

Oct 30, 2023

RESULT REPORT Q2 FY24 | Sector: Financials

# SBI Cards and Payment Services

## Credit cost normalization elusive

### Largely in-line numbers

SBI Cards delivered an in-line NII, PPOP and PAT in Q2 FY24, and the performance was characterized by 1) steady card addition and CIF growth (up 3% qoq/20% yoy), 2) sustained strong growth in Retail spends (up 5% qoq/20% yoy), 3) jump in Corporate spends (up 14% qoq/55% yoy), 4) healthy fee income growth (up 4% qoq/23% yoy), 5) an expected NIM decline (14 bps decline in portfolio yield), 6) controlled opex growth (cost/income was 57%) and 7) continuance of elevated write-offs/credit cost (6.7%). RoA/RoE were marginally lower than preceding quarter at 4.9%/22%.

### Clarity on credit cost normalization elusive

After attributing higher credit cost in preceding quarters to the originations of 2019, management associated recurrence of elevated credit cost in Q2 FY24 to generic stress in portfolio (in-line with unsecured loans in the system). The stress seen was not related to any cohort/vintage, profile, demography, etc. The share of 2019 cards has now declined to 14% in receivables and it is behaving well due to targeted portfolio actions. The newer acquisitions of 2021, 2022 and 2023 are showing relatively benign early delinquency trends, manifesting better quality of onboarding. While the sourcing share of self-employed customers and Tier-3/Tier-4 markets has been increasing, these portfolios are depicting stable delinquency trends. Though reasonably confident about quality of newer onboarding, the generic stress in the industry precludes management from calling out moderation of credit cost in coming quarters.

### NIM could remain under pressure in near term

Portfolio yield decline of 14 bps qoq came as a negative surprise and was driven by change in product mix within EMI/TL portfolio. There was a shift towards relatively lower-yielding subvention product in the quarter. While the subvention book has largely repriced to rate hikes taken over the past few quarters, there is some residual re-pricing left in flexi-pay portfolio. Management expects funding cost to marginally rise in coming quarters. At an overall level, the share of interest earning assets (EMI/TL + Revolvers) was stable on sequential basis.

### Cut earnings by 5-6%; downgrade to ADD

Our earnings estimates undergo 5-6% cut mainly on raising of credit cost assumptions. We estimate 20%/25%/20% CAGR in CIF/Spends/Earnings over FY23-25. Stock trades at 5.1x P/ABV and 23x P/E on FY25 estimates. While valuation is not demanding in the context of being a credit card pure-play, leading market share and good franchise growth/RoE, it lacks triggers for re-rating. Hence, we expect stock's underperformance versus the sector to continue for a while and downgrade rating to ADD from BUY. Factors which can re-rate valuation would be 1) uptick in spends' market share, 2) normalization of credit cost and 3) softening of interest rates.

### Exhibit 1: Result table

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Revenue from operations	40,874	39,119	4.5	32,971	24.0
Interest expenses	(6,049)	(5,711)	5.9	(3,677)	64.5
Net interest income	34,825	33,408	4.2	29,294	18.9
Total Income	36,165	34,750	4.1	30,856	17.2
Total Expenses	(20,656)	(19,599)	5.4	(18,340)	12.6
Pre-provision profit	15,510	15,151	2.4	12,517	23.9
Provisions	(7,416)	(7,186)	3.2	(5,460)	35.8
Profit before Tax	8,094	7,966	1.6	7,057	14.7
Tax	(2,064)	(2,033)	1.6	(1,800)	14.7
Profit after Tax	6,030	5,933	1.6	5,257	14.7

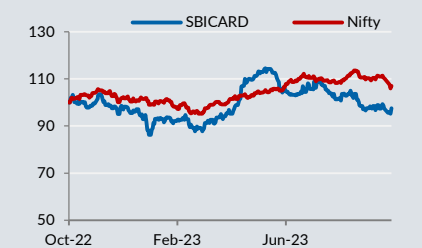
Source: Company, YES Sec

Reco.	: ADD
CMP	: Rs 790
Target Price	: Rs 900
Potential Return	: 13.9%

### Stock data (as on Oct 27, 2023)

Nifty	19,047
52 Week h/l (Rs)	933 / 696
Market cap (Rs/USD mn)	733751 / 8812
Outstanding Shares (mn)	950
6m Avg t/o (Rs mn):	898
Div yield (%):	0.3
Bloomberg code:	SBICARD IN
NSE code:	SBICARD

### Stock performance



	1M	3M	1Y
Absolute return	-0.1%	-7.8%	-2.5%

### Shareholding pattern

Promoter	68.9%
FII+DII	26.4%
Others	4.7%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	BUY
Target Price	900	975

### Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	26.5	34.6	42.7
EPS (Old)	28.2	36.6	-
% Change	-6.2%	-5.5%	-

### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	150,300	184,012	223,639
PPOP	63,559	78,770	96,179
Net profit	25,033	32,717	40,376
Growth (%)	10.8	30.7	23.4
EPS (Rs)	26.5	34.6	42.7
ABVPS (Rs)	123.7	154.8	193.8
P/E (x)	29.9	22.8	18.5
P/ABV (x)	6.4	5.1	4.1
ROE (%)	22.9	24.1	23.8
ROA (%)	5.0	5.4	5.5

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## Exhibit 2: Key Financial data

(%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
Yield on assets	16.8	16.9	(0.1)	16.4	0.4
Cost of funds	7.1	7.1	-	5.4	1.7
NIMs	11.3	11.5	(0.2)	12.3	(1.0)
Cost / Income	57.1	56.4	0.7	59.4	(2.3)
GNPA (%)	2.4	2.4	0.0	2.1	0.3
NNPA (%)	0.9	0.9	-	0.8	0.1
Provision coverage ratio (%)	64.1	63.8	0.3	64.0	0.1
CAR (%)	23.3	22.9	0.4	23.2	0.1
Tier I (%)	20.8	20.3	0.5	20.2	0.6
Tier II (%)	2.5	2.6	(0.1)	3.0	(0.5)
RoAA (%)	4.9	5.1	(0.2)	5.4	(0.5)
RoAE (%)	22.3	23.3	(1.0)	24.1	(1.8)

Source: Company, YES Sec

## Exhibit 3: Composition of Receivables

(%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
Term Balances /EMI	38.0	38.0	-	35.0	3.0
Revolver	24.0	24.0	-	24.0	-
RBI RE	-	-	-	-	-
Transactor	38.0	38.0	-	41.0	(3.0)

Source: Company, YES Sec

## Exhibit 4: Cards and Spends data

Key Indicators	Q2 FY24	Q1 FY24	qoq (%)	Q2 FY23	yoy (%)
CIF ('000)	17,900	17,300	3.5	14,828	20.7
New accounts ('000)	1,142	1,097	4.1	1,295	(11.8)
Spends (Rs mn)	791,640	739,120	7.1	623,060	27.1
Corporate Spends (Rs mn)	177,180	155,650	13.8	114,110	55.3
Retail Spends (Rs mn)	614,460	583,470	5.3	508,950	20.7
Retail Spends (% of Total Spends)	77.6	78.9	(1.3)	81.7	(4.1)
Online Spends (% of Retail Spends)	57.0	55.0	2.0	57.8	(0.8)
Avg. Annual Spend/Card ('000)	180	173	4.0	171	5.3
30 days active - (%)	50.0	50.0	-	50.0	-
Receivables (Rs mn)	450,780	432,710	4.2	377,300	19.5
Receivables per card (Rs)	25,220	24,949	1.1	25,445	(0.9)
Market Share in Industry CIF (%)	19.2	19.6	(0.4)	19.1	0.1
Market Share in Industry Spends (%)	17.9	17.8	0.1	18.0	(0.1)

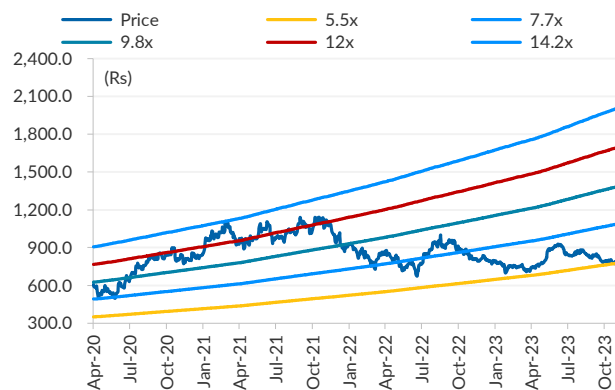
Source: Company, YES Sec

**Exhibit 5: New Sourcing profile**

(%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
<b>Channel Mix (%)</b>					
SBI sourcing	49.0	54.0	(5.0)	37.1	11.9
Open market sourcing	51.0	46.0	5.0	62.9	(11.9)
<b>Occupation Mix (%)</b>					
Salaried	59.0	61.0	(2.0)	70.0	(11.0)
Self employed	41.0	39.0	2.0	30.0	11.0
<b>Salaried Mix (%)</b>					
Govt. / PSU	28.0	29.0	(1.0)	30.0	(2.0)
Category A	24.0	25.0	(1.0)	30.0	(6.0)
Category B	48.0	46.0	2.0	40.0	8.0
<b>Age Profile Mix (%)</b>					
Under 30	35.0	34.0	1.0	37.0	(2.0)
31-45	48.0	49.0	(1.0)	47.0	1.0
>45	17.0	17.0	-	16.0	1.0
<b>City Tier Mix (%)</b>					
Tier 1	27.0	27.0	-	30.0	(3.0)
Tier 2	18.0	18.0	-	19.0	(1.0)
Tier 3	33.0	32.0	1.0	30.0	3.0
Others	22.0	23.0	(1.0)	21.0	1.0

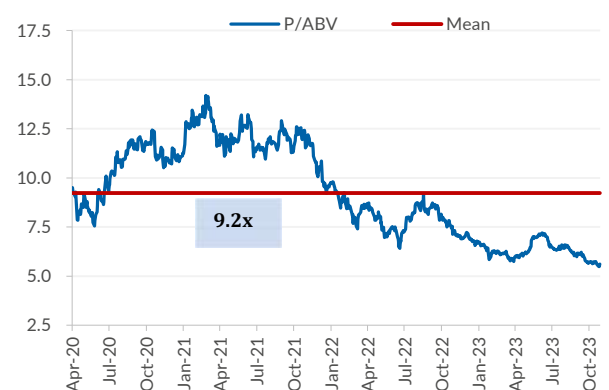
Source: Company, YES Sec

**Exhibit 6: 1-yr rolling P/ABV band**



Source: Company, YES Sec

**Exhibit 7: 1-year rolling P/ABV vis-a-vis the mean**



Source: Company, YES Sec

## FINANCIALS

Exhibit 8: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
<b>Equity and Liabilities</b>					
Equity Share Capital	9,432	9,461	9,461	9,461	9,461
Other Equity	68,095	88,840	111,336	141,516	179,354
<b>Share-holders fund</b>	<b>77,527</b>	<b>98,301</b>	<b>120,797</b>	<b>150,976</b>	<b>188,815</b>
<b>Financial Liabilities</b>	<b>256,828</b>	<b>342,010</b>	<b>415,329</b>	<b>494,408</b>	<b>582,792</b>
Derivative financial instruments	0	11	11	11	11
Payables	11,277	14,060	16,872	20,246	23,283
Debt Securities	71,063	66,062	80,265	95,516	112,709
Borrowings (Other than Debt Securities)	146,801	231,429	281,186	334,611	394,841
Subordinated Liabilities	11,960	13,605	16,531	19,671	23,212
Other Financial Liabilities	15,727	16,843	20,465	24,353	28,737
<b>Non-Financial Liabilities</b>	<b>12,129</b>	<b>15,145</b>	<b>17,417</b>	<b>20,029</b>	<b>23,033</b>
Provisions	4,774	6,380	7,337	8,437	9,703
Other non-financial liabilities	7,355	8,765	10,080	11,592	13,330
<b>Total Liabilities + Equity</b>	<b>346,484</b>	<b>455,456</b>	<b>553,542</b>	<b>665,414</b>	<b>794,640</b>
<b>Assets</b>					
<b>Financial Assets</b>	<b>329,726</b>	<b>434,138</b>	<b>528,600</b>	<b>635,933</b>	<b>759,557</b>
Cash and Cash Equivalents	7,582	9,898	10,726	12,949	15,595
Bank balances	3,482	3,647	4,194	4,823	5,546
Derivative financial instruments	0	0	0	0	0
Receivables	1,685	1,422	1,422	1,422	1,422
Loans	301,873	393,610	484,140	585,809	702,971
Investments	12,972	21,397	23,537	25,890	28,479
Other Financial Assets	2,133	4,165	4,581	5,040	5,543
<b>Non- Financial Assets</b>	<b>16,758</b>	<b>21,318</b>	<b>24,943</b>	<b>29,481</b>	<b>35,083</b>
Current tax assets (Net)	412	57	0	0	0
Deferred tax assets (Net)	2,185	2,467	2,467	2,467	2,467
Property, Plant and Equipment	392	604	634	665	699
Capital WIP	5	61	61	61	61
Intangible assets	1,302	1,201	1,201	1,201	1,201
Right-of-use Assets	2,839	3,872	4,259	4,685	5,153
Other Non-Financial Assets	9,623	13,058	16,322	20,403	25,503
<b>Total Assets</b>	<b>346,484</b>	<b>455,456</b>	<b>553,542</b>	<b>665,414</b>	<b>794,640</b>

Source: Company, YES Sec

## Exhibit 9: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	106,773	136,667	170,319	206,880	250,365
Interest expense	(10,273)	(16,476)	(25,590)	(28,996)	(33,314)
<b>Net interest income</b>	<b>96,500</b>	<b>120,190</b>	<b>144,729</b>	<b>177,884</b>	<b>217,051</b>
Non-interest income	6,243	6,190	5,571	6,128	6,588
Total operating income	102,742	126,381	150,300	184,012	223,639
Total operating expenses	(58,462)	(74,484)	(86,741)	(105,242)	(127,460)
<b>PPoP</b>	<b>44,280</b>	<b>51,896</b>	<b>63,559</b>	<b>78,770</b>	<b>96,179</b>
Provisions	(22,558)	(21,591)	(29,967)	(34,869)	(42,000)
Profit before tax	21,722	30,306	33,591	43,902	54,178
Taxes	(5,560)	(7,721)	(8,558)	(11,185)	(13,803)
<b>Net profit</b>	<b>16,162</b>	<b>22,585</b>	<b>25,033</b>	<b>32,717</b>	<b>40,376</b>

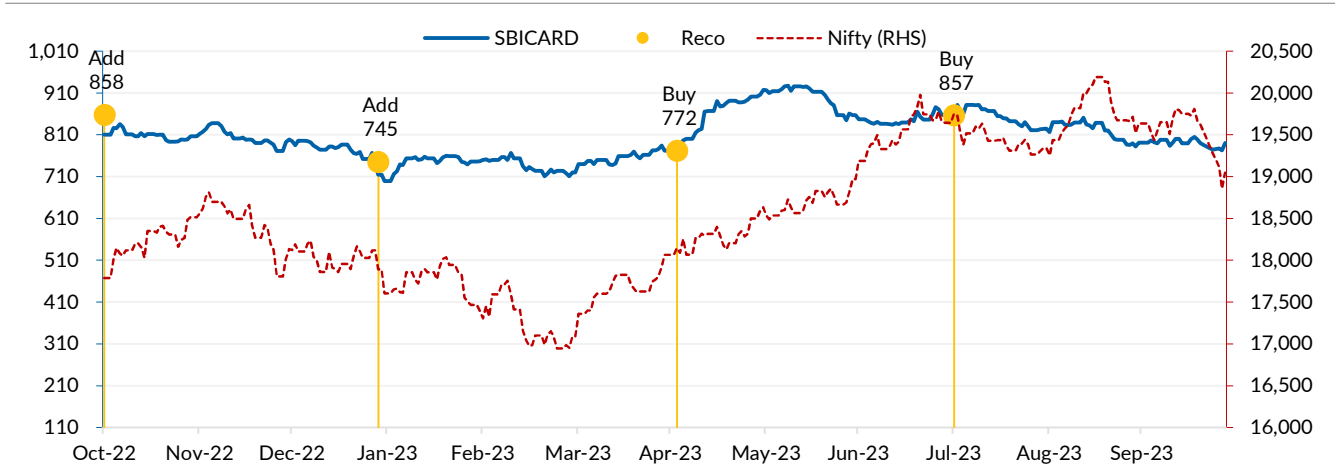
Source: Company, YES Sec

## Exhibit 10: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Net interest income	16.9	24.5	20.4	22.9	22.0
Total op income	18.5	23.0	18.9	22.4	21.5
Op profit (pre-provision)	11.8	17.2	22.5	23.9	22.1
Net profit	64.2	39.7	10.8	30.7	23.4
Loans	28.7	30.4	23.0	21.0	20.0
Borrowings + Debt	28.4	35.4	21.5	19.0	18.0
Total assets	28.3	31.5	21.5	20.2	19.4
<b>Profitability Ratios (%)</b>					
NIM	12.5	11.2	10.7	11.2	11.6
Non-interest income /Total income	6.1	4.9	3.7	3.3	2.9
Return on Avg. Assets	5.2	5.6	5.0	5.4	5.5
Return on Avg. Equity	23.0	25.7	22.9	24.1	23.8
<b>Per share ratios (Rs)</b>					
EPS	17.1	23.9	26.5	34.6	42.7
Adj. BVPS	79.6	100.2	123.7	154.8	193.8
DPS	2.5	2.5	2.5	2.5	2.5
<b>Other key ratios (%)</b>					
Loans/Borrowings	131.3	126.5	128.1	130.2	132.4
Cost/Income	56.9	58.9	57.7	57.2	57.0
CAR	23.8	23.1	22.4	22.7	23.3
NNPA (%)	0.8	0.9	0.8	0.8	0.8
Credit Cost	8.0	6.0	6.6	6.3	6.3
Tax rate	25.6	25.5	25.5	25.5	25.5

Source: Company, YES Sec

## Recommendation Tracker



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Name of the Research Analyst : Rajiv Mehta, Manuj Oberoi

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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

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YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.