



India

REDUCE (no change)

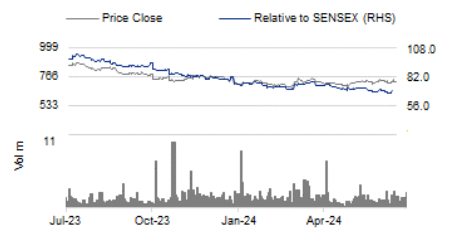
Consensus ratings*: Buy 7 Hold 7 Sell 13

Current price:	Rs722
Target price:	Rs500
Previous target:	Rs500
Up/downside:	-30.7%
InCred Research / Consensus:	-32.9%
Reuters:	SBIC.NS
Bloomberg:	SBICARD IN
Market cap:	US\$9,452m
	Rs686,375m
Average daily turnover:	US\$16.8m
	Rs1216.7m
Current shares o/s:	951.0m
Free float:	31.4%

*Source: Bloomberg

Key changes in this note

The company witnessed a sharp surge in gross credit costs (+165 yoy/+90bp qoq) amid rising slippage across vintage customers due to overleveraging.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.2)	(3.8)	(15.9)
Relative (%)	(4.0)	(11.7)	(31.6)

Major shareholders	% held
State Bank of India	68.6
LIC	6.0
ICICI	5.4

Research Analyst(s)



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SBI Cards

Venturing into No Man's land

- SBI Cards continued to demonstrate a weak profitability trend, with its 1Q PAT at Rs5.9bn (-10.2% qoq) amid declining margins & elevated credit costs.
- The company witnessed a sharp surge in gross credit costs (+165 yoy/+90bp qoq) amid rising slippage across vintage customers due to overleveraging.
- We expect its premium valuation to erode due to slowing growth & weakening profitability. It is our high-conviction REDUCE-rated stock with a TP of Rs500.

New account additions remain low; momentum to ease further

SBI Cards (SBIC) continued to witness a ~12% sequential decline (-18% yoy) in new account additions to 0.9m in 1QFY25 whereas the overall spending also declined sequentially by 3% to Rs771.3bn amid slowing fresh issuances and limited balance sheet strength of the company to take risks. Last year, the Reserve Bank of India or RBI increased the risk weight on consumer credit exposure to NBFCs, which is applicable to new loans as well as existing loans. This has negatively impacted on the capital adequacy ratio. Though its management remains confident of managing healthy issuance with the support of Tier-II capital, we expect the overall growth momentum in issuance & advances to ease in the coming quarters.

Margin managed sequentially; opex likely to witness a spurt

SBIC's margin remained flat qoq at ~10.9% (-45bp yoy), despite a consistent rise in the cost of funds. Management has indicated that the cost of funds will remain stagnant at the current levels, but we believe that even yields are unlikely to witness a momentum amid weak revolver rates as well as limited ability of the company to increase yields due to stiff competition. Operating expenses (opex) during the quarter declined by ~5.3% qoq amid lower corporate spending. However, the spurt is likely as corporate spending improves.

Asset quality witnesses structural weakness; credit costs elevated

SBIC reported a sequential rise in GNPA's to 3.06% against 2.76% last quarter whereas gross credit costs surged to ~8.5% against ~7.5% last quarter. Management highlighted that incremental defaults are across vintage portfolios, mainly due to overleveraging and multiple credit card usage. This is more of an industry-specific issue and may stay for a few more quarters. SBIC's focus on Tier-3 cities and beyond has resulted in its large exposure to a vulnerable customer base with limited understanding & financial discipline for credit cards. This, coupled with weaker underwriting practices, will keep overall credit costs elevated.

Outlook & valuation

We believe the premium valuation of the company will erode as the exclusivity attached to the credit card model is fading away. There is weak issuance amid tighter capital adequacy, stagnant margins and elevated credit costs as the mass population has limited understanding for credit cards. We retain our high-conviction REDUCE rating on SBIC with a target price of Rs500 or ~3x FY26F BV. Superior growth or lower non-performing assets pose a downside risk.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	45,051	53,319	61,617	72,052	82,374
Total Non-Interest Income (Rsm)	81,327	95,564	98,619	115,089	131,720
Operating Revenue (Rsm)	126,378	148,883	160,236	187,141	214,094
Total Provision Charges (Rsm)	(21,591)	(32,874)	(40,594)	(45,047)	(49,235)
Net Profit (Rsm)	22,585	24,079	24,479	27,264	31,231
Core EPS (Rs)	23.87	25.32	25.74	28.67	32.84
Core EPS Growth	39%	6%	2%	11%	15%
FD Core P/E (x)	30.23	28.50	28.04	25.17	21.98
DPS (Rs)	2.00	2.50	3.87	4.31	4.94
Dividend Yield	0.28%	0.35%	0.54%	0.60%	0.68%
BVPS (Rs)	103.9	127.1	149.0	173.3	201.2
P/BV (x)	6.95	5.68	4.85	4.16	3.59
ROE	25.7%	22.0%	18.7%	17.8%	17.5%

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

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Net Interest Income	10,789	11,160	11,446	11,651	12,332	12,969	13,870	14,149	14,765	19.7%	4.4%
Fee-Based Income	18,755	19,690	20,473	22,442	22,419	23,196	26,591	23,358	22,393	-0.1%	-4.1%
Total Income	29,545	30,850	31,919	34,093	34,751	36,165	40,461	37,506	37,158	6.9%	-0.9%
Operating Expenses	16,633	18,340	19,745	19,799	19,599	20,652	24,256	19,183	18,160	-7.3%	-5.3%
C/I Ratio (%)	56.3%	59.4%	61.9%	58.1%	56.4%	57.1%	59.9%	51.1%	48.9%		
Operating Profit	12,912	12,510	12,174	14,294	15,151	15,514	16,205	18,323	18,998	25.4%	3.7%
Provisions	4,503	5,460	5,330	6,298	7,186	7,416	8,829	9,444	11,006	53.2%	16.5%
% of operating profit	34.9%	43.6%	43.8%	44.1%	47.4%	47.8%	54.5%	51.5%	57.9%		
Exceptional Items	-	-	-	-	-	-	-	-	-		
PBT	8,409	7,050	6,843	7,997	7,966	8,098	7,376	8,879	7,992	0.3%	-10.0%
Tax	2,140	1,790	1,749	2,032	2,033	2,064	1,885	2,257	2,047	0.7%	-9.3%
Tax Rate (%)	25.4%	25.4%	25.6%	25.4%	25.5%	25.5%	25.6%	25.4%	25.6%		
PAT	6,269	5,260	5,095	5,965	5,933	6,034	5,491	6,622	5,944	0.2%	-10.2%
Gross NPL	7,440	8,074	8,575	9,570	10,428	10,954	12,896	14,022	15,935	52.8%	13.6%
GNPL (% of loans)	2.2%	2.1%	2.2%	2.4%	2.4%	2.4%	2.6%	2.8%	3.1%		
Net NPL	2,534	2,847	2,988	3,424	3,721	3,876	4,528	4,879	5,640	51.5%	15.6%
NNPL (% of loans)	0.8%	0.8%	0.8%	0.9%	0.9%	0.9%	1.0%	1.0%	1.1%		
Provision Coverage (%)	64.7%	63.6%	64.0%	63.0%	63.1%	63.4%	63.6%	64.0%	63.7%		
Advances (Rs m)	3,20,790	3,65,000	3,73,540	3,93,610	4,18,130	4,35,560	4,71,640	4,90,790	5,08,070	21.5%	3.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	61,203	61,617	0.7%	74,011	72,052	-2.6%	87,970	82,374	-6.4%
Non-interest Income	1,05,912	98,619	-6.9%	1,22,637	1,15,089	-6.2%	1,44,221	1,31,720	-8.7%
PPOP	69,350	73,451	5.9%	79,121	81,642	3.2%	91,175	91,155	0.0%
PAT	23,254	24,479	5.3%	25,139	27,264	8.5%	28,381	31,231	10.0%
EPS (Rs)	24.5	25.8	5.3%	26.5	28.7	8.5%	29.9	32.9	10.0%
BV (Rs)	148.2	149.3	0.7%	170.7	173.7	1.8%	196.2	201.7	2.8%
ABV (Rs)	142.9	144.1	0.8%	164.3	167.5	2.0%	188.5	194.6	3.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY25 earnings conference-call highlights

- Management is not considering a hike in interest rates on revolver transactions to offset credit costs, as there are a stream of transactions which provide good revenue and thereby leading to discouraging profitable customers. The interest rate on revolver is already at 3.5% monthly, which is high. There can be scope to increase the fee income.
- Post RBI's circular on increasing the risk weight on unsecured loans last year, other lenders have started looking at debt-to-income, debt repayment capacity and overleverage. Screening of customers is done post onboarding and where there is overleverage, the limits are reduced to cut losses.
- Management has not seen any trend in delinquency as related to specific geographic, class, salaried or non-salaried, but it is observed that delinquency is across segments. Like a few vintage accounts which were good for four-to-five years but have turned bad, and in most cases, it is due to a serious event. The only trend in delinquency observed last year was related to geography and pin code.
- Delinquency is mostly attributable to customer behaviour and inability to pay.
- During the quarter, credit limit for 0.5m accounts has been reduced, on an average by 25%, where the average amount is Rs. 0.1m.
- Reduction in limit is for existing customers, It is not that once a customer is onboarded, over a short period the limit is reduced. Reduction of limit is based on early warning systems.
- Cutting the limit has effectively reduced losses where the customer has an outstanding balance and also the risk trigger for the account is highlighted. Reduced limit restricts full utilization. Once the account turns bad, there is no chance of recovery.
- New-to-credit customers are mostly from the SBI channel, which contributes 40% of the customers. The remaining 60% are already having cards, out of which 10% customers from the State Bank of India, 45-50% customers from co-branded partners and 30%-40% customers from company stores.

- The opex ratio was lower due to lower card issuance, lower corporate spending and lower advertisement expenses.

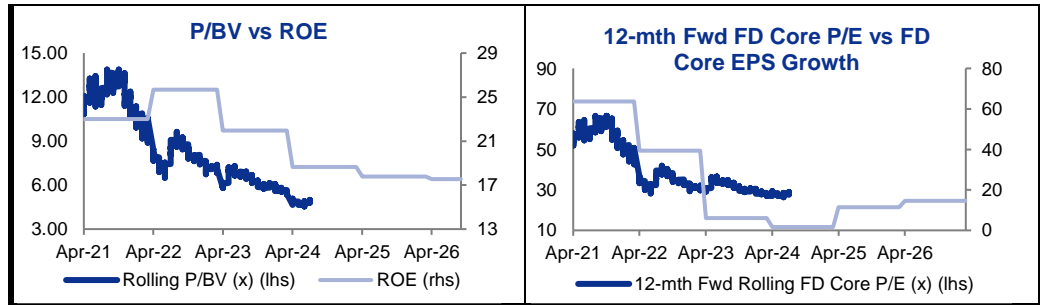
Figure 3: InCred BFSI Coverage Universe

Banks	Rating	CMP(Rs)	TP(Rs)	P/B(x) (at TP)			RoA(%)			RoE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
SBI **	ADD	848	1,000	2.1	1.8	1.6	1.0%	1.1%	1.1%	16.3%	17.2%	17.6%
HDFC Bank **	ADD	1,616	2,000	3.1	2.8	2.6	1.9%	2.0%	2.0%	15.4%	16.3%	16.9%
ICICI Bank	ADD	1,197	1,300	3.5	3.0	2.6	2.3%	2.2%	2.3%	17.7%	17.3%	17.7%
Axis Bank	HOLD	1,175	1,300	2.3	2.0	1.7	1.7%	1.7%	1.7%	16.8%	15.9%	16.3%
IndusInd Bank	HOLD	1,379	1,650	1.8	1.6	1.4	1.7%	1.7%	1.7%	14.1%	14.4%	14.8%
NBFCs	Rating	CMP(Rs)	TP(Rs)	P/B(x) (at TP)			RoA(%)			RoE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Bajaj Finance	ADD	6,647	9,000	6.0	5.1	4.2	4.2%	4.4%	4.5%	21.0%	23.5%	25.4%
Cholamandalam Finance	ADD	1,363	1,400	5.0	4.1	3.4	2.5%	2.5%	2.5%	21.0%	21.8%	22.5%
MMFS **	ADD	289	370	2.4	2.2	2.0	1.8%	1.9%	2.0%	12.3%	14.0%	15.7%
Shriram Finance **	ADD	2,679	2,950	2.0	1.7	1.4	3.4%	3.5%	3.5%	16.9%	17.3%	17.9%
SBI Cards **	REDUCE	730	500	3.3	2.9	2.5	3.9%	3.6%	3.6%	18.7%	17.8%	17.5%
Aavas Housing Finance	ADD	1,778	2,000	3.6	3.0	2.6	3.1%	3.1%	3.1%	14.1%	14.7%	15.8%
Home First Finance	ADD	1,030	1,100	4.2	3.7	3.2	3.4%	3.4%	3.4%	16.2%	17.7%	19.3%
Spandana Spoorthy	ADD	699	1,300	2.1	1.8	1.5	4.4%	4.6%	4.6%	16.7%	17.9%	18.2%
Fusion Micro Finance	HOLD	438	580	1.7	1.4	1.1	4.7%	4.7%	4.7%	19.4%	19.6%	19.7%
AMCs	Rating	CMP(Rs)	TP(Rs)	P/E(x) (at TP)			RoAUM(%)			RoE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Nippon AMC	ADD	639	800	35.7	29.5	23.7	0.28%	0.26%	0.25%	35.2%	41.8%	50.7%
HDFC AMC	HOLD	4,058	4,250	33.5	29.9	25.3	0.37%	0.35%	0.35%	32.8%	34.2%	37.3%
UTI AMC	ADD	1,027	1,200	16.8	13.8	11.8	0.30%	0.30%	0.29%	19.5%	21.1%	22.0%
ABSL AMC**	ADD	697	950	26.9	22.0	18.2	0.27%	0.27%	0.27%	29.9%	32.0%	33.9%
Insurance	Rating	CMP(Rs)	TP(Rs)	P/EV (x) (at TP)			Return on EV (%)			RoE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
SBI Life Insurance	HOLD	1,695	1,750	2.5	2.2	1.8	18.9%	18.5%	18.1%	15.4%	16.6%	16.2%

NOTE: ** HIGH CONVICTION

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	45,051	53,319	61,617	72,052	82,374
Total Non-Interest Income	81,327	95,564	98,619	115,089	131,720
Operating Revenue	126,378	148,883	160,236	187,141	214,094
Total Non-Interest Expenses	(74,481)	(83,691)	(86,785)	(105,499)	(122,938)
Pre-provision Operating Profit	51,896	65,192	73,451	81,642	91,155
Total Provision Charges	(21,591)	(32,874)	(40,594)	(45,047)	(49,235)
Operating Profit After Provisions	30,306	32,318	32,857	36,596	41,920
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	30,306	32,318	32,857	36,596	41,920
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	30,306	32,318	32,857	36,596	41,920
Exceptional Items					
Pre-tax Profit	30,306	32,318	32,857	36,596	41,920
Taxation	(7,721)	(8,239)	(8,379)	(9,332)	(10,690)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	22,585	24,079	24,479	27,264	31,231
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	22,585	24,079	24,479	27,264	31,231
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	7.4%	9.4%	10.1%	9.6%	9.6%
Avg Liquid Assets/Avg IEAs	8.1%	10.4%	11.1%	10.5%	10.5%
Net Cust Loans/Assets	86.4%	84.4%	85.8%	86.0%	86.3%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	25.0%	24.6%	23.9%	23.7%	23.3%
Asset Risk Weighting	79.8%	93.5%	93.5%	93.5%	93.5%
Provision Charge/Avg Cust Loans	6.21%	7.43%	7.50%	7.00%	6.50%
Provision Charge/Avg Assets	5.38%	6.34%	6.39%	6.01%	5.60%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	393,610	490,790	591,715	695,331	819,590
Liquid Assets & Invst. (Current)	21,397	35,191	40,118	46,537	54,914
Other Int. Earning Assets					
Total Gross Int. Earning Assets	415,007	525,981	631,833	741,868	874,503
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	415,007	525,981	631,833	741,868	874,503
Intangible Assets					
Other Non-Interest Earning Assets	26,904	28,435	32,136	35,053	38,248
Total Non-Interest Earning Assets	26,904	28,435	32,136	35,053	38,248
Cash And Marketable Securities	13,545	27,296	25,802	31,509	36,587
Long-term Investments					
Total Assets	455,456	581,712	689,771	808,431	949,338
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	342,010	443,649	528,317	620,832	731,776
Total Interest-Bearing Liabilities	342,010	443,649	528,317	620,832	731,776
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	15,146	17,223	19,807	22,778	26,194
Total Liabilities	357,156	460,872	548,123	643,609	757,971
Shareholders Equity	98,300	120,840	141,647	164,822	191,367
Minority Interests					
Total Equity	98,300	120,840	141,647	164,822	191,367

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	17.4%	18.4%	15.6%	16.9%	14.3%
Operating Profit Growth	17.2%	25.6%	12.7%	11.2%	11.7%
Pretax Profit Growth	40%	7%	2%	11%	15%
Net Interest To Total Income	35.6%	35.8%	38.5%	38.5%	38.5%
Cost Of Funds	5.76%	6.61%	6.70%	6.50%	6.30%
Return On Interest Earning Assets	16.9%	16.8%	16.3%	15.9%	15.5%
Net Interest Spread	11.10%	10.24%	9.57%	9.43%	9.16%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	13.93%	11.75%	10.37%	10.29%	10.02%
Provisions to Pre Prov. Operating Profit	42%	50%	55%	55%	54%
Interest Return On Average Assets	11.24%	10.28%	9.69%	9.62%	9.37%
Effective Tax Rate	25.5%	25.5%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	5.63%	4.64%	3.85%	3.64%	3.55%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	Analyst/ Relative	Entity/ Associates
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