

# Retail Equity Research

## SBI Cards & Payment Services Ltd

NBFC (Non-Deposit taking)

BSE CODE: 543066

NSE CODE: SBICARD

Bloomberg CODE: SBICARD:IN

SENSEX: 79,706

**REDUCE**

12 Months Investment Period Rating as per Mid Cap  
CMP Rs. 709 TARGET Rs. 651 RETURN -8% ↓  
(Closing: 09-08-24)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

### Profitability muted; asset quality weakens

SBI Cards & Payment Services Ltd (SBI Cards) is India's leading issuer of credit cards. The company offers a wide range of value-added payment products and services. It operates in more than 130 cities in the country.

- In Q1FY24, net interest income (NII) grew 19.7% YoY to Rs. 1,476cr; net interest margin (NIM) declined 60bps YoY to 10.9% and remained stable on a sequential basis.
- Asset quality deteriorated, as GNPA and NNPA ratios increased on a QoQ basis. Credit cost expanded 100bps QoQ.
- SBI Card's slowing growth momentum, decline in corporate spending, rising competition, higher cost of funds and moderating profitability may impact growth. Hence, we retain our REDUCE rating on the stock, with a revised target price of Rs. 651, based on 19x FY26E earnings per share (EPS).

### Interest income drives NII; higher provision dents PAT

In Q1FY25, SBI's card NII rose 19.7% YoY to Rs. 1,476cr, driven by high interest income of Rs. 2,243cr (+24.3% YoY). While NIM dipped 60bps YoY to 10.9%, due to low interest yield (-10bps YoY) and high cost of funds (+40bps YoY). Cost-to-income ratio improved to 48.9% in Q1FY25 from 56.4% in Q1FY24. SBI Cards reported lower staff costs (-7.7% YoY) and other expenses (-7.6% YoY). Provisioning increased by 25.4% YoY to Rs. 1,900cr, because of weaker asset quality. Resultantly, PAT remained flat on YoY to Rs. 594cr in Q1FY25.

### Key Concall highlights

- In Q1FY25, new-account acquisition dipped 12% QoQ to 9.04 lakh new accounts, of which 42% were sourced through bancassurance and 58% from the open market and co-branding.
- Card spending totaled Rs 77,129cr, up 4% YoY, despite a 66.3% YoY decline in corporate spending. Retail spending, however, rose 23.2% YoY to Rs. 71,880cr, due to robust growth in the jewelry and consumer durables segments.
- SBI Cards partnered with Apple to provide a discount of Rs. 6,000 for EMI and non-EMI purchases of Apple products by SBI Cards cardholders to improve demand and strengthen the credit card product range.

### Asset quality deteriorates; credit costs to remain elevated

In Q1FY25, SBI Card witnessed surge in credit costs to 8.5% (+100bps QoQ) due to escalating slippages across vintage customer segments drive by overheating delinquencies. SBI Cards expects the credit costs to remain higher in the near term. GNPA/ NNPA rose to 3.06%/1.11% versus 2.76%/0.99% in Q4FY24, because of enhanced write-offs (+12% QoQ) and provisioning (+63% QoQ). Further, receivables rose 3.7% QoQ to Rs. 52,705cr, with a 1.8% QoQ increase in receivables per card to Rs. 27,395. CAR stood at 20.6% (+10bps QoQ) in Q1FY25.

### Outlook and valuation

Despite a 19.7% YoY increase net interest income and robust growth in retail spending, we remain cautious about the company's ability to sustain its growth momentum in a challenging business environment. The decline in corporate spending and increasing competition in the credit-cards space are key concerns. Additionally, the company's weakening asset quality, rising the cost of funds, and thus limiting its profitability are primary concerns. Hence, we remain cautious about the stock and retain our REDUCE rating, with a revised target price of Rs. 651, based on 19x FY26E earnings per share (EPS).

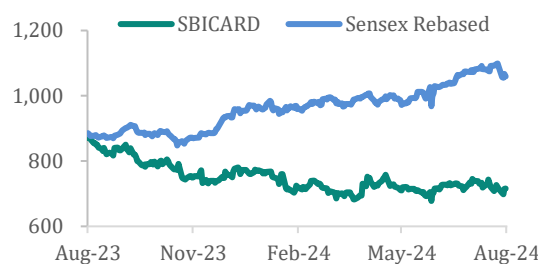
### Company Data

Market Cap (cr)	Rs.67,403
Outstanding Shares (cr)	95.1
Free Float	31.0%
Dividend Yield	0.3%
52 week high	Rs.883
52 week low	Rs.649
6m average volume (lacs)	16.0
Beta	0.3
Face value	Rs.10

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	68.8	68.6	68.6
FII's	9.4	8.6	8.7
MFs/Insti	16.3	16.7	16.5
Public	5.4	5.9	5.9
Others	0.2	0.2	0.2
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	0.6%	-0.8%	-18.8%
Absolute Sensex	7.4%	10.4%	19.8%
Relative Return*	-6.8%	-11.3%	-38.6%

\*over or under performance to benchmark index



Standalone (cr)	FY24A	FY25E	FY26E
Net Interest Income	5,332	6,624	8,153
Growth (%)	18.3	24.2	23.1
NIM (%)	11.5	11.4	11.4
Pre-Provision Profit	6,519	7,715	9,278
Net Profit	2,408	2,698	3,252
Growth (%)	6.6	12.1	20.5
Adj.EPS	25.3	28.4	34.2
Growth (%)	5.9	12.1	20.5
BVPS	127.1	154.2	186.5
P/E	27.0	25.2	20.9
P/B	5.4	4.6	3.8
RoE (%)	5.6	4.8	4.0
RoA (%)	22.0	20.2	20.1

## Quarterly Financials (Standalone)

### Profit & Loss Account

Rs. cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Interest Income	2,243	1,804	24.3	2,139	4.9
Interest Expense	767	571	34.3	724	5.9
<b>Net Interest Income (NII)</b>	<b>1,476</b>	<b>1,233</b>	<b>19.7</b>	<b>1,415</b>	<b>4.4</b>
Non-Interest Income	2,239	2,242	(0.1)	2,336	(4.1)
<b>Total Net Income</b>	<b>3,716</b>	<b>3,475</b>	<b>6.9</b>	<b>3,751</b>	<b>(0.9)</b>
<b>Total Income</b>	<b>4,483</b>	<b>4,046</b>	<b>10.8</b>	<b>4,475</b>	<b>0.2</b>
Operating Expenses	1,816	1,960	(7.3)	1,918	(5.3)
<b>Total Expenditure</b>	<b>2,583</b>	<b>2,531</b>	<b>2.0</b>	<b>2,642</b>	<b>(2.2)</b>
<b>Pre-Provision Profit</b>	<b>1,900</b>	<b>1,515</b>	<b>25.4</b>	<b>1,833</b>	<b>3.7</b>
Provisions	1,101	719	53.2	944	16.5
<b>Profit Before Tax</b>	<b>799</b>	<b>797</b>	<b>0.3</b>	<b>888</b>	<b>(10.0)</b>
Tax	205	203	0.7	226	(9.3)
<b>Net Profit</b>	<b>594</b>	<b>593</b>	<b>0.2</b>	<b>662</b>	<b>(10.3)</b>
EPS - Diluted (Rs.)	6.3	6.2	0.2	7.0	(10.2)

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest Income (NII)	6,748	8,503	6,624	8,153	(1.8)	(4.1)
Net Interest Margin (%)	11.7	11.8	11.4	11.4	-31bps	-37bps
Pre-Provision Profit	7,851	9,967	7,715	9,278	(1.7)	(6.9)
Net Profit	3,007	4,017	2,698	3,252	(10.3)	(19.0)
EPS (Rs)	31.6	42.2	28.4	34.2	(10.3)	(19.0)

## PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Interest Income	4,866	6,153	7,927	9,929	12,244
Interest Exp.	1,027	1,648	2,595	3,305	4,091
<b>Net Int. Income</b>	<b>3,839</b>	<b>4,505</b>	<b>5,332</b>	<b>6,624</b>	<b>8,153</b>
% Change	-1.7	17.4	18.3	24.2	23.1
Non-Int. Income	6,435	8,133	9,556	11,160	12,741
<b>Net Income</b>	<b>10,274</b>	<b>12,638</b>	<b>14,888</b>	<b>17,784</b>	<b>20,894</b>
<b>Total Income</b>	<b>11,301</b>	<b>14,286</b>	<b>17,484</b>	<b>21,089</b>	<b>24,986</b>
Operating Exp.	5,846	7,448	8,369	10,069	11,617
<b>Total Exp.</b>	<b>6,873</b>	<b>9,096</b>	<b>10,964</b>	<b>13,374</b>	<b>15,708</b>
<b>Pre-Prov. Profit</b>	<b>4,428</b>	<b>5,190</b>	<b>6,519</b>	<b>7,715</b>	<b>9,278</b>
Provisions	2,256	2,159	3,287	4,109	4,931
<b>PBT</b>	<b>2,172</b>	<b>3,031</b>	<b>3,232</b>	<b>3,606</b>	<b>4,347</b>
Tax	556	772	824	908	1,094
Tax Rate (%)	25.6	25.5	25.5	25.2	25.2
<b>Net Profit</b>	<b>1,616</b>	<b>2,258</b>	<b>2,408</b>	<b>2,698</b>	<b>3,252</b>
% Change	64.2	39.7	6.6	12.1	20.5
No. of Shares (cr)	94	94	95	95	95
<b>Adj. EPS (Rs.)</b>	<b>17.2</b>	<b>23.9</b>	<b>25.3</b>	<b>28.4</b>	<b>34.2</b>
% Change	64.2	39.2	5.9	12.1	20.5
DPS	2.5	2.5	2.5	4.3	5.1

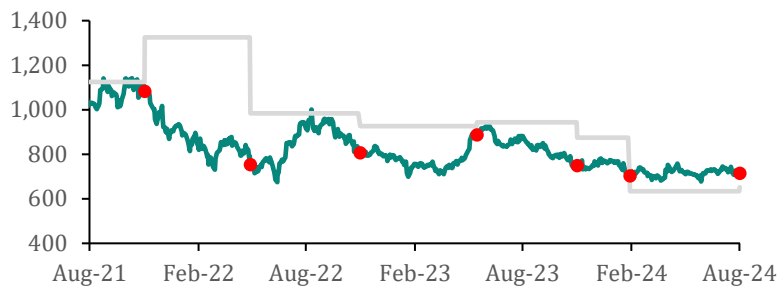
## BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash & Balances	1,106	1,354	2,730	2,975	3,243
Investments	1,297	2,140	3,519	3,871	4,258
Advances	30,187	39,361	49,079	61,349	75,643
Fixed Assets	1,002	1,372	1,400	1,468	1,573
Other Assets	1,056	1,318	1,444	1,473	1,502
<b>Total Assets</b>	<b>34,648</b>	<b>45,546</b>	<b>58,171</b>	<b>71,135</b>	<b>86,219</b>
Capital	943	946	951	951	951
Reserves & Surplus	6,810	8,884	11,133	13,710	16,786
Deposits	0	0	0	0	0
Borrowings	14,680	23,143	31,993	40,951	52,008
Other Liabilities	12,216	12,573	14,094	15,523	16,474
<b>Total Liabilities</b>	<b>34,648</b>	<b>45,546</b>	<b>58,171</b>	<b>71,135</b>	<b>86,219</b>
<b>BVPS (Rs.)</b>	<b>82.4</b>	<b>104.1</b>	<b>127.1</b>	<b>154.2</b>	<b>186.5</b>
Adj. BVPS (Rs.)	79.9	100.5	122.0	148.4	180.2
% Change	19.3	25.7	21.4	21.7	21.4

## RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Spreads (%)</b>					
NIM	13.8	12.5	11.5	11.4	11.4
Yield on funds	17.5	17.1	17.1	17.1	17.1
Cost of Borrowing	5.0	6.1	7.3	7.4	7.4
Interest Spread	12.5	11.0	9.8	9.7	9.7
<b>Capital Adequacy (%)</b>					
CAR	23.8	23.1	20.5	20.9	21.3
Tier I	21.0	20.4	16.5	16.7	17.0
Tier II	2.8	2.7	4.0	4.2	4.3
<b>Asset Quality (%)</b>					
GNPA	2.2	2.4	2.8	2.7	2.6
NNPA	0.8	0.9	1.0	0.9	0.8
<b>Return Ratios (%)</b>					
RoE	23.0	25.7	22.0	20.2	20.1
RoA	5.2	5.6	4.6	4.2	4.1
<b>Valuations (x)</b>					
P/E (x)	49.6	30.9	27.0	25.2	20.9
P/BV (x)	10.3	7.1	5.4	4.6	3.8
Div. Yield	0.3	0.3	0.4	0.6	0.7

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
29-Apr-21	REDUCE/SELL	1,125
9-Nov-21	BUY	1,325
6-May-22	BUY	983
7-Nov-22	BUY	927
23-May-23	HOLD	943
8-Nov-23	BUY	874
5-Feb-24	REDUCE/SELL	634
9-Aug-24	REDUCE	651

### Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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