


**Light At the End of the 'Credit Cost' Tunnel; Upgrade to BUY!**
**Est. Vs. Actual for Q4FY25: NII – INLINE; PPOP – INLINE; PAT – BEAT**
**Changes in Estimates post Q4FY25**
**FY26E/FY27E (in %): NII +2.6/+3.0; PPOP +1.8/+1.0; PAT +2.2/+0.5**
**Recommendation Rationale**

- **Credit costs to taper:** SBIC efforts to strengthen the new acquisition, underwriting and portfolio management framework to tackle the rising stress in the credit card portfolio have started to yield results. The company is seeing improvement across asset quality metrics with a decline visible in delinquencies (both 30+dpd and 90+dpd), forward flows and pace of write-offs. Thus, the **management remains confident that credit costs will continue to decline in the coming quarters, thereby aiding earnings growth for SBIC**. The company has been witnessing better delinquency trends in the new sourcing, with the portfolio continuing to behave well. However, normalisation of credit costs will take some time. **A faster decline in credit costs would act as a catalyst for a meaningful re-rating in the stock. We expect credit costs to taper meaningfully to 8.4%/7.2% in FY26/27E vs 9.5% in FY25.**
- **NIMs to improve aided by rate cuts:** In Q4FY25, SBIC's NIMs surprised positively aided by improvement in CoF and better yields. With the rate easing cycle, we expect SBIC will stand to benefit given its largely fixed rate book and a downward repricing of CoF, though with a lag. Moreover, receding asset quality stress resulting in lower interest reversals would further support margins. SBIC's CoF would see a decline going into Q1FY26 and beyond. While the revolver book rates are fairly sticky, the company may pass on the benefit of the rate cut to its EMI customers. The management remains confident of maintaining NIMs with a positive bias. A risk to our NIM improvement estimates is the decline in the share of revolvers in the portfolio mix. SBIC has observed a downward bias in customers' tendency to revolve in the newly sourced customer cohort (lower by 10-15%). Thus, going ahead, the share of revolvers is likely to settle at ~23% vs 24-25% currently. **We believe improving CoF and lower interest reversals would largely offset the impact of a potentially lower share of revolvers. We expect NIMs to improve and range between 11.3-11.6% over FY26-27E vs 10.8% in FY25.**
- **Corporate spends to pick-up:** Post repositioning itself in terms of corporate spends, the company is set to push the growth pedal and expects the corporate spends to pick up healthily hereon (barring the seasonality seen in Q4). While SBIC intends to increase corporate spends, it will pursue growth judiciously and profitably. Improved corporate spends would support fee income for the company. With retail spends growth showing strength, SBIC expects 18-20% growth in FY26. **As spends growth picks-up, especially corporate spends, SBIC will look at reclaiming its lost spends market share.**

**Sector Outlook: Cautiously Positive**

**Company Outlook:** Asset quality concerns and elevated credit costs had been key reasons for the stock to underperform. With asset quality metrics improving, we expect credit costs to continue moving downwards, thereby driving robust earnings growth for SBIC. **We believe SBIC is ripe for a re-rating supported by (i) expectations of NIM improvement, (ii) strengthening fee income profile, (iii) steady Cost ratios ranging between 55-57% on a steady state and (iv) declining credit costs driven by improving asset quality parameters, however growth picking-up would drive a meaningful re-rating.** We expect SBIC to deliver a Receivables/NII/Earnings growth of 15/18/42% CAGR over FY25-27E. Our estimates suggest SBIC's RoA/RoE to improve to 4.8/21.8% by FY27E vs 3.1/14.8% in FY25.

**Current Valuation: 26x FY27E EPS Earlier Valuation: 24x Sep'26E EPS**
**Current TP: Rs 1,050/share. Earlier TP: Rs 780/share**
**Recommendation:** We revise our rating from HOLD to BUY.

**Financial Performance:**

- **Operational Performance:** SBIC's CIF grew by 10/2% YoY/QoQ. The company added ~11.1 Lc cards during the qtr (+8/-6 YoY/QoQ). Spends growth was better than expected and grew by 11/3% mainly owing to better corporate spends. Retail spends grew by 15% YoY and were flatish QoQ. SBIC maintained market share in terms of Spends QoQ which stood at 15.6% and was able to gain CIF market share which stood at 18.9% vs 18.7% QoQ. Receivable growth missed our expectations and stood at ~10/2% YoY/QoQ with the mix of interest yielding assets marginally down to 59% vs 60% QoQ.
- **Financial Performance:** NII grew by 14/3% YoY/QoQ with NIMs improving QoQ (by 60bps QoQ) on account of improving CoF and better yields. CoF declined by 20bps QoQ, while yields improved by 50bps QoQ. Fee income growth was muted at 5/4% YoY/QoQ. Opex growth was under control, grew by 8% YoY and de-grew by ~2% QoQ. C-I Ratio stood at 51.4% vs 51.1/53.5% YoY/QoQ. PPOP grew by 7% each YoY/QoQ. Credit costs moderated to 9% vs 9.5% in the previous qtr, supporting earnings. PAT grew by 39% QoQ.
- **Asset Quality improved,** with GNPA/NNPA at 3.08/1.46% vs. 3.24/1.18% QoQ. Stage 2 assets came down from 5.6% in Q3FY25 to 5% in Q4FY25.

**Key Financials (Standalone)**

(Rs Cr)	Q4FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	1,620	+3.1	+14.5	1,613	+0.4
PPOP	1,964	+7.3	+7.2	1,981	-0.9
Net Profit	534	+39.4	-19.4	508	+5.2
NNPA (%)	1.5	+28 bps	+47 bps	1.2	+31 bps
RoA (%)	3.3	+87 bps	-132 bps	3.1	+22 bps

Source: Company, Axis Securities Research

 (CMP as of 24<sup>th</sup> April, 2025)

CMP (Rs)	927
Upside /Downside (%)	13%
High/Low (Rs)	930/649
Market cap (Cr)	88,134
Avg. daily vol. (6m) Shrs.	15,15,194
No. of shares (Cr)	95.1

**Shareholding (%)**

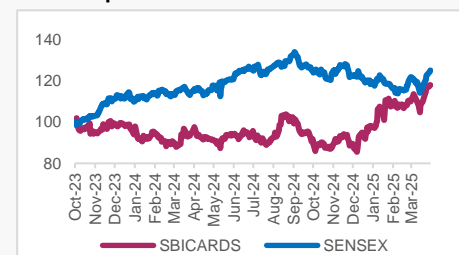
	Sep-24	Dec-24	Mar-25
Promoter	68.6	68.6	68.6
FII's	9.2	9.5	9.9
MFs / UTI	9.9	9.7	9.7
Others	12.3	12.2	11.8

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
NII	6,169	7,229	8,547
PPOP	7,452	8,375	9,917
Net Profit	1,916	2,664	3,847
EPS (Rs)	20.1	28.0	40.4
P/E (x)	46.0	33.1	22.9
P/ABV (x)	6.4	5.5	4.6
RoA (%)	3.1	3.8	4.8
NNPA (%)	1.5	1.3	1.2

**Change in Estimates (%)**

Y/E Mar	FY26E	FY27E
NII	+2.6	+3.0
PPOP	+1.8	+1.0
PAT	+2.2	+0.5

**Relative performance**


Source: Ace Equity, Axis Securities Research

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## Key Highlights

- **Opex growth to mirror business growth:** In Q4FY25, the opex growth decelerated marginally sequentially owing to the absence of festival-related spends. However, as the pace of new customer acquisitions picks up, SBIC expects Opex growth to also inch up. Similarly, increasing growth in corporate spends would also drive higher Opex growth. The management has guided the C-I Ratio to be maintained between 55-57% over the medium term.
- **Fee income to improve:** In Q4FY25, spends growth was soft at 5/4% YoY/QoQ. The management indicated that fee income has been impacted by slower rental spends and headwinds of late fees. However, an improved pace of customer acquisition and pick-up in corporate spends would support fee income growth.
- **Sourcing Mix:** SBIC will aim at maintaining a steady mix of 50-55% sourcing either from banca or open-market channel, focusing on **acquiring high value and profitable customers**.

## Outlook

While asset quality metrics show gradual improvement, SBIC will continue to adopt a cautious approach in new customer sourcing amidst uncertain macros. Spends growth should get a fillip, supported by improving corporate spends and continued momentum in retail spends. Credit costs are expected to decline from FY26E onwards, aiding earnings growth. We revise our NII estimates upwards by 2-3% over FY26-27E, factoring in the improved outlook on NIMs. Similarly, assuming better fee income, controlled Opex, and declining credit costs, we revise our earnings estimates marginally upwards by 1-2% over the same period.

## Valuation & Recommendation

**We revise our rating to BUY** from HOLD earlier. We value SBIC at 26x FY27E EPS (vs current valuations of ~23x FY27E EPS) and arrive at a target price of Rs 1,050/share, implying an upside of 13% from the CMP.

## Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall spends and new customer sourcing momentum would impact the revenue generation capability of the company.
- Another key risk area for SBIC is an unfavourable receivable mix with a skew towards non-interest-yielding loans (transactors), which will continue to put pressure on margins.
- Continued asset quality headwinds, resulting in elevated credit costs, could potentially derail our earnings estimates
- An unfavourable decision on MDR could affect our earnings estimates.

## Change in Estimates

	Revised Estimates		Old Estimates		Change %	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
NII	7,229	8,547	7,047	8,299	2.6	3.0
Fee Income	9,878	11,871	9,448	11,296	4.6	5.1
PBP	8,375	9,917	8,231	9,819	1.8	1.0
Provisions	4,813	4,775	4,728	4,674	1.8	2.2
PAT	2,664	3,847	2,606	3,828	2.2	0.5

Source: Axis Securities Research

## Results Review

	Q4FY25	Q4FY24	% YoY	Q3FY25	% QoQ	FY25	FY24	% YoY
CIF	2.1	1.9	10.1	2.0	2.7	2.1	1.9	10.1
Spends (Rs. Cr)	88,365	79,653	10.9	86,093	2.6	3,33,480	3,29,590	1.2
Avg. Spend per card	1,72,222	1,70,381	1.1	1,72,847	-0.4	1,68,968	1,84,027	-8.2
Market share - CIF	18.9%	18.6%	30 bps	18.7%	20 bps	18.9%	18.6%	30 bps
Market share - Spends	15.6%	17.8%	-220 bps	15.6%	0 bps	15.6%	17.8%	-220 bps
Interest Income	2,415	2,139	12.9	2,399	0.7	9,347	7,927	17.9
Interest Expense	795	724	9.9	829	-4.0	3,178	2,595	22.5
Net Interest Income	1,620	1,415	14.5	1,570	3.1	6,169	5,332	15.7
Fee Income	2,093	2,000	4.7	2,025	3.4	8,003	8,165	-2.0
Other Income	324	336	-3.7	343	-5.5	9,296	9,556	-2.7
<b>Total Income</b>	<b>4,036</b>	<b>3,751</b>	<b>7.6</b>	<b>3,938</b>	<b>2.5</b>	<b>15,465</b>	<b>14,888</b>	<b>3.9</b>
Operating Expenses	2,073	1,918	8.1	2,107	-1.6	8,007	8,369	-4.3
Staff Cost	154	132	16.7	152	1.3	589	570	3.5
<b>Cost-Income Ratio (%)</b>	<b>51.4</b>	<b>51.1</b>	<b>21 bps</b>	<b>53.5</b>	<b>-216 bps</b>	51.8	56.2	-440 bps
<b>Pre provision profit</b>	1,964	1,833	7.2	1,831	7.3	7,458	6,519	14.4
Provisions	1,245	944	31.8	1,313	-5.2	4,871	3,287	48.2
PBT	719	888	-19.1	518	38.8	2,588	3,232	-19.9
Taxes	184	226	-18.4	134	37.2	664	824	-19.4
<b>PAT</b>	<b>534</b>	<b>662</b>	<b>-19.4</b>	<b>383</b>	<b>39.4</b>	<b>1,923</b>	<b>2,408</b>	<b>-20.1</b>
<b><u>Asset Quality</u></b>								
Gross NPA (%)	3.1%	2.8%	32 bps	3.2%	-16 bps	3.1%	2.8%	32 bps
Net NPA (%)	1.5%	1.0%	47 bps	1.2%	28 bps	1.5%	1.0%	47 bps
PCR (%)	53.5%	64.9%	-1140 bps	64.3%	-1080 bps	53.5%	64.9%	-1140 bps
<b><u>Spread Analysis</u></b>								
Yields	17.0%	16.7%	30 bps	16.5%	50 bps	16.7%	16.9%	-23 bps
CoF	7.2%	7.4%	-20 bps	7.4%	-20 bps	7.4%	7.3%	8 bps
NIM %	11.2%	10.9%	30 bps	10.6%	60 bps	10.8%	11.3%	-43 bps

Source: Company, Axis Securities Research

## Financials (Standalone)

### Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E
<b>Net Interest Income</b>	<b>5,332</b>	<b>6,169</b>	<b>7,229</b>	<b>8,547</b>
Fee Income	8,165	8,003	9,878	11,871
Non-Interest Income	1,392	1,287	1,469	1,670
<b>Total Income</b>	<b>14,888</b>	<b>15,459</b>	<b>18,576</b>	<b>22,087</b>
Operating Expenses	8,369	8,007	10,201	12,170
<b>Pre-Provision Profits</b>	<b>6,519</b>	<b>7,452</b>	<b>8,375</b>	<b>9,917</b>
Provisions	3,287	4,872	4,813	4,775
<b>PBT</b>	<b>3,232</b>	<b>2,581</b>	<b>3,562</b>	<b>5,143</b>
Tax	824	664	898	1,296
<b>Profit After Tax</b>	<b>2,408</b>	<b>1,916</b>	<b>2,664</b>	<b>3,847</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E
Equity Share Capital	951	951	951	951
Reserves & Surplus	11,133	12,830	15,095	18,364
<b>Net Worth</b>	<b>12,084</b>	<b>13,782</b>	<b>16,046</b>	<b>19,315</b>
<b>Borrowings</b>	<b>40,315</b>	<b>44,947</b>	<b>49,969</b>	<b>57,488</b>
Other Liabilities	5,773	6,817	7,336	8,535
<b>Total Liabilities</b>	<b>58,171</b>	<b>65,546</b>	<b>73,351</b>	<b>85,338</b>
Cash & Bank balances	2,730	2,738	2,551	2,968
Investments	3,519	6,235	6,611	7,691
Loans	49,079	53,935	61,237	71,245
Fixed Assets & Others	2,844	2,638	2,952	3,434
<b>Total Assets</b>	<b>58,171</b>	<b>65,546</b>	<b>73,351</b>	<b>85,338</b>

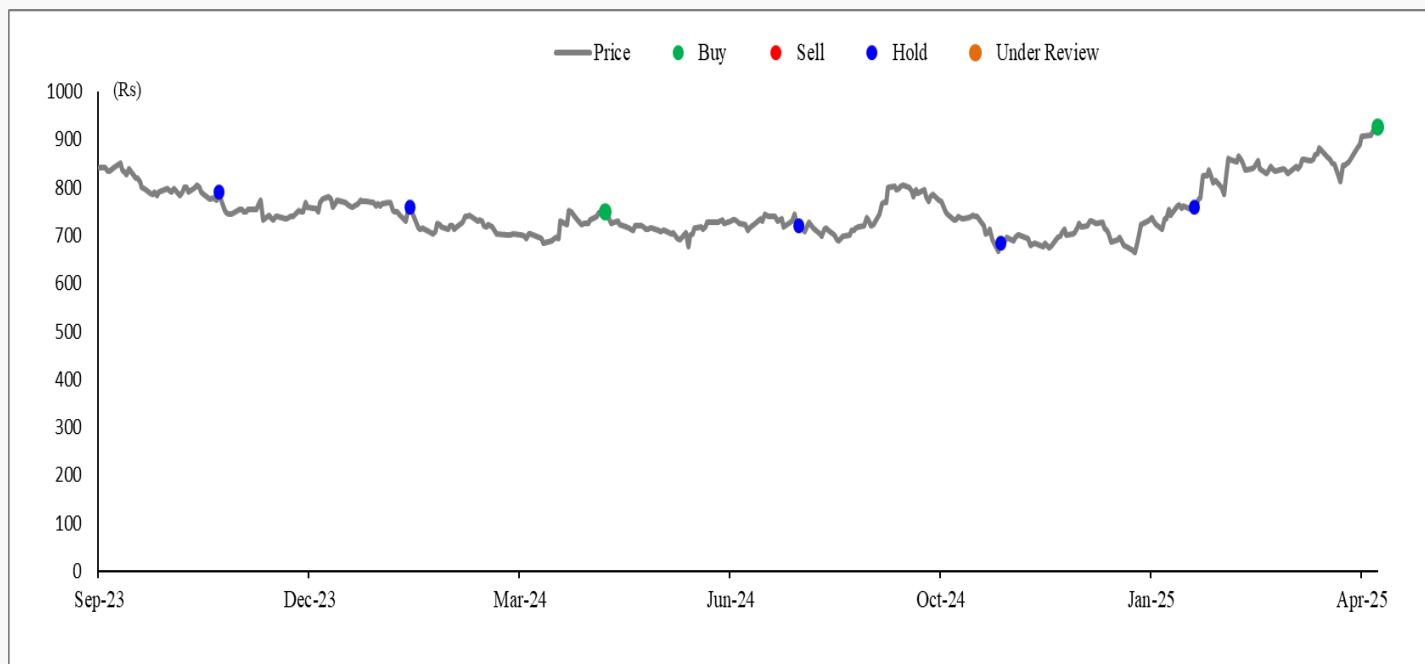
Source: Company, Axis Securities Research

**Ratio Analysis**
**(%)**

Y/E March	FY24	FY25	FY26E	FY27E
<b>ASSET QUALITY</b>				
GNPA	1,403	1,720	1,630	1,830
NNPA	493	815	733	823
GNPA Ratio (%)	2.8	3.1	2.6	2.5
NNPA Ratio (%)	1.0	1.5	1.2	1.1
PCR (%)	64.9	52.6	55.0	55.0
<b>PROFITABILITY RATIOS</b>				
Net Interest Margin (%)	11.3	10.8	11.3	11.6
RoA (%)	4.6	3.1	3.8	4.8
RoE (%)	22.0	14.8	17.9	21.8
Cost to Income (%)	56.2	51.8	54.9	55.1
CAR (%)	20.5	23.1	22.8	22.9
Tier 1 (%)	16.5	17.3	17.3	17.6
<b>VALUATION RATIOS</b>				
EPS	25.3	20.1	28.0	40.4
<i>Change</i>	<i>6.1</i>	<i>-20.4</i>	<i>39.0</i>	<i>44.4</i>
Price-Earnings (x)	36.6	46.0	33.1	22.9
BVPS	127.1	144.9	168.7	203.0
Price-BV (x)	22.3	14.0	16.4	20.4
Adj. BVPS	7.3	6.4	5.5	4.6
Price-ABV (x)	121.9	136.3	161.0	194.4
Dividend Per Share	21.6	11.8	18.1	20.8
Dividend Yield (%)	7.6	6.8	5.8	4.8

Source: Company, Axis Securities Research

## SBI Cards Price Chart and Recommendation History



Date	Reco	TP	Research
25-Jan-23	BUY	855	Result Update
02-May-23	BUY	900	Result Update
31-Jul-23	HOLD	900	Result Update
30-Oct-23	HOLD	850	Result Update
29-Jan-24	HOLD	810	Result Update
29- Apr-24	BUY	850	Result Update
29-Jul-24	HOLD	750	Result Update
30-Oct-24	HOLD	625	Result Update
29-Jan-25	HOLD	780	Result Update
25-Apr-25	BUY	1,050	Result Update

Source: Axis Securities Research

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.