

Credit Cost Moderation Taking Longer Than Expected; Near-Term Outlook Weak!
Est. Vs. Actual for Q1FY26: NII – **INLINE**; PPOP – **BEAT**; PAT – **MISS**
Changes in Estimates post Q1FY26
FY26E/FY27E (in %): NII -1.2/-4.0; PPOP +2.7/+0.1; PAT -1.7/-2.4

Recommendation Rationale

- **NIMs to Improve Driven by Lower CoF:** SBIC's NIMs remained flat QoQ in Q1FY26 (improvement of 10bps QoQ adjusted for the one-off in Q4). **The incremental CoF is trending downwards, and the impact of the Jun'25 rate cut is yet to reflect in the cost of borrowings. Thus, margins are likely to benefit in the rate cut cycle, as CoF is expected to decline by 25-30bps in Q2.** Apart from the benefit of the rate cut accruing, the company is actively adjusting the borrowing mix to optimise the benefit on CoF. Yields have continued to remain stable, and the management does not expect any meaningful change in yields going forward. The mix of interest-earning assets in the receivables mix has remained largely steady, and SBIC is making conscious efforts to improve the share of EMI balance in the receivables mix. **Thus, margins are expected to improve to 11.3% in FY26E vs 10.8% in FY25 and further to settle at 11.6% (+/-5bps) over FY27-28E.**
- **Near-term Credit Cost to Remain Elevated:** SBIC has been grappling with elevated credit costs for the past many quarters, which have been weighing down its earnings. After a decline in credit costs in Q4FY25 and a slight optimism around its trajectory, SBIC's credit cost inched up by 60bps QoQ in Q1, primarily owing to the ECL Model reset (driven by inclusion of fresh data, which carries higher credit costs). **The management has guided for near-term headwinds on credit costs to persist and are expected to remain elevated between 9-9.6% in Q2.** The company has tightened its underwriting policies and has been cautious in new customer onboarding, and the risk profile of the new customers is at par with the company's internal expectations. **SBIC has seen delinquencies and write-offs improve; however, the company will continue to monitor these trends closely. We expect credit costs to gradually taper over H2; however, near-term pressures should keep FY26 credit costs elevated at ~9% (+/-10bps).**
- **New Customer Additions Soft; Receivables Growth Muted:** While demand continues to remain buoyant, SBIC has calibrated its pace of new customer onboarding in certain pockets, thereby keeping the pace of customer acquisition lower vs its previous guidance of 1 Mn new cards. With further tightening of credit screens and the company being more selective, the management expects the quarterly run-rate of new card additions to settle at 0.9-1 Mn in FY26. The banca channel will continue to drive growth in the New-to-Card (NTC) segment and contribute ~50-60% of the total NTC customers.

Sector Outlook: Cautiously Positive

Company Outlook: Asset quality concerns and elevated credit costs have been weighing on profitability and will continue to hurt earnings in the near term. The company has tightened its credit filters and is more selective in customer onboarding. Consequently, the pace of new customer addition is expected to remain muted with a quarterly run-rate of 0.9-1 Mn cards. However, NIMs are expected to improve, backed by a larger fixed-rate book and the benefit of downward repricing of CoF flowing in. This should partially offset the impact of higher credit costs. SBIC continues to exercise control over Opex growth, driving improvement in Opex ratios. **We expect SBIC to deliver a Receivables/NII/Earnings growth of 13/15/35% CAGR over FY25-28E. We expect SBIC's RoA/RoE to improve to 4.5+%/20%+ from FY27E onwards vs 3.8/17.6% in FY26E.**

Current Valuation: 25x FY27E EPS; Earlier Valuation: 26x FY27E EPS
Current TP: Rs 985/share; Earlier TP: Rs 1,050/share
Recommendation: We maintain our BUY recommendation on the stock.

Q1FY26 Performance:

- **Operational Performance:** CIF grew by 10/2% YoY/QoQ. The company added ~8.7 Lc cards during the quarter (-3/21YoY/QoQ). Spends growth was better than expected and grew by 21/6%, driven by healthy retail spends and a pick-up in corporate spends. Retail spends grew by 15/3% YoY/QoQ, while corporate spends picked up pace and grew by 107/25% YoY/QoQ. SBIC's spends market share improved QoQ and stood at 16.6% vs. 15.6% QoQ. CIF Market share also improved marginally to 19.1% vs 18.9% QoQ. Receivables growth missed our expectations and was slower at 7/1% YoY/QoQ, with the mix of interest yielding assets marginally down to 60% vs 59% QoQ.
- **Financial Performance:** NII grew by 14/4% YoY/QoQ with NIMs remaining steady QoQ at 11.2%. Yields remained steady QoQ, while CoF improved by 10bps QoQ. Fee income growth was healthy at 14/5% YoY/QoQ, likely owing to a pick-up in corporate spends. Opex growth was under control, and Opex grew by 17/2% YoY/QoQ. The C-I Ratio stood at 50.3% vs. 48.8/51.4% YoY/QoQ. PPOP grew by 10/7% YoY/QoQ. Credit costs inched up to 9.6% vs 9.0% in the previous quarter, weighing on earnings. PAT grew by 4% QoQ but was down 8% YoY.
- **Asset Quality** remained stable with GNPA/NNPA at 3.07/4.2% vs 3.08/4.46% QoQ. PCR improved slightly to 54.3% vs 53.5% QoQ. GS 2 came down to 4.7% from 5% in Q4FY25.

Key Financials (Standalone)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	1,680	+3.7	+13.8	1,662	+1.1
PPOP	2,100	+6.9	+10.1	2,046	+2.6
Net Profit	556	+4.1	-7.6	579	-4.1
NNPA (%)	1.4	-4 bps	+31 bps	1.5	-8 bps
RoA (%)	3.4	+4 bps	-71 bps	3.4	-6 bps

Source: Company, Axis Securities Research

(CMP as of 25th July, 2025)

CMP (Rs)	889
Upside /Downside (%)	11%
High/Low (Rs)	1,023/660
Market cap (Cr)	84,596
Avg. daily vol. (6m) Shrs.	15,91,051
No. of shares (Cr)	95.2

Shareholding (%)

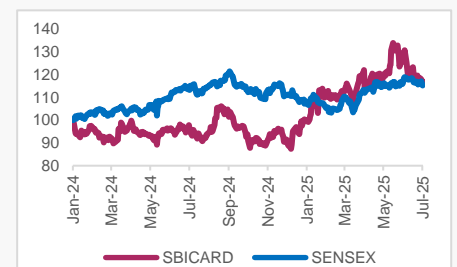
	Dec-24	Mar-25	Jun-25
Promoter	68.6	68.6	68.6
FIIs	9.5	9.9	9.9
MFs / UTI	9.7	9.7	9.7
Others	12.2	11.8	11.8

Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	7,145	8,206	9,373
PPOP	8,603	9,924	11,291
Net Profit	2,619	3,752	4,687
EPS (Rs)	27.5	39.4	49.3
P/E (x)	32.3	22.5	18.0
P/ABV (x)	5.6	4.6	3.8
RoA (%)	3.8	4.9	5.4
NNPA (%)	1.3	1.3	1.3

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
NII	-1.2	-4.0
PPOP	+2.7	+0.1
PAT	-1.7	-2.4

Relative Performance


Source: Ace Equity, Axis Securities Research

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Outlook

We revise our NII estimates downwards by 1-4% over FY26-27E, factoring in slower growth despite margins witnessing an improvement. Similarly, controlled Opex should partially offset the dent on earnings from the near-term pressure on credit costs. Resultantly, we revise our earnings estimates marginally downwards by 2-3% over the same period.

Valuation & Recommendation

We maintain our BUY recommendation with a target price of Rs 985/share, implying an upside of 11% from the CMP. We value SBIC at 25x FY27E EPS (vs. current valuations of ~23x FY27E EPS).

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

Change in Estimates

	Revised Estimates			Old Estimates			Change %		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	7,145	8,206	9,373	7,229	8,547	-	-1.2	-4.0	-
Fee Income	9,309	10,709	12,263	9,878	11,871	-	-5.8	-9.8	-
PBP	8,603	9,924	11,291	8,375	9,917	-	2.7	0.1	-
Provisions	5,101	4,907	5,024	4,813	4,775	-	6.0	2.8	-
PAT	2,619	3,752	4,687	2,664	3,847	-	-1.7	-2.4	-

Source: Axis Securities Research

Results Review

(Rs Cr)	Q1FY26	Q1FY25	% YoY	Q4FY25	% QoQ
CIF	2.1	1.9	10.4	2.1	1.9
Spends (Rs. Cr)	93,244	77,129	20.9	88,365	5.5
Avg. Spend per card	1,77,608	1,61,951	9.7	1,72,222	3.1
Market share - CIF	19.1%	18.5%	60 bps	18.9%	20 bps
Market share - Spends	16.6%	15.9%	70 bps	15.6%	100 bps
Interest Income	2,493	2,243	11.1	2,415	3.2
Interest Expense	813	767	6.0	795	2.2
Net Interest Income	1,680	1,476	13.8	1,620	3.7
Fee Income	2,191	1,928	13.7	2,093	4.7
Other Income	351	319	10.2	324	8.4
Total Income	4,223	3,723	13.4	4,036	4.6
Operating Expenses	2,123	1,816	16.9	2,073	2.4
Staff Cost	161	134	20.3	154	4.6
Cost-Income Ratio (%)	50.3	48.8	149 bps	51.4	-108 bps
Pre-provision profit	2,100	1,907	10.1	1,964	6.9
Provisions	1,352	1,101	22.8	1,245	8.5
PBT	748	806	-7.2	719	4.2
Taxes	192	205	-6.0	184	4.4
PAT	556	601	-7.6	534	4.1
<u>Asset Quality</u>					
Gross NPA (%)	3.1%	3.1%	1 bps	3.1%	-1 bps
Net NPA (%)	1.4%	1.1%	31 bps	1.5%	-4 bps
PCR (%)	54.3%	64.4%	-1010 bps	53.5%	80 bps
<u>Spread Analysis</u>					
Yields	17.0%	16.8%	20 bps	17.0%	0 bps
CoF	7.1%	7.5%	-40 bps	7.2%	-10 bps
NIM %	11.2%	10.9%	30 bps	11.2%	0 bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	6,169	7,145	8,206	9,373
Fee Income	8,003	9,309	10,709	12,263
Non-Interest Income	1,287	1,449	1,659	1,855
Total Income	15,459	17,902	20,575	23,490
Operating Expenses	8,007	9,299	10,651	12,200
Pre-Provision Profits	7,452	8,603	9,924	11,291
Provisions	4,872	5,101	4,907	5,024
PBT	2,581	3,502	5,017	6,266
Tax	664	882	1,264	1,579
Profit After Tax	1,916	2,619	3,752	4,687

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Equity Share Capital	951	951	951	951
Reserves & Surplus	12,830	15,057	18,246	22,229
Net Worth	13,782	16,008	19,197	23,181
Borrowings	44,947	48,856	53,704	60,167
Other Liabilities	6,817	7,208	8,101	9,262
Total Liabilities	65,546	72,072	81,002	92,610
Cash & Bank balances	2,738	2,506	2,817	3,221
Investments	6,235	6,856	7,705	8,810
Loans	53,935	59,953	67,382	77,038
Fixed Assets & Others	2,638	2,756	3,098	3,542
Total Assets	65,546	72,072	81,002	92,610

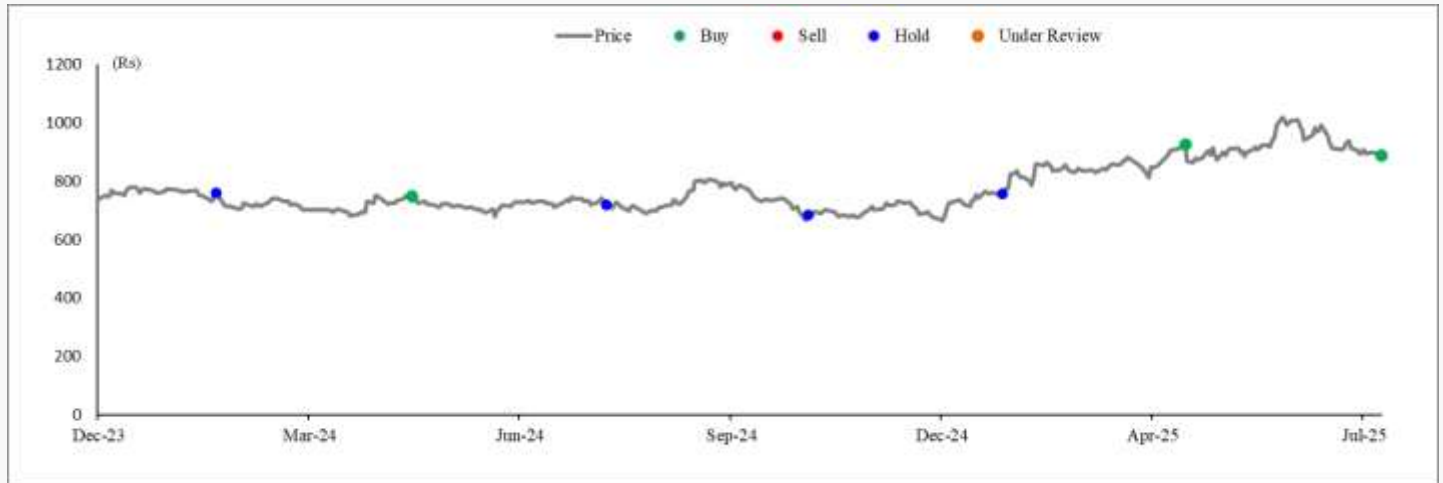
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
ASSET QUALITY				
GNPA	1,720	1,767	2,007	2,262
NNPA	815	796	903	1,018
GNPA Ratio (%)	3.1	2.8	2.9	2.8
NNPA Ratio (%)	1.5	1.3	1.3	1.3
PCR (%)	52.6	55.0	55.0	55.0
PROFITABILITY & EFFICIENCY RATIOS				
Net Interest Margin (%)	10.8	11.3	11.6	11.7
RoA (%)	3.1	3.8	4.9	5.4
RoE (%)	14.8	17.6	21.3	22.1
Cost to Income (%)	3.1	3.8	4.9	5.4
CAR (%)	51.8	51.9	51.8	51.9
Tier 1 (%)	23.1	23.2	23.8	24.5
VALUATION RATIOS				
EPS	20.1	27.5	39.4	49.3
<i>Change</i>	-20.4	36.7	43.3	24.9
Price-Earnings (x)	44.1	32.3	22.5	18.0
BVPS	144.9	168.3	201.8	243.7
Price-BV (x)	14.0	16.2	19.9	20.8
Adj. BVPS	6.1	5.3	4.4	3.6
Price-ABV (x)	136.3	159.9	192.3	233.0
Dividend Per Share	11.8	17.3	20.3	21.1
Dividend Yield (%)	6.5	5.6	4.6	3.8

Source: Company, Axis Securities Research

SBI Cards Price Chart and Recommendation History



Date	Reco	TP	Research
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
28-Jul-25	BUY	985	Result Update

Source: Axis Securities Research

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