

India

ADD (no change)

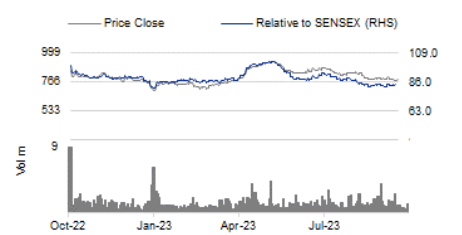
Consensus ratings*: Buy 16 Hold 4 Sell 8
 Current price: Rs790
 Target price: Rs1,000
 Previous target: Rs1,000
 Up/downside: 26.6%
 InCred Research / Consensus: 7.5%

Reuters:
 Bloomberg: SBICARD IN
 Market cap: US\$10,305m
 Rs748,300m
 Average daily turnover: US\$14.8m
 Rs1072.3m
 Current shares o/s: 0.0m
 Free float: 40.0%

*Source: Bloomberg

Key changes in this note

- SBI Cards witnessed nearly a 7% sequential spike in spending per card, with ~3% qoq growth in cards in force, indicating a healthy growth trajectory.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.1	(7.9)	(7.9)
Relative (%)	3.3	(4.4)	(13.4)

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

Analyst(s)



Jignesh SHIAL
 T (91) 22 4161 1547
 E jignesh.shial@incredcapital.com
Mayank AGARWAL
 T (91) 22 4161 0000
 E mayank.agarwal@incredcapital.com

SBI Cards

Healthy 2Q; stable asset quality

- SBI Cards reported an in-line PAT of Rs6.02bn for 2QFY24, with stable operating performance and no negative surprises on the asset quality front.
- SBI Cards witnessed nearly a 7% sequential spike in spending per card, with ~3% qoq growth in cards in force, indicating a healthy growth trajectory.
- We are confident of SBI Cards' ability to grow, despite lower revolver rates, but volatile asset quality is a problem. Retain ADD rating on it with a TP of Rs1,000.

Manages growth momentum despite consistent low revolver rates

SBI Cards (SBIC) witnessed a nearly 4% qoq surge in new account additions to 1.14m in 2QFY24 vs. 1.09m in 1QFY24, but the yoy decline (-12%) continues. The company continues to remain focused on increasing its penetration in Tier-2 cities and beyond. Overall spending rose to Rs791.6bn (+27% yoy), despite a sluggish trend in revolver rates, at around ~24%. Management is focused on increasing the overall interest-bearing assets (rising share of equated monthly instalment or EMI clients) along with a change in the fee structure to compensate for lower revolver rates, but the impact of the same is yet to be felt. SBIC lost its market share, at ~19.2% in cards in force vs. ~19.6% last quarter, but the share in spending still remains steady at ~17.9%, mainly in the case of retail customers.

Margins close to bottom but improvement to remain gradual

SBIC has been facing margin pressure for the past few quarters amid a fixed-rate lending book and a variable rate borrowing profile (mainly short-term loans) which, in turn, exerted pressure on margins. The company witnessed ~12bp sequential decline in margins to ~11.3% because of a consistent surge in the cost of funds. With policy rates remaining stagnant, we remain optimistic regarding a gradual recovery in margins. Fee income for the company also saw an improvement due to the income from branded card partners.

Asset quality trend to remain volatile; credit costs to stay elevated

SBIC reported a nominal sequential rise in gross non-performing assets or GNPA's to 2.42% vs. 2.43% last quarter and similarly, provisioning increased by ~3.2% sequentially. We expect the volatility to continue in the coming quarters due to a steep rise in issuances but with the gradual maturity of onboard customers coupled with lower revolver rates, future deterioration is likely to remain under check. On the provisioning front, considering the favourable asset quality cycle, we expect the credit costs to remain within the management's guidance range of around ~600bp.

Outlook & valuation

We are optimistic about the margin profile of SBIC due to a favourable rate scenario, but the uncertainty around lower revolver rates is likely to continue for some time. We remain equally optimistic on the healthy growth trend and best-in-class return ratios (RoE 24% & RoA 5.5% for FY25F). We retain ADD rating on the stock with a target price of Rs1,000, or ~6x FY25F BV. Downside risk: Slowing growth, or else 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	53,688	64,231	84,422
Total Non-Interest Income (Rsm)	64,355	81,327	96,414	123,914	151,173
Operating Revenue (Rsm)	102,742	126,378	150,102	188,145	235,595
Total Provision Charges (Rsm)	(22,558)	(21,591)	(27,700)	(33,936)	(42,521)
Net Profit (Rsm)	16,161	22,585	24,641	34,705	44,657
Core EPS (Rs)	17.14	23.87	26.05	36.69	47.21
Core EPS Growth	64%	39%	9%	41%	29%
FD Core P/E (x)	46.13	33.11	30.34	21.54	16.74
DPS (Rs)	2.50	2.00	3.92	5.53	7.11
Dividend Yield	0.32%	0.25%	0.50%	0.70%	0.90%
BVPS (Rs)	82.2	103.9	126.1	157.2	197.4
P/BV (x)	9.62	7.61	6.27	5.03	4.00
ROE	23.0%	25.7%	22.7%	25.9%	26.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Interest Income	10,789	11,160	11,446	11,651	12,332	12,969	16.2%	5.2%
Fee-Based Income	18,755	19,690	20,473	22,442	22,416	23,196	17.8%	3.5%
Total Income	29,545	30,850	31,919	34,093	34,748	36,165	17.2%	4.1%
Operating Expenses	16,633	18,340	19,745	19,799	19,599	20,656	12.6%	5.4%
C/I Ratio (%)	56.3%	59.4%	61.9%	58.1%	56.4%	57.1%		
Operating Profit	12,912	12,510	12,174	14,294	15,149	15,510	24.0%	2.4%
Provisions	4,503	5,460	5,330	6,298	7,186	7,416	35.8%	3.2%
% of operating profit	34.9%	43.6%	43.8%	44.1%	47.4%	47.8%		
Exceptional Items	-	-	-	-	-	-		
PBT	8,409	7,050	6,843	7,997	7,963	8,094	14.8%	1.6%
Tax	2,140	1,790	1,749	2,032	2,033	2,064	15.3%	1.6%
Tax rate (%)	25.4%	25.4%	25.6%	25.4%	25.5%	25.5%		
PAT	6,269	5,260	5,095	5,965	5,931	6,030	14.6%	1.7%
Gross NPL	7,440	8,074	8,575	9,570	10,428	10,954	35.7%	9.0%
GNPL (% of loans)	2.2%	2.1%	2.2%	2.4%	2.4%	2.4%		
Net NPL	2,534	2,847	2,988	3,424	3,721	3,876	36.2%	8.7%
NNPL (% of loans)	0.8%	0.8%	0.8%	0.9%	0.9%	0.9%		
Provision Coverage (%)	64.7%	63.6%	64.0%	63.0%	63.1%	63.4%		
Advances (Rs m)	320,790	365,000	373,540	393,610	418,130	435,560	19.3%	6.2%

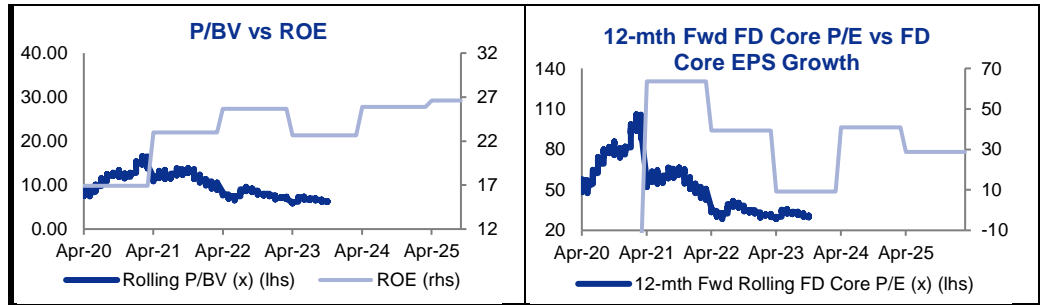
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	57,130	53,688	-6.0%	69,669	64,231	-7.8%	88,851	84,422	-5.0%
Non-Interest Income	103,556	96,414	-6.9%	128,590	123,914	-3.6%	157,220	151,173	-3.8%
PPOP	64,272	60,829	-5.4%	76,683	80,597	5.1%	94,898	102,562	8.1%
PAT	27,866	24,641	-11.6%	32,636	34,705	6.3%	40,538	44,657	10.2%
EPS (Rs)	29.6	26.2	-11.6%	34.7	36.8	6.3%	43.0	47.4	10.2%
BV (Rs)	129.5	126.6	-2.2%	159.0	157.9	-0.7%	195.6	198.2	1.4%
ABV (Rs)	126.4	123.5	-2.3%	154.9	153.8	-0.7%	190.3	193.0	1.4%

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	53,688	64,231	84,422
Total Non-Interest Income	64,355	81,327	96,414	123,914	151,173
Operating Revenue	102,742	126,378	150,102	188,145	235,595
Total Non-Interest Expenses	(58,462)	(74,481)	(89,272)	(107,548)	(133,033)
Pre-provision Operating Profit	44,280	51,896	60,829	80,597	102,562
Total Provision Charges	(22,558)	(21,591)	(27,700)	(33,936)	(42,521)
Operating Profit After Provisions	21,722	30,306	33,130	46,661	60,042
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	21,722	30,306	33,130	46,661	60,042
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	21,722	30,306	33,130	46,661	60,042
Exceptional Items					
Pre-tax Profit	21,722	30,306	33,130	46,661	60,042
Taxation	(5,560)	(7,721)	(8,489)	(11,956)	(15,384)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	16,161	22,585	24,641	34,705	44,657
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	16,161	22,585	24,641	34,705	44,657
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%	6.0%	4.9%	5.2%
Avg Liquid Assets/Avg IEAs	7.3%	8.1%	6.4%	5.2%	5.5%
Net Cust Loans/Assets	87.1%	86.4%	89.8%	89.8%	90.3%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	25.7%	25.0%	23.9%	23.6%	23.8%
Asset Risk Weighting	85.0%	85.0%	85.0%	85.0%	85.0%
Provision Charge/Avg Cust Loans	8.41%	6.21%	6.20%	6.00%	6.00%
Provision Charge/Avg Assets	7.32%	5.38%	5.47%	5.39%	5.40%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans	301,873	393,610	499,926	631,261	786,102
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
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	314,844	415,010	525,178	660,553	819,495
Intangible Assets					
Other Non-Interest Earning Assets	20,576	26,910	31,431	35,543	38,781
Total Non-Interest Earning Assets	20,576	26,910	31,431	35,543	38,781
Cash And Marketable Securities	11,064	13,540	163	6,735	12,621
Long-term Investments					
Total Assets	346,484	455,460	556,772	702,831	870,897
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	229,825	311,100	384,558	493,172	614,142
Total Interest-Bearing Liabilities	229,825	311,100	384,558	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	437,527	554,087	684,194
Shareholders Equity	77,527	98,300	119,245	148,744	186,703
Minority Interests					
Total Equity	77,527	98,300	119,245	148,744	186,703

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	(1.2%)	17.4%	19.2%	19.6%	31.4%
Operating Profit Growth	11.8%	17.2%	17.2%	32.5%	27.3%
Pretax Profit Growth	64%	40%	9%	41%	29%
Net Interest To Total Income	37.4%	35.6%	35.8%	34.1%	35.8%
Cost Of Funds	5.01%	6.09%	7.00%	6.50%	6.00%
Return On Interest Earning Assets	17.4%	16.9%	16.6%	15.6%	15.9%
Net Interest Spread	12.40%	10.77%	9.60%	9.15%	9.90%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	14.65%	13.22%	12.48%	12.00%	12.62%
Provisions to Pre Prov. Operating Profit	51%	42%	46%	42%	41%
Interest Return On Average Assets	12.45%	11.24%	10.61%	10.20%	10.73%
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%	4.87%	5.51%	5.68%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.