

India

**ADD** (no change)

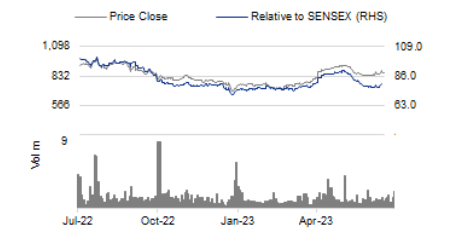
Consensus ratings\*: Buy 20 Hold 3 Sell 5

Current price:	Rs857
Target price:	Rs1,000 ▲
Previous target:	Rs900
Up/downside:	16.7%
InCred Research / Consensus:	4.5%
Reuters:	
Bloomberg:	SBICARD IN
Market cap:	US\$11,172m Rs811,220m
Average daily turnover:	US\$12.4m Rs903.8m
Current shares o/s:	0.0m
Free float:	40.0%

\*Source: Bloomberg

**Key changes in this note**

- SBI Cards witnessed a slowdown in card issuance and spending per card (+3% qoq) during the quarter but managed to retain market leadership.



Price performance	1M	3M	12M
Absolute (%)	0.1	11.0	(8.7)
Relative (%)	(2.1)	2.5	(20.6)

Major shareholders	% held
State Bank of India	69.3
CA Rover	3.1
Nippon life	1.4

**Analyst(s)**



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# SBI Cards

## Operationally healthy; weak asset quality

- SBI Cards posted a weaker-than-expected 1Q PAT of Rs5.93bn, despite healthy operating performance, amid high provision due to weak asset quality.
- SBI Cards witnessed a slowdown in card issuance and spending per card (+3% qoq) during the quarter but managed to retain market leadership.
- With monetary policy easing, we expect a gradual rise in margins, but elevated credit cost is a problem. Retain ADD rating with Rs1,000 TP or ~6x FY25F BV.

### Manages growth momentum despite consistently low revolver rates

SBI Cards (SBIC) witnessed slowing growth in 1QFY24, with ~0.5m new accounts (1.14m last quarter) opened, but the company continues to remain focused on increasing penetration in Tier-2 cities and beyond. Overall spending rose to Rs739.1bn (+24% yoy) despite a sluggish trend in revolver rates at around ~24%. Management is focused on increasing the overall interest-bearing assets (rising share of EMI clients) along with a change in the fee structure to compensate for low revolver rates, but the impact of the same is yet to evolve. SBI Cards maintained its market share at ~19.6% in Cards in Force vs. ~19.7% last quarter, but the share in spending continues to remain weak at ~17.8%, mainly in the case of retail customers.

### Margins near bottom but improvement to remain gradual

SBI Cards has been facing margin pressure for the past few quarters amid its fixed-rate lending book and a variable rate borrowing profile (mainly short-term loans) which, in turn, exert pressure on margins. However, the company managed to hold margins sequentially at ~11.5%, despite the consistent surge in cost of funds. With policy rates remaining stagnant, we remain optimistic about a gradual recovery in margins. Fee income for the company also witnessed an improvement due to the income from branded card partners.

### Asset quality trend to remain volatile; credit cost to remain elevated

SBI Cards reported a sequential rise in GNPA's to 2.41% against 2.35% last quarter and similarly, provisioning increased to ~14.1% sequentially. We expect the volatility to continue in the coming quarters due to a steep rise in card issuance but with the gradual maturity of onboarded customers, coupled with lower revolver rates, we feel future deterioration will be under check. On the provisioning front, considering the favourable asset quality cycle, we expect the credit cost to remain within the management's guided range of around ~600bp.

### Outlook & valuation

We are turning optimistic on the margin profile of SBI Cards due to a favourable rate scenario, but the uncertainty around low revolver rates is likely to continue for some time. We equally remain optimistic on a healthy growth trend and best-in-class return ratios (RoE of 24% and RoA of 5.5% for FY25F). Retain ADD rating on the stock with a new TP of Rs1,000, ~6x FY25F BV. Downside risk: Slowing growth or a rise in non-performing assets.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	38,387	45,051	55,679	68,538	88,851
Total Non-Interest Income (Rsm)	64,355	81,327	99,985	123,914	151,173
Operating Revenue (Rsm)	102,742	126,378	155,664	192,452	240,024
Total Provision Charges (Rsm)	(22,558)	(21,591)	(27,700)	(33,936)	(42,521)
Net Profit (Rsm)	16,161	22,585	28,778	36,170	45,703
Core EPS (Rs)	17.14	23.87	30.42	38.23	48.31
Core EPS Growth	64%	39%	27%	26%	26%
FD Core P/E (x)	50.03	35.91	28.18	22.42	17.74
DPS (Rs)	2.50	2.00	4.58	5.76	7.28
Dividend Yield	0.29%	0.23%	0.53%	0.67%	0.85%
BVPS (Rs)	82.2	103.9	129.8	162.3	203.3
P/BV (x)	10.43	8.25	6.61	5.28	4.22
ROE	23.0%	25.7%	26.0%	26.2%	26.4%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Net Interest Income	10,789	11,160	11,446	11,651	12,332	14.3%	5.8%
Fee-Based Income	18,755	19,690	20,473	22,442	22,416	19.5%	-0.1%
Total Income	29,545	30,850	31,919	34,093	34,748	17.6%	1.9%
Operating Expenses	16,633	18,340	19,745	19,799	19,599	17.8%	-1.0%
C/I Ratio (%)	56.3%	59.4%	61.9%	58.1%	56.4%		
<b>Operating Profit</b>	<b>12,912</b>	<b>12,510</b>	<b>12,174</b>	<b>14,294</b>	<b>15,149</b>	<b>17.3%</b>	<b>6.0%</b>
Provisions	4,503	5,460	5,330	6,298	7,186	59.6%	14.1%
% of operating profit	34.9%	43.6%	43.8%	44.1%	47.4%		
Exceptional Items	-	-	-	-	-		
<b>PBT</b>	<b>8,409</b>	<b>7,050</b>	<b>6,843</b>	<b>7,997</b>	<b>7,963</b>	<b>-5.3%</b>	<b>-0.4%</b>
Tax	2,140	1,790	1,749	2,032	2,033	-5.0%	0.0%
Tax rate (%)	25.4%	25.4%	25.6%	25.4%	25.5%		
<b>PAT</b>	<b>6,269</b>	<b>5,260</b>	<b>5,095</b>	<b>5,965</b>	<b>5,931</b>	<b>-5.4%</b>	<b>-0.6%</b>
<b>Gross NPL</b>	<b>7,440</b>	<b>8,074</b>	<b>8,575</b>	<b>9,570</b>	<b>10,428</b>	<b>40.2%</b>	<b>11.6%</b>
GNPL (% of loans)	2.2%	2.1%	2.2%	2.4%	2.4%		
<b>Net NPL</b>	<b>2,534</b>	<b>2,847</b>	<b>2,988</b>	<b>3,424</b>	<b>3,721</b>	<b>46.8%</b>	<b>14.6%</b>
NNPL (% of loans)	0.8%	0.8%	0.8%	0.9%	0.9%		
Provision Coverage (%)	64.7%	63.6%	64.0%	63.0%	63.1%		
<b>Advances (Rs m)</b>	<b>320,790</b>	<b>365,000</b>	<b>373,540</b>	<b>393,610</b>	<b>418,130</b>	<b>30.3%</b>	<b>5.4%</b>

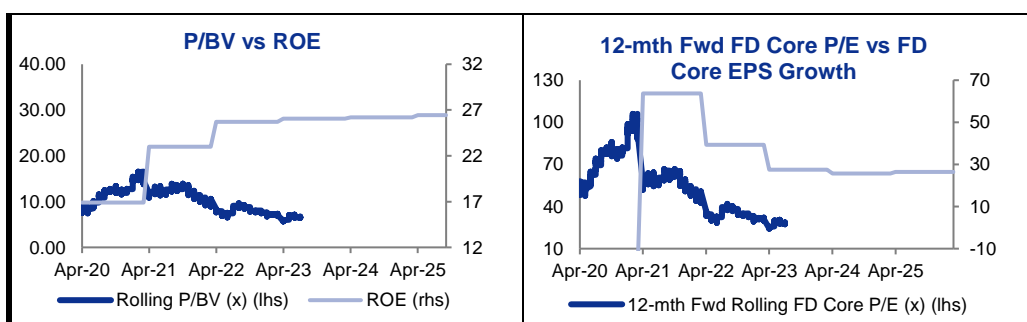
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised estimates

Y/e Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest income	57,130	55,679	-2.5%	69,669	68,538	-1.6%	88,851	88,851	0.0%
Non-Interest Income	103,556	99,985	-3.4%	128,590	123,914	-3.6%	157,220	151,173	-3.8%
PPOP	64,272	66,392	3.3%	76,683	82,566	7.7%	94,898	103,968	9.6%
PAT	27,866	28,778	3.3%	32,636	36,170	10.8%	40,538	45,703	12.7%
EPS (Rs)	29.6	30.6	3.3%	34.7	38.4	10.8%	43.0	48.5	12.7%
BV (Rs)	129.5	130.3	0.6%	159.0	163.0	2.5%	195.6	204.2	4.4%
ABV (Rs)	126.4	127.2	0.7%	154.9	158.9	2.6%	190.3	199.0	4.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	38,387	45,051	55,679	68,538	88,851
<b>Total Non-Interest Income</b>	<b>64,355</b>	<b>81,327</b>	<b>99,985</b>	<b>123,914</b>	<b>151,173</b>
Operating Revenue	102,742	126,378	155,664	192,452	240,024
<b>Total Non-Interest Expenses</b>	<b>(58,462)</b>	<b>(74,481)</b>	<b>(89,272)</b>	<b>(109,886)</b>	<b>(136,056)</b>
Pre-provision Operating Profit	44,280	51,896	66,392	82,566	103,968
<b>Total Provision Charges</b>	<b>(22,558)</b>	<b>(21,591)</b>	<b>(27,700)</b>	<b>(33,936)</b>	<b>(42,521)</b>
Operating Profit After Provisions	21,722	30,306	38,692	48,630	61,447
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	21,722	30,306	38,692	48,630	61,447
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	21,722	30,306	38,692	48,630	61,447
<b>Exceptional Items</b>					
Pre-tax Profit	21,722	30,306	38,692	48,630	61,447
Taxation	(5,560)	(7,721)	(9,914)	(12,460)	(15,745)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	16,161	22,585	28,778	36,170	45,703
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	16,161	22,585	28,778	36,170	45,703
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	6.6%	7.4%	6.6%	5.7%	5.8%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>7.3%</b>	<b>8.1%</b>	<b>7.1%</b>	<b>6.1%</b>	<b>6.2%</b>
Net Cust Loans/Assets	87.1%	86.4%	88.8%	89.2%	89.7%
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans	25.7%	25.0%	24.6%	24.3%	24.5%
Asset Risk Weighting	85.0%	85.0%	85.0%	85.0%	85.0%
<b>Provision Charge/Avg Cust Loans</b>	<b>8.41%</b>	<b>6.21%</b>	<b>6.20%</b>	<b>6.00%</b>	<b>6.00%</b>
<b>Provision Charge/Avg Assets</b>	<b>7.32%</b>	<b>5.38%</b>	<b>5.44%</b>	<b>5.34%</b>	<b>5.37%</b>
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
<b>Total Gross Loans</b>	<b>301,873</b>	<b>393,610</b>	<b>499,926</b>	<b>631,261</b>	<b>786,102</b>
Liquid Assets & Invst. (Current)	12,972	21,400	25,252	29,292	33,393
Other Int. Earning Assets					
Total Gross Int. Earning Assets	314,844	415,010	525,178	660,553	819,495
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	314,844	415,010	525,178	660,553	819,495
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>20,576</b>	<b>26,910</b>	<b>31,431</b>	<b>35,543</b>	<b>38,781</b>
<b>Total Non-Interest Earning Assets</b>	<b>20,576</b>	<b>26,910</b>	<b>31,431</b>	<b>35,543</b>	<b>38,781</b>
Cash And Marketable Securities	11,064	13,540	6,661	11,497	18,271
<b>Long-term Investments</b>					
Total Assets	346,484	455,460	563,270	707,592	876,547
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	229,825	311,100	387,539	493,172	614,142
Total Interest-Bearing Liabilities	229,825	311,100	387,539	493,172	614,142
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	39,133	46,060	52,969	60,914	70,052
Total Liabilities	268,957	357,160	440,508	554,087	684,194
Shareholders Equity	77,527	98,300	122,761	153,506	192,353
<b>Minority Interests</b>					
Total Equity	77,527	98,300	122,761	153,506	192,353

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Income Growth	(1.2%)	17.4%	23.6%	23.1%	29.6%
Operating Profit Growth	11.8%	17.2%	27.9%	24.4%	25.9%
Pretax Profit Growth	64%	40%	28%	26%	26%
Net Interest To Total Income	37.4%	35.6%	35.8%	35.6%	37.0%
Cost Of Funds	5.01%	6.09%	6.40%	5.50%	5.20%
Return On Interest Earning Assets	17.4%	16.9%	16.6%	15.6%	15.9%
Net Interest Spread	12.40%	10.77%	10.20%	10.15%	10.70%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	14.65%	13.22%	12.86%	12.69%	13.20%
Provisions to Pre Prov. Operating Profit	51%	42%	42%	41%	41%
Interest Return On Average Assets	12.45%	11.24%	10.93%	10.79%	11.22%
Effective Tax Rate	25.6%	25.5%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio					
Return On Average Assets	5.24%	5.63%	5.65%	5.69%	5.77%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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