

Jan 29, 2025

**RESULT REPORT Q3 FY25** | Sector: Financials

# SBI Cards and Payment Services

## Credit cost yet to improve

### Spends/Receivable growth decelerate, NIM stable and Flows/Credit Cost remain elevated

SBI Cards' performance in Q3 FY25 depicted continuous loss of Spends' market share and sustained challenges of higher flows and credit cost. A further moderation in CIF growth (stood at 3% qoq/9% yoy) was precluded by higher new account acquisition in the quarter (11.75 lac - up 30% qoq/7% yoy). Customer selection and onboarding underwriting remains tight and the share of sourcing from SBI channel was at 55% in Q3 FY25 (versus avg. 44% in past 5 quarters). However, there was a marked sequential increase in sourcing of SE and Cat B Salaried customers and of accounts from locations outside the Tier 1/2 markets.

Retail Spends growth decelerated to 10% yoy (from 23-25% yoy in preceding three quarters) owing to risk actions taken on the portfolio (spend/credit limits, etc. - annual spend/card has materially come-off) and calibrated account acquisition in past 12 months. Receivables declined 2% qoq with reduction in transactor balances (higher spends towards end of previous quarter) and the share of revolvers got reinstated to 24%. There was slight improvement in portfolio yield on account of receivables mix shift while the CoF was stable.

Annualized Credit Cost was higher at 9.4% (v/s 9% in Q2 FY25) with sustained higher flow rates from Stage-2 and increase in write-offs (jumped 22% qoq to Rs13.5bn). There was some decline in Stage-2 loans which the management attributed to improving trends in new delinquency addition. With further increase in credit cost, the annualized RoA/RoE made a new low of 2.4%/11.5%.

### Key management comments – credit cost to slowly downshift and receivable growth to be 12-15%

Management expects credit cost to have peaked as along with the improvement in fresh delinquency addition there has been improvement in flows to the write-off bucket in recent months. Risk actions taken, strengthened portfolio monitoring and collections, and stronger quality of new acquisitions over the past 4-6 quarters should start normalizing the delinquency buckets (Stage-2/Stage-3) leading to gradual moderation of write-offs. We believe that the journey of credit cost normalization (from 9.5% to 6%) could be of 6-8 quarters at least (taking some reference from Covid cycle), provided the improving collection trends continue. Management expects receivables growth near 12% in the current year and around 14-15% in the next year. Further normalization of new acquisition run-rate is expected to drive an improvement in Retail Spends growth from the current moderate level.

### Continue with Neutral stance; await better visibility of improving credit cost trajectory

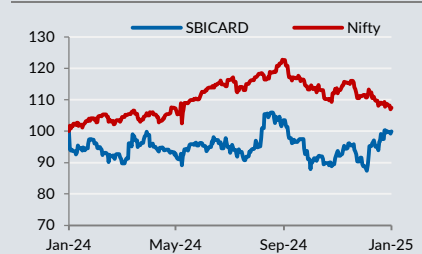
While indeed SBI Cards seems to be standing at an inflection point in its credit cycle, the demonstration of delinquency flow/write-off improvement in Q4 FY25 would provide confidence. Stock is trading at 18x P/E and 3.7x P/BV on FY27 estimates; hence, the valuation is not outright palatable. Key triggers for earnings upgrade and valuation re-rating remains a quicker-than-expected normalization of credit cost and swift decline in funding cost led by easing of rate cycle. The co. could deliver a significant cyclical recovery in RoE over the next couple of years. On relative benchmarking, we prefer BAF with its stronger (less-cyclical) growth and RoE performance and its valuation being similar to SBI Cards.

Reco.	: NEUTRAL
CMP	: Rs 759
Target Price	: Rs 780
Potential Return	: +2.8%

#### Stock data (as on Jan 28, 2025)

Nifty	22,957
52 Week h/l (Rs)	817 / 648
Market cap (Rs/USD mn)	717035 / 8288
Outstanding Shares (mn)	951
6m Avg t/o (Rs mn):	1,071
Div. yield (%):	0.4
Bloomberg code:	SBICARD IN
NSE code:	SBICARD

#### Stock performance



	1M	3M	1Y
Absolute return	12.4%	13.7%	-0.1%

#### Shareholding pattern

Promoter	68.6%
FII+DII	25.9%
Others	5.5%

#### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	780	850

#### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Op. income	1,54,002	1,80,080	2,20,033
PPOP	74,671	83,302	99,701
Net profit	19,179	26,586	41,107
Growth (%)	(20.4)	38.6	54.6
EPS (Rs)	20.2	28.0	43.2
ABVPS (Rs)	140.1	164.7	204.4
P/E (x)	37.6	27.2	17.6
P/ABV (x)	5.4	4.6	3.7
ROE (%)	14.8	17.8	22.7
ROA (%)	3.2	4.0	5.3

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## Exhibit 1: Result table

(Rs mn)	Q3 FY25	Q2 FY25	% qoq	Q3 FY24	% yoy
Revenue from operations	46,187	44,210	4.5	46,217	(0.1)
Interest expenses	(8,286)	(7,877)	5.2	(6,955)	19.1
<b>Net interest income</b>	<b>37,901</b>	<b>36,334</b>	<b>4.3</b>	<b>39,262</b>	<b>(3.5)</b>
Other Income	1,479	1,348	9.7	1,199	23.3
Total Income	39,379	37,681	4.5	40,461	(2.7)
Total Expenses	(21,072)	(20,109)	4.8	(24,256)	(13.1)
<b>Pre-provision profit</b>	<b>18,308</b>	<b>17,573</b>	<b>4.2</b>	<b>16,205</b>	<b>13.0</b>
Provisions	(13,131)	(12,120)	8.3	(8,829)	48.7
Profit before Tax	5,176	5,452	(5.1)	7,376	(29.8)
Tax	(1,344)	(1,408)	(4.5)	(1,885)	(28.7)
<b>Profit after Tax</b>	<b>3,832</b>	<b>4,044</b>	<b>(5.2)</b>	<b>5,491</b>	<b>(30.2)</b>

## Exhibit 2: Key Financial data

(%)	Q3 FY25	Q2 FY25	chg qoq	Q3 FY24	chg yoy
Yield on assets	16.5	16.4	0.1	17.2	(0.7)
Cost of funds	7.4	7.4	-	7.6	(0.2)
NIMs	10.6	10.6	-	11.3	(0.7)
Cost / Income	53.5	53.4	0.1	59.9	(6.4)
GNPA (%)	3.2	3.3	(0.0)	2.6	0.6
NNPA (%)	1.2	1.2	(0.0)	1.0	0.2
Provision coverage ratio (%)	64.3	64.4	(0.1)	64.1	0.2
CAR (%)	22.9	22.1	0.8	18.4	4.5
Tier I (%)	17.0	16.3	0.7	16.3	0.7
Tier II (%)	5.9	5.8	0.1	2.1	3.8
RoAA (%)	2.4	2.7	(0.3)	4.1	(1.7)
RoAE (%)	11.5	12.5	(1.0)	19.2	(7.7)

Source: Company, YES Sec

## Exhibit 3: Composition of Receivables

(%)	Q3 FY25	Q2 FY25	chg qoq	Q3 FY24	chg yoy
Term Balances /EMI	40.0	40.0	-	38.0	2.0
Revolver	24.0	23.0	1.0	23.0	1.0
RBI RE	-	-	-	-	-
Transactor	36.0	37.0	(1.0)	38.0	(2.0)

Source: Company, YES Sec

## Exhibit 4: Cards and Spends data

Key Indicators	Q3 FY25	Q2 FY25	qoq (%)	Q3 FY24	yoy (%)
CIF ('000)	20,200	19,600	3.1	18,500	9.2
New accounts ('000)	1,175	904	30.0	1,096	7.2
Spends (Rs mn)	8,60,930	8,18,930	5.1	9,68,600	(11.1)
Corporate Spends (Rs mn)	53,010	54,950	(3.5)	2,33,410	(77.3)
Retail Spends (Rs mn)	8,07,920	7,63,980	5.8	7,35,190	9.9
Retail Spends (% of Total Spends)	93.8	93.3	0.6	75.9	17.9
Online Spends (% of Retail Spends)	58.5	60.0	(1.5)	57.0	1.5
Avg. Annual Spend/Card ('000)	173	169	2.4	213	(18.8)
30 days active - (%)	52.0	52.0	-	52.0	-
Receivables (Rs mn)	5,47,730	5,56,010	(1.5)	4,88,500	12.1
Receivables per card (Rs)	27,052	28,387	(4.7)	26,438	2.3
Market Share in Industry CIF (%)	18.7	18.5	0.2	18.9	(0.2)
Market Share in Industry Spends (%)	15.6	15.8	(0.2)	18.3	(2.7)

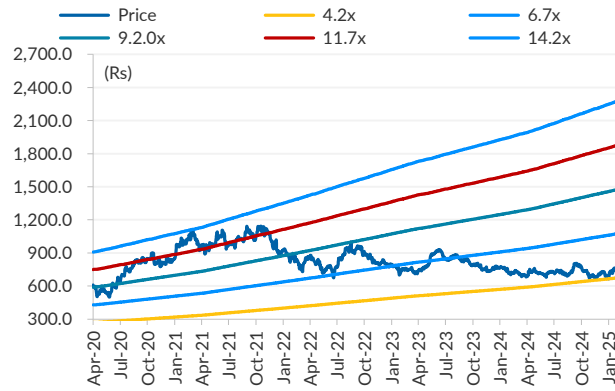
Source: Company, YES Sec

## Exhibit 5: New Sourcing profile

(%)	Q3 FY25	Q2 FY25	chg qoq	Q3 FY24	chg yoy
<b>Channel Mix (%)</b>					
SBI sourcing	55.0	38.0	17.0	49.0	6.0
Open market sourcing	45.0	62.0	(17.0)	51.0	(6.0)
<b>Occupation Mix (%)</b>					
Salaried	66.0	70.0	(4.0)	62.0	4.0
Self employed	34.0	30.0	4.0	38.0	(4.0)
<b>Salaried Mix (%)</b>					
Govt. / PSU	25.0	30.0	(5.0)	33.0	(8.0)
Category A	20.0	21.0	(1.0)	24.0	(4.0)
Category B	55.0	49.0	6.0	44.0	11.0
<b>Age Profile Mix (%)</b>					
Under 30	35.0	33.0	2.0	33.0	2.0
31-45	48.0	49.0	(1.0)	47.0	1.0
>45	17.0	18.0	(1.0)	21.0	(4.0)
<b>City Tier Mix (%)</b>					
Tier 1	26.0	31.0	(5.0)	28.0	(2.0)
Tier 2	19.0	21.0	(2.0)	18.0	1.0
Tier 3	33.0	30.0	3.0	32.0	1.0
Others	22.0	19.0	3.0	22.0	-

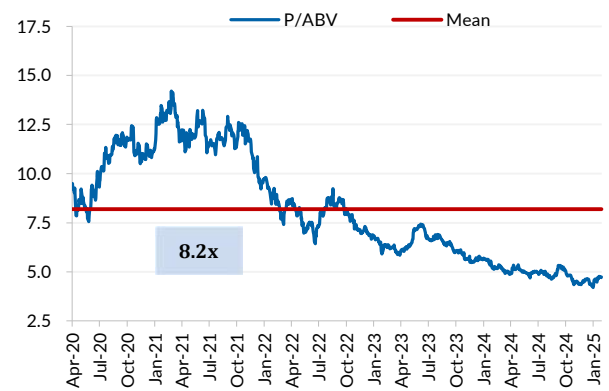
Source: Company, YES Sec

**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)	FY23	FY24	FY25E	FY26E	FY27E
<b>Equity and Liabilities</b>					
Equity Share Capital	9,461	9,510	9,510	9,510	9,510
Other Equity	88,840	1,11,331	1,27,960	1,51,996	1,90,553
<b>Share-holders fund</b>	<b>98,301</b>	<b>1,20,840</b>	<b>1,37,469</b>	<b>1,61,506</b>	<b>2,00,063</b>
<b>Financial Liabilities</b>	<b>3,42,010</b>	<b>4,43,649</b>	<b>4,75,607</b>	<b>5,28,295</b>	<b>6,02,132</b>
Derivative financial instruments	11	2,132	2,132	2,132	2,132
Payables	14,060	13,155	15,128	17,397	20,007
Debt Securities	66,062	59,882	64,073	71,121	81,079
Borrowings (Other than Debt Securities)	2,31,429	3,19,932	3,42,327	3,79,983	4,33,181
Subordinated Liabilities	13,605	19,097	20,434	22,682	25,857
Other Financial Liabilities	16,843	29,452	31,513	34,980	39,877
<b>Non-Financial Liabilities</b>	<b>15,145</b>	<b>17,223</b>	<b>19,807</b>	<b>22,778</b>	<b>26,194</b>
Provisions	6,380	6,356	7,310	8,406	9,667
Other non-financial liabilities	8,765	10,867	12,497	14,371	16,527
<b>Total Liabilities + Equity</b>	<b>4,55,456</b>	<b>5,81,712</b>	<b>6,32,883</b>	<b>7,12,578</b>	<b>8,28,389</b>
<b>Assets</b>					
<b>Financial Assets</b>	<b>4,34,138</b>	<b>5,59,008</b>	<b>6,07,860</b>	<b>6,84,793</b>	<b>7,97,451</b>
Cash and Cash Equivalents	9,898	24,821	13,011	8,671	11,058
Bank balances	3,647	2,476	2,847	3,274	3,765
Derivative financial instruments	0	0	0	0	0
Receivables	1,422	2,431	2,431	2,431	2,431
Loans	3,93,610	4,90,790	5,47,230	6,23,843	7,29,896
Investments	21,397	35,191	38,710	42,581	45,988
Other Financial Assets	4,165	3,300	3,630	3,993	4,313
<b>Non- Financial Assets</b>	<b>21,318</b>	<b>22,704</b>	<b>25,023</b>	<b>27,785</b>	<b>30,938</b>
Current tax assets (Net)	57	102	0	0	0
Deferred tax assets (Net)	2,467	3,546	3,546	3,546	3,546
Property, Plant and Equipment	604	585	614	645	677
Capital WIP	61	1	1	1	1
Intangible assets	1,201	1,260	1,260	1,260	1,260
Right-of-use Assets	3,872	3,798	4,178	4,596	5,056
Other Non-Financial Assets	13,058	13,412	15,424	17,737	20,398
<b>Total Assets</b>	<b>4,55,456</b>	<b>5,81,712</b>	<b>6,32,883</b>	<b>7,12,578</b>	<b>8,28,389</b>

Source: Company, YES Sec

## Exhibit 9: Income statement

Y/e 31 Mar (Rs m)	FY23	FY24	FY25E	FY26E	FY27E
Income from Operations	1,36,667	1,69,684	1,80,847	2,07,542	2,47,447
Interest expense	(16,476)	(25,952)	(32,511)	(33,525)	(33,931)
<b>Net interest income</b>	<b>1,20,190</b>	<b>1,43,732</b>	<b>1,48,336</b>	<b>1,74,018</b>	<b>2,13,516</b>
Non-interest income	6,190	5,151	5,666	6,062	6,517
Total operating income	1,26,381	1,48,883	1,54,002	1,80,080	2,20,033
Total operating expenses	(74,484)	(83,691)	(79,331)	(96,778)	(1,20,332)
<b>PPoP</b>	<b>51,896</b>	<b>65,192</b>	<b>74,671</b>	<b>83,302</b>	<b>99,701</b>
Provisions	(21,591)	(32,874)	(48,930)	(47,620)	(44,529)
Profit before tax	30,306	32,318	25,741	35,683	55,172
Taxes	(7,721)	(8,239)	(6,562)	(9,097)	(14,066)
<b>Net profit</b>	<b>22,585</b>	<b>24,079</b>	<b>19,179</b>	<b>26,586</b>	<b>41,107</b>

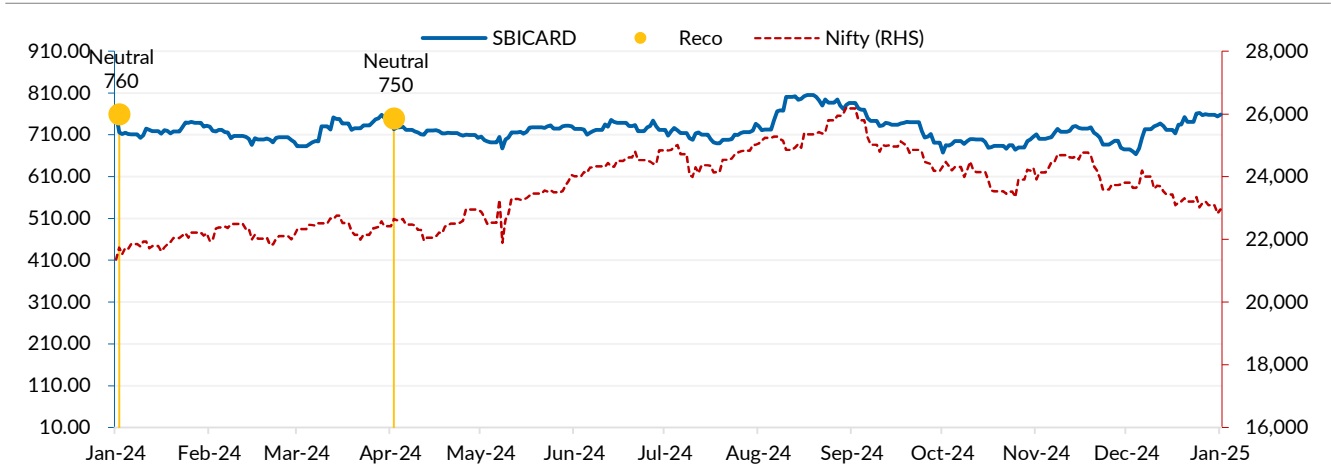
Source: Company, YES Sec

## Exhibit 10: Growth and Ratio matrix

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth matrix (%)</b>					
Net interest income	24.5	19.6	3.2	17.3	22.7
Total op income	23.0	17.8	3.4	16.9	22.2
Op profit (pre-provision)	17.2	25.6	14.5	11.6	19.7
Net profit	39.7	6.6	(20.4)	38.6	54.6
Loans	30.4	24.7	11.5	14.0	17.0
Borrowings + Debt	35.4	28.2	7.0	11.0	14.0
Total assets	31.5	27.7	8.8	12.6	16.3
<b>Profitability Ratios (%)</b>					
NIM	11.2	10.3	10.0	10.5	11.2
Non-interest income /Total income	4.9	3.5	3.7	3.4	3.0
Return on Avg. Assets	5.6	4.6	3.2	4.0	5.3
Return on Avg. Equity	25.7	22.0	14.8	17.8	22.7
<b>Per share ratios (Rs)</b>					
EPS	23.9	25.3	20.2	28.0	43.2
Adj. BVPS	100.2	121.8	140.1	164.7	204.4
DPS	2.5	2.5	2.5	2.5	2.5
<b>Other key ratios (%)</b>					
Loans/Borrowings	126.5	123.0	128.2	131.7	135.1
Cost/Income	58.9	56.2	51.5	53.7	54.7
CAR	23.1	20.5	18.3	18.6	19.4
NNPA (%)	0.9	1.0	0.8	0.8	0.8
Credit Cost	6.0	7.2	9.1	7.9	6.4
Tax rate	25.5	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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Analyst signature

Analyst signature

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