



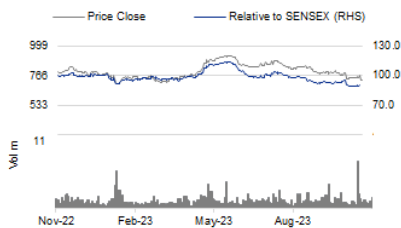
India

REDUCE (previously ADD)

Consensus ratings*: Buy 15 Hold 3 Sell 9	
Current price:	Rs743
Target price:	Rs600
Previous target:	Rs1,000
Up/downside:	-19.2%
InCred Research / Consensus:	-31.5%
Reuters:	
Bloomberg:	SBICARD IN
Market cap:	US\$8,466m Rs705,636m
Average daily turnover:	US\$13.2m Rs1103.1m
Current shares o/s:	0.0m
Free float:	40.0%
*Source: Bloomberg	

Key changes in this note

- We assume ~4.1% capital consumption on an immediate basis for SBIC, impacting its growth, and expect a gradual rise in the cost of funds, impacting its margins.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.5)	(11.8)	(6.3)
Relative (%)	(5.8)	(12.8)	(12.0)

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

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SBI Cards**Premium valuation is difficult to sustain**

- We have downgraded SBI Cards or SBIC's rating from ADD to REDUCE post recent RBI circular on increasing risk weight, which will impact SBIC adversely.
- We assume ~4.1% capital consumption on an immediate basis for SBIC, impacting growth, & expect a gradual rise in the cost of funds to hurt margins.
- We have cut EPS estimates by ~12.8%/~17.2% for FY25F/26F & pruned long-term growth assumptions. Downgrade to REDUCE with a lower TP of Rs600.

RBI increases risk weight on credit card receivables; SBIC worst-hit

The RBI has increased the risk weight on consumer credit exposure of commercial banks as well as NBFCs by 25% with immediate effect. The increase in risk weight is applicable with retrospective effect, as it is not only applicable to new loans but also for existing loans. Personal loans and credit card receivables are specifically included for the increase in risk weights whereas housing loans, education loans, vehicle loans, gold loans and MFI loans have been excluded. Our base calculations (refer Fig. 2) suggest that the new norms are impacting SBI Cards the most, with ~100% of its portfolio witnessing an increase in risk weight. As regards borrowing from banks, SBI Cards again is the most impacted with ~77% of its borrowings from banks, which may become expensive in the coming quarters.

We moderate our growth and margin assumptions for SBI Cards

With a steep decline in Tier-1 by ~4.2% to ~16.6%, we are assuming that the company may witness a credit growth slowdown in the coming quarters amid relatively weaker growth and intense competition. Though the company has indicated that raising Tier-2 bonds along with the accruing profit should suffice for growth, we remain skeptical on the same. We also build in margin pressure in the coming quarters amid rising risk weight for banks for lending to SBI Cards (SBIC) as well as a weaker trend in the revolver rates.

Outlook & valuation

Though we assume SBIC to manage its market share dominance in cards in force (CIF) through consistent penetration in Tier-2 cities and beyond, we are moderating our assumptions on overall issuances as well as receivables for FY25F/26F. We also expect the cost of funds for SBIC to increase, despite probable monetary easing, amid an increase in risk weight for the company. We are forecasting margins at around ~11.5% for FY24F-26F as against ~12% earlier. We also moderate our fee income assumption for SBIC amid rising competition, but we keep our credit cost assumption at ~6%. Accordingly, we have cut our earnings estimates by ~12.8%/~17.2% for FY25F/26F, respectively. We have also cut our average long-term PAT growth estimate to ~15% against ~18% earlier, in our excess RoE calculations. Accordingly, we have arrived at a lower target price of Rs600 against Rs1,000 earlier, corresponding to ~4x FY25F adjusted book value (ABV) against ~6x earlier. We have downgraded our rating on the stock to REDUCE (ADD earlier). Downside risks: Better-than-estimated growth and lower-than-expected margin compression.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	38,387	45,051	52,181	64,840	79,237
Total Non-Interest Income (Rsm)	64,355	81,327	95,309	113,894	140,172
Operating Revenue (Rsm)	102,742	126,378	147,490	178,734	219,409
Total Provision Charges (Rsm)	(22,558)	(21,591)	(28,854)	(33,277)	(41,229)
Net Profit (Rsm)	16,161	22,585	25,227	30,253	36,957
Core EPS (Rs)	17.14	23.87	26.67	31.98	39.07
Core EPS Growth	64%	39%	12%	20%	22%
FD Core P/E (x)	43.36	31.12	27.86	23.23	19.02
DPS (Rs)	2.50	2.00	4.02	4.82	5.89
Dividend Yield	0.34%	0.27%	0.54%	0.65%	0.79%
BVPS (Rs)	82.2	103.9	126.6	153.8	187.0
P/BV (x)	9.04	7.15	5.87	4.83	3.97
ROE	23.0%	25.7%	23.1%	22.8%	22.9%

% Change In Core EPS Estimates
InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Our revised earnings estimates

Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	53,688	52,181	-2.8%	64,231	64,840	0.9%	84,422	79,237	-6.1%
Non-interest Income	96,414	95,309	-1.1%	1,23,914	1,13,894	-8.1%	1,51,173	1,40,172	-7.3%
PPOP	60,829	62,771	3.2%	80,597	73,952	-8.2%	1,02,562	90,918	-11.4%
PAT	24,641	25,227	2.4%	34,705	30,253	-12.8%	44,657	36,957	-17.2%
EPS (Rs)	26.2	26.8	2.4%	36.8	32.1	-12.8%	47.4	39.2	-17.2%
BV (Rs)	126.6	127.1	0.4%	157.9	154.4	-2.2%	198.2	187.8	-5.3%
ABV (Rs)	123.5	124.1	0.4%	153.8	150.4	-2.2%	193.0	182.7	-5.3%

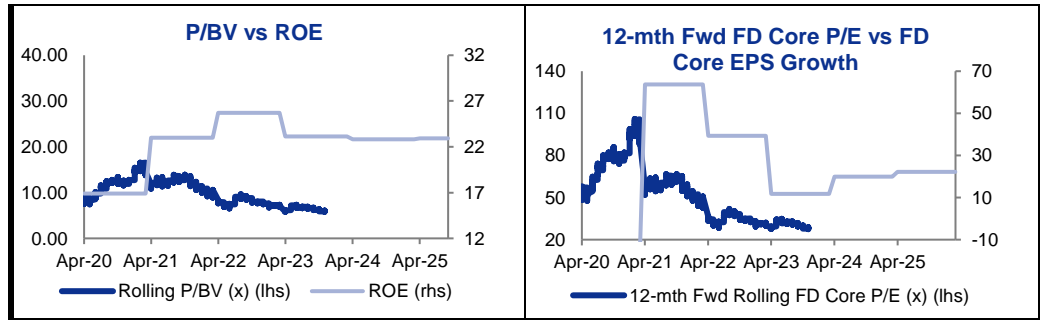
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: SBIC's capital consumption calculations

(Rsbn)	SBIC
Unsecured personal loans	450.0
Other personal loans	
LAS	
LAP	
Total consumer credit - A	450.0
Total consumer credit - % of net advances/AUM	100.0%
Bank's exposure to NBFCs - B	-
Total affected exposure A + B	450.0
Total affected exposure - % of net advances/AUM	100.0%
Net advances as of end-Sep 2023	450.0
Tier-1 as of end-Sep 2023	20.8%
RWA as of end-Sep 2023	450.0
Modified RWA	562.5
Tier-1 post increased risk weight as of end-Sep 2023	16.6%
Capital consumption	4.2%
Borrowing from banks	77.0%
	SBIC
Tier-1	20.8%
Net worth (Rs bn)	110.6
Tier-1 (revised)	16.6%

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	52,181	64,840	79,237
Total Non-Interest Income	64,355	81,327	95,309	113,894	140,172
Operating Revenue	102,742	126,378	147,490	178,734	219,409
Total Non-Interest Expenses	(58,462)	(74,481)	(84,719)	(104,782)	(128,491)
Pre-provision Operating Profit	44,280	51,896	62,771	73,952	90,918
Total Provision Charges	(22,558)	(21,591)	(28,854)	(33,277)	(41,229)
Operating Profit After Provisions	21,722	30,306	33,917	40,675	49,689
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	21,722	30,306	33,917	40,675	49,689
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	21,722	30,306	33,917	40,675	49,689
Exceptional Items					
Pre-tax Profit	21,722	30,306	33,917	40,675	49,689
Taxation	(5,560)	(7,721)	(8,691)	(10,422)	(12,732)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	16,161	22,585	25,227	30,253	36,957
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	16,161	22,585	25,227	30,253	36,957
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%	6.2%	5.1%	5.1%
Avg Liquid Assets/Avg IEAs	7.3%	8.1%	6.7%	5.5%	5.5%
Net Cust Loans/Assets	87.1%	86.4%	89.4%	89.5%	90.4%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	25.7%	25.0%	24.2%	23.7%	23.3%
Asset Risk Weighting	85.0%	85.0%	85.0%	85.0%	85.0%
Provision Charge/Avg Cust Loans	8.41%	6.21%	6.50%	6.00%	6.00%
Provision Charge/Avg Assets	7.32%	5.38%	5.72%	5.37%	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	494,193	615,026	759,266
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	519,445	644,318	792,659
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	314,844	415,010	519,445	644,318	792,659
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	1,984	7,000	8,659
Long-term Investments					
Total Assets	346,484	455,460	552,860	686,861	840,100
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	229,825	311,100	380,148	480,489	593,177
Total Interest-Bearing Liabilities	229,825	311,100	380,148	480,489	593,177
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	433,117	541,403	663,228
Shareholders Equity	77,527	98,300	119,743	145,458	176,871
Minority Interests					
Total Equity	77,527	98,300	119,743	145,458	176,871

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	(1.2%)	17.4%	15.8%	24.3%	22.2%
Operating Profit Growth	11.8%	17.2%	21.0%	17.8%	22.9%
Pretax Profit Growth	64%	40%	12%	20%	22%
Net Interest To Total Income	37.4%	35.6%	35.4%	36.3%	36.1%
Cost Of Funds	5.01%	6.09%	7.25%	7.10%	7.00%
Return On Interest Earning Assets	17.4%	16.9%	16.5%	16.4%	16.3%
Net Interest Spread	12.40%	10.77%	9.28%	9.29%	9.26%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	14.65%	13.22%	12.18%	12.31%	12.21%
Provisions to Pre Prov. Operating Profit	51%	42%	46%	45%	45%
Interest Return On Average Assets	12.45%	11.24%	10.35%	10.46%	10.38%
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%	5.00%	4.88%	4.84%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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