	21,168	27,358	34,108	42,532
Total assets	3,46,484	4,55,456	5,64,500	7,03,935	8,80,553
BVPS (Rs)	82.2	103.9	126.7	154.6	188.6
Adj. BVPS (INR)	80.3	101.1	123.3	150.7	183.8
Gross advances	3,12,810	4,07,216	5,07,045	6,34,117	7,96,093
Credit to deposit (%)	0.0	0.0	0.0	0.0	0.0
CASA ratio (%)	0.0	0.0	0.0	0.0	0.0
Cost of deposits (%)	5.0	6.1	7.1	6.8	6.6
Loans-to-Assets (%)	87.1	86.4	86.7	86.9	87.1
Net advances growth (%)	28.7	30.4	24.4	24.9	25.4
Deposit growth (%)	0.0	0.0	0.0	0.0	0.0
Book value growth (%)	22.7	26.4	21.9	22.0	22.0

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	46.2	33.2	30.2	24.5	20.1
P/B (x)	9.7	7.6	6.3	5.1	4.2
P/ABV (x)	9.9	7.8	6.4	5.3	4.3
P/PPOP (x)	16.9	14.5	11.8	9.3	7.3
Dividend yield (%)	0.9	1.4	1.8	1.9	2.0
DuPont-RoE split (%)					
NII/avg assets	12.5	11.2	10.6	11.2	11.7
Other income	20.9	20.3	18.7	17.8	16.9
Fee income	18.8	18.7	17.7	17.1	16.5
Opex	19.0	18.6	16.9	16.3	15.6
PPOP	14.4	12.9	12.4	12.7	13.0
Core PPOP	14.4	12.9	12.4	12.7	13.0
Provisions	7.3	5.4	5.9	6.2	6.7
Tax expense	1.8	1.9	1.7	1.7	1.6
RoA (%)	5.2	5.6	4.9	4.8	4.7
Leverage ratio (x)	4.4	4.6	4.7	4.8	4.9
RoE (%)	23.0	25.7	22.8	23.0	23.0
Quarterly data					
Rs mn, Y/E Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
NII	11,168	11,446	11,651	12,332	12,969
NIM (%)	13.4	13.0	12.4	12.4	11.9
PPOP	12,517	12,174	14,294	15,151	15,509
PAT	5,257	5,095	5,965	5,933	6,030
EPS (Rs)	5.57	5.40	6.30	6.27	6.37

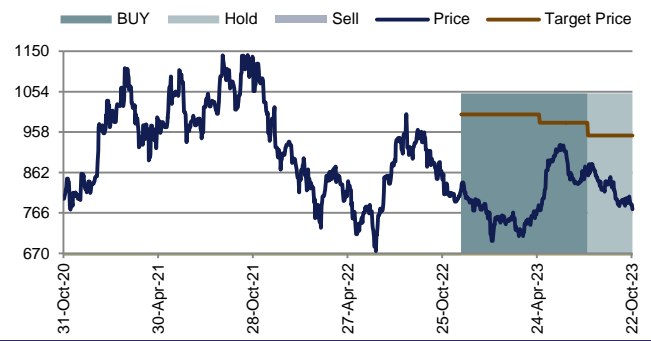
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
30-Jul-23	857	950	Hold	Anand Dama
29-Apr-23	772	980	Buy	Anand Dama
09-Mar-23	767	1,000	Buy	Anand Dama
24-Jan-23	745	1,000	Buy	Anand Dama
30-Nov-22	824	1,000	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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