

Retail Equity Research

SBI Cards & Payment Services Ltd.

NBFC (Non-Deposit taking)

BSE CODE: 543066

NSE CODE: SBICARD

Bloomberg CODE: SBICARD:IN

SENSEX: 64,942

BUY

 12 Months Investment period Rating as per Large Cap
 CMP Rs. 754 TARGET Rs. 874 RETURN 16% 
 (Closing: 07-11-23)

KEY CHANGES:
TARGET 
RATING 
EARNINGS 

Robust growth in card spends, outlook positive

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.

- NII rose 16.1% YoY in Q2FY24 to Rs. 1,297cr. NIM contracted 90bps YoY to 11.3% owing to increase in cost of funds.
- The company registered a 20.7% YoY growth in retail spends and 55.3% YoY growth in corporate spends.
- Continued momentum in card spends, healthy card additions and digital transformation augur well for the company in the long term in the underpenetrated Indian market. Hence, we upgrade our rating on the stock to BUY with a revised target price of Rs. 874 based on 24x FY25E earnings per share (EPS).

NIM contracts further

In Q2FY24, SBI Cards' interest income increased 28.1% YoY to Rs. 1,902cr, while interest expense surged 64.5% YoY to Rs. 605cr. Consequently, NII grew 16.1% YoY to 1,297cr. NIM shrank 90 bps YoY to 11.3%, owing to lower yield on account of product mix and rising cost of funds. Income earned from membership fees rose 22.5% YoY to Rs. 1,974cr. Further, with the growth in spends, receivables grew 19.5% YoY to Rs. 45,078cr. Cost-to-income ratio improved 230bps YoY to 57.1%, aided by lower other operating expenses. However, profit after tax came in at Rs. 603cr (up 14.7% YoY), moderated by elevated provisioning (up 35.8% YoY).

Key quarter highlights

- In Q2FY24, the company's cards-in-force (CIF) was 1.79cr, with a net addition of ~600,000 cards. Its CIF market share, though, shrank 40bps QoQ to 19.2%.
- Also, credit card spends during the quarter, increased 27.1% YoY to Rs. 79,164cr, of which retail contribution was Rs. 61,446cr (up 20.7% YoY). Market share in credit card spends was 17.9%.
- 9.0% of the Rupay cardholders have enrolled for UPI usage. Monthly average UPI spends per account stood at Rs. 11,000. Departmental stores and grocery, utilities and restaurants have been the top categories for UPI spends.

Stable asset quality

The company's advances grew 19.3% YoY to Rs. 43,556cr. Gross non-performing assets (GNPA) and net non-performing assets (NNPA) ratios were stable at 2.43% and 0.89%, respectively (vs 2.41% and 0.89% in Q1FY24). Credit cost reduced 10bps on sequential basis to 6.7%, aided by focused collections and portfolio actions. Provision coverage ratio stood at 64.1%. Liquidity coverage ratio was 85.0%, well above the statutory mandate of 70.0%. Capital adequacy ratio was 23.3%.

Outlook and valuation

SBI Cards delivered a superior performance in Q2FY24. Sustained momentum in card spends, healthy card additions and digital transformation augur well for the company's future performance. In the near term, however, NIM levels may remain under pressure owing to rising cost of funds. Credit cost may remain elevated as the company is experiencing slight stress in the retail consumer loan portfolio. We are optimistic of the company's long-term growth prospects in the underpenetrated Indian market. The stock is currently trading at attractive valuation and hence, we upgrade our rating on the stock to BUY with a revised target price of Rs. 874 based on 24x FY25E EPS.

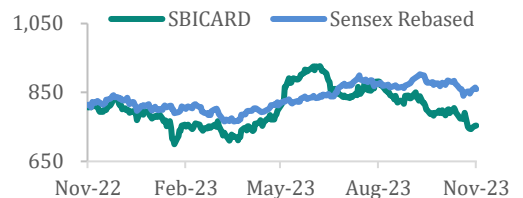
Company Data

Market Cap (cr)	Rs. 71,380
Outstanding Shares (cr)	94.7
Free Float	31.0%
Dividend Yield	0.3%
52 week high	Rs. 932
52 week low	Rs. 691
6m average volume (cr)	0.5
Beta	1.2
Face value	Rs. 10

Shareholding %	Q4FY23	Q1FY24	Q2FY24
Promoters	69.0	69.0	68.9
FII's	8.5	9.5	9.1
MFs/Insti	17.5	17.2	17.3
Public	4.9	4.2	4.6
Others	0.2	0.2	0.1
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	-14.5%	-5.9%	-7.1%
Absolute Sensex	-1.2%	6.4%	6.6%
Relative Return*	-13.3%	-12.3%	-13.7%

*Over or under performance to benchmark index



Consolidated (Rs. cr)	FY23A	FY24E	FY25E
Net Interest Income	4,505	5,440	7,021
Growth (%)	17.4	20.8	29.0
NIM (%)	12.5	12.0	12.4
Pre-Provision Profit	5,190	6,397	7,970
Net Profit	2,258	2,708	3,447
Growth (%)	39.7	19.9	27.3
Adj. EPS	23.9	28.6	36.4
Growth (%)	39.2	19.6	27.3
BVPS	104.1	131.6	166.6
P/E	30.9	26.4	20.7
P/B	7.1	5.7	4.5
P/ABV	7.1	5.7	4.5
ROE (%)	25.7	24.3	24.4
ROA (%)	5.6	5.4	5.6

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY24	Q2FY23	YoY Growth %	Q1FY24	QoQ Growth %	H1FY24	H1FY23	YoY Growth %
Interest Income	1,902	1,484	28.1	1,804	5.4	3,706	2,872	29.0
Interest Expense	605	368	64.5	571	5.9	1,176	676	73.9
Net Interest Income (NII)	1,297	1,117	16.1	1,233	5.2	2,530	2,196	15.2
Non-Interest Income	2,319	1,969	17.8	2,242	3.5	4,561	3,844	18.6
Total Net Income	3,616	3,086	17.2	3,475	4.1	7,091	6,040	17.4
Total Income	4,221	3,453	22.2	4,046	4.3	8,267	6,716	23.1
Operating Expenses	2,065	1,834	12.6	1,960	5.4	4,025	3,497	15.1
Total Expenditure	2,670	2,202	21.3	2,531	5.5	5,201	4,173	24.6
Pre-Provision profit	1,551	1,252	23.9	1,515	2.4	3,066	2,543	20.6
Provisions	742	546	35.8	719	3.2	1,460	996	46.6
Profit Before Tax	809	706	14.7	797	1.6	1,606	1,547	3.8
Tax	206	180	14.7	203	1.6	410	394	4.0
Net Profit	603	526	14.7	593	1.6	1,196	1,153	3.8
EPS - Diluted (Rs.)	6.4	5.5	14.8	6.2	1.8	-0.1	1.1	(110.3)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Interest Income (NII)	5,361	6,961	5,440	7,021	1.5	0.9
Net Interest Margin (%)	12.0	12.5	12.0	12.4	(6bps)	(7bps)
Pre-Provision Profit	6,230	7,794	6,397	7,970	2.7	2.3
Net Profit	2,696	3,452	2,708	3,447	0.4	(0.1)
EPS (Rs.)	28.5	36.5	28.6	36.4	0.4	(0.2)

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Interest Income	4,947	4,866	6,153	7,913	9,933
Interest Expense	1,043	1,027	1,648	2,473	2,913
Net Int. Income	3,903	3,839	4,505	5,440	7,021
% Change	10.2	-1.7	17.4	20.8	29.0
Non-Int. Income	4,767	6,435	8,133	9,848	11,935
Net Income	8,670	10,274	12,638	15,288	18,955
Total Income	9,714	11,301	14,286	17,761	21,868
Operating Exp.	4,708	5,846	7,448	8,891	10,986
Total Exp.	5,751	6,873	9,096	11,364	13,898
Pre-Prov. Profit	3,962	4,428	5,190	6,397	7,970
Provisions	2,639	2,256	2,159	2,764	3,344
PBT	1,324	2,172	3,031	3,633	4,626
Tax	339	556	772	926	1,179
Tax Rate (%)	25.6	25.6	25.5	25.5	25.5
Net Profit	985	1,616	2,258	2,708	3,447
% Change	-20.9	64.2	39.7	19.9	27.3
No. of Shares (cr)	94	94	94	95	95
Adj. EPS (Rs.)	10.5	17.2	23.9	28.6	36.4
% Change	-20.8	64.2	39.2	19.6	27.3
DPS (Rs.)	0.0	2.5	2.5	2.9	3.6

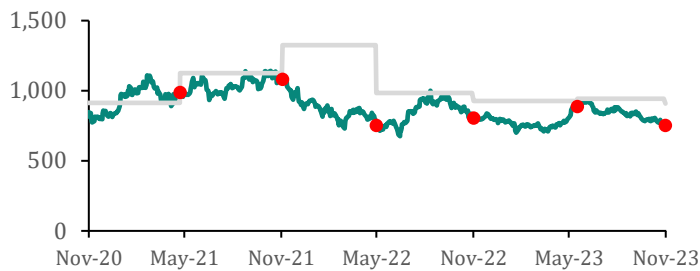
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash & Balances	718	1,106	1,354	1,490	1,639
Investments	958	1,297	2,140	2,568	2,824
Advances	23,459	30,187	39,361	48,808	61,010
Fixed Assets	922	1,002	1,372	1,416	1,509
Other Assets	956	1,056	1,318	1,296	1,322
Total Assets	27,013	34,648	45,546	55,578	68,304
Capital	941	943	946	947	947
Reserves & Surplus	5,362	6,810	8,884	11,510	14,825
Deposits	0	0	0	0	0
Borrowings	10,837	14,680	23,143	29,391	37,327
Other Liabilities	9,874	12,216	12,573	13,729	15,205
Total Liabilities	27,013	34,648	45,546	55,578	68,304
BVPS (Rs.)	67.0	82.4	104.1	131.6	166.6
Adj. BVPS (Rs.)	67.0	82.4	104.1	131.6	166.6
% Change	18.2	23.0	26.3	26.4	26.6

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Spreads (%)					
NIM	16.4	13.8	12.5	12.0	12.4
Yield on funds	20.8	17.5	17.1	17.4	17.6
Cost of Borrowing	5.9	5.0	6.1	7.1	6.7
Interest Spread	14.9	12.5	11.0	10.3	10.9
Capital Adequacy (%)					
CAR	24.8	23.8	23.1	23.6	24.0
Tier I	20.9	21.0	20.4	20.7	21.0
Tier II	3.9	2.8	2.7	2.9	3.0
Asset Quality (%)					
GNPA	5.0	2.2	2.4	2.4	2.3
NNPA	1.2	0.8	0.9	0.8	0.7
Return Ratios (%)					
RoE	16.9	23.0	25.7	24.3	24.4
RoA	3.8	5.2	5.6	5.4	5.6
Valuations (x)					
P/E (x)	88.7	49.6	30.9	26.4	20.7
P/BV (x)	13.9	10.3	7.1	5.7	4.5
Div. Yield	0.0	0.3	0.3	0.4	0.5

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
29-Apr-21	BUY	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

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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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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