



India

REDUCE (no change)

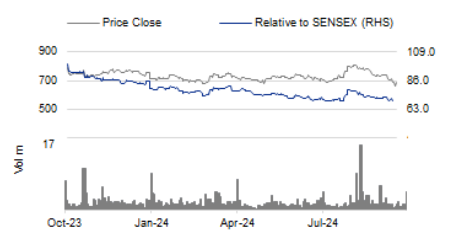
Consensus ratings*: Buy 6 Hold 8 Sell 13

Current price:	Rs685
Target price:	Rs500
Previous target:	Rs500
Up/downside:	-27.0%
InCred Research / Consensus:	-31.2%
Reuters:	SBIC.NS
Bloomberg:	SBICARD IN
Market cap:	US\$8,976m
	Rs651,809m
Average daily turnover:	US\$17.6m
	Rs1280.3m
Current shares o/s:	951.3m
Free float:	31.4%

*Source: Bloomberg

Key changes in this note

Though SBIC's management is witnessing early improvement in fresh flows to the delinquency, any fall in credit costs may take at least a couple of quarters.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(12.9)	(3.2)	(13.3)
Relative (%)	(8.6)	(1.9)	(30.8)

Major shareholders	% held
State Bank of India	68.6
LIC	6.1
ICICI Pru MF	4.9

Research Analyst(s)



Jignesh SHIAL

T (91) 22 4161 1547
E jignesh.shial@incredresearch.com

Meghna LUTHRA

T (91) 22 4161 1500
E meghna.luthra@incredresearch.com

Rishabh JOGANI

T (91) 22 4161 1569
E rishabh.jogani@incredresearch.com

SBI Cards

There is no light at the end of the tunnel yet

- SBIC reported a weak 2Q PAT of Rs4bn (InCred esti: Rs5.7bn) amid softening margin (~30bp qoq), spike in opex (+11% qoq) and elevated credit costs.
- Though SBIC's management is witnessing early improvement in fresh flows to the delinquency, any fall in credit costs may take at least a couple of quarters.
- We expect its premium valuation to erode with slow growth and 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 witnessing a sluggish momentum in new account additions in 2QFY25, which remained flat qoq at 0.9m (-21% yoy) but overall spending grew by ~6% qoq to Rs818.9bn, primarily aided by online spending. Last year, the RBI raised the risk weight on consumer credit exposure for NBFCs, which is applicable to new as well as existing loans. This has negatively affected the capital adequacy ratio. Though management remains confident of managing healthy issuances with the support of Tier-II capital, we expect the overall momentum in issuances and advances to remain sluggish.

Margin managed qoq; opex witnesses a spurt on expected lines

Margin remained flat qoq at ~10.6% (-32bp qoq) amid a consistent rise in the cost of funds. Management has indicated that the cost of funds will remain stagnant at the current level, but we believe that even yields are unlikely to witness growth amid weak revolver rates as well as the limited ability of SBIC to increase the yields due to stiff competition. Operating expenses (opex) during the quarter rose by ~10.7% qoq amid a rise in spending-based expenses at the end of Sep 2024. We feel that with a consistent rise in online spending, SBIC needs to spend some more to attract customers amid stiff competition.

Asset quality witnessing structural weakness; credit costs elevated

SBIC has reported a qoq rise in gross non-performing assets or GNPA's to 3.27% against 3.06% last quarter whereas gross credit costs surged to ~9% against ~8.5% last quarter. Management has highlighted that incremental defaults are across portfolio tenures, mainly due to overleveraging and multiple credit card usage. This is more of an industry-specific issue and is likely to stay for a few more quarters. Though management is witnessing early improvement in fresh flows to the delinquency, considering the recent macroeconomic volatility and overleveraging trend, any fall in credit costs may take at least a couple of quarters.

Outlook & valuation

We believe the premium valuation of SBIC will erode as the exclusivity attached to its credit card model is fading. Issuances are weak amid tighter capital adequacy, stagnant margin and elevated credit costs, as the mass population has a limited understanding of credit cards. We maintain our high-conviction REDUCE rating on SBIC with a target price of Rs500 or ~3x FY26F BV. Upside risks: Superior growth or else lower NPAs.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	45,051	53,319	61,131	73,201	86,675
Total Non-Interest Income (Rsm)	81,327	95,564	94,674	107,896	122,938
Operating Revenue (Rsm)	126,378	148,883	155,805	181,097	209,614
Total Provision Charges (Rsm)	(21,591)	(32,874)	(46,006)	(51,804)	(59,082)
Net Profit (Rsm)	22,585	24,079	20,084	21,300	24,482
Core EPS (Rs)	23.87	25.32	21.12	22.40	25.74
Core EPS Growth	39%	6%	(17%)	6%	15%
FD Core P/E (x)	28.70	27.06	32.44	30.59	26.62
DPS (Rs)	2.00	2.50	3.18	3.37	3.87
Dividend Yield	0.29%	0.36%	0.46%	0.49%	0.56%
BVPS (Rs)	103.9	127.1	145.0	164.1	185.9
P/BV (x)	6.59	5.39	4.72	4.18	3.68
ROE	25.7%	22.0%	15.5%	14.5%	14.7%

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

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)
Net Interest Income	12,332	12,969	13,870	14,149	14,765	15,021	15.8%	1.7%
Fee-Based Income	22,419	23,196	26,591	23,358	22,393	22,661	-2.3%	1.2%
Total Income	34,751	36,165	40,461	37,506	37,158	37,682	4.2%	1.4%
Operating Expenses	19,599	20,652	24,256	19,183	18,160	20,109	-2.6%	10.7%
C/I Ratio (%)	56.4%	57.1%	59.9%	51.1%	48.9%	53.4%		
Operating Profit	15,151	15,514	16,205	18,323	18,998	17,573	13.3%	-7.5%
Provisions	7,186	7,416	8,829	9,444	11,006	12,120	63.4%	10.1%
% of Operating Profit	47.4%	47.8%	54.5%	51.5%	57.9%	69.0%		
Exceptional Items	-	-	-	-	-	-		
PBT	7,966	8,098	7,376	8,879	7,992	5,452	-32.7%	-31.8%
Tax	2,033	2,064	1,885	2,257	2,047	1,408	-31.8%	-31.2%
Tax Rate (%)	25.5%	25.5%	25.6%	25.4%	25.6%	25.8%		
PAT	5,933	6,034	5,491	6,622	5,944	4,044	-33.0%	-32.0%
Gross NPL	10,428	10,954	12,896	14,022	15,935	18,182	66.0%	14.1%
GNPL (% of Loans)	2.4%	2.4%	2.6%	2.8%	3.1%	3.3%		
Net NPL	3,721	3,876	4,528	4,879	5,640	6,378	64.5%	13.1%
NNPL (% of loans)	0.9%	0.9%	1.0%	1.0%	1.1%	1.2%		
Provision Coverage (%)	63.1%	63.4%	63.6%	64.0%	63.7%	63.6%		
Advances (Rs m)	4,18,130	4,35,560	4,71,640	4,90,790	5,08,070	5,35,959	23.1%	5.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

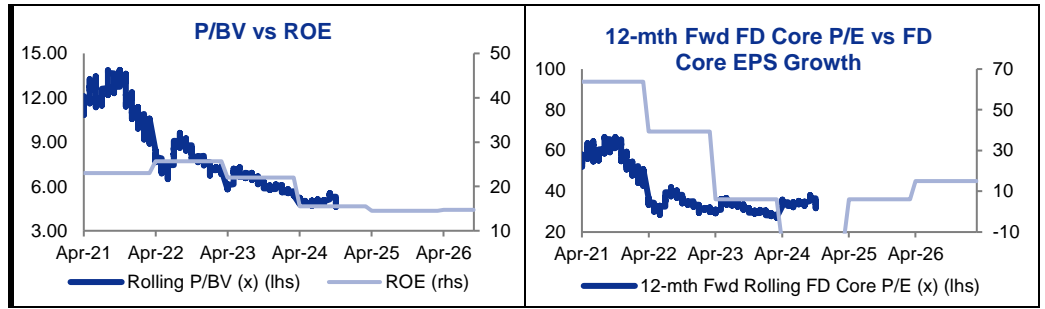
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	62,589	61,131	-2.3%	72,052	73,201	1.6%	82,374	86,675	5.2%
Non-Interest Income	98,619	94,674	-4.0%	1,15,089	1,07,896	-6.3%	1,31,720	1,22,938	-6.7%
PPOP	74,423	72,965	-2.0%	81,642	80,394	-1.5%	91,155	91,944	0.9%
PAT	27,219	20,084	-26.2%	27,264	21,300	-21.9%	31,231	24,482	-21.6%
EPS (Rs)	28.7	21.2	-26.2%	28.7	22.5	-21.9%	32.9	25.8	-21.6%
BV (Rs)	151.8	145.4	-4.2%	176.2	164.4	-6.7%	204.2	186.4	-8.7%
ABV (Rs)	146.5	140.1	-4.4%	170.0	158.2	-6.9%	197.0	179.3	-9.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Summary of 2QFY25 earnings call

- Slippage was elevated due to cash flow challenges and overleveraging.
- Though SBIC's management indicated that slippage has peaked, flows are improving intermittently.
- Management refrained from giving its guidance on slippage or credit costs on account of persistent uncertainty.
- Credit costs stood at ~9% due to elevated slippage.
- Net interest margin or NIM was subdued due to a pick-up in the festive season-related spending at the end of Sep 2024.
- Management indicated that NIM will remain subdued in 3QFY25F before improving in 4QFY25F.
- The cost of funds is indicated to have peaked and is expected to reduce in line with the reduction in policy rates.
- New acquisitions were flat qoq as the company continued to be selective with a high focus on quality.
- New additions are guided to remain in this range in the near term.
- Moreover, the incremental focus is also on premium and super-premium customers and the company recently launched KrisFlyer SBI Card in partnership with Singapore Airlines.
- All cards are compliant with the Reserve Bank of India or RBI's new norms, whereby customers can choose their network.
- Retail spending was up by ~6% qoq led by higher online spending, which was up by ~300bp qoq at 60%.
- Corporate spending is indicated to remain slow due to high retail spending during the festive season.
- The cost-to-income ratio is indicated to be ~55% in FY25F.
- Revolver rates are indicated to be at 23-25% for the next two-to-three quarters.
- Asset growth is indicated to be 17-20% along with interest earning asset growth of 15-19% for FY25F.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	45,051	53,319	61,131	73,201	86,675
Total Non-Interest Income	81,327	95,564	94,674	107,896	122,938
Operating Revenue	126,378	148,883	155,805	181,097	209,614
Total Non-Interest Expenses	(74,481)	(83,691)	(82,840)	(100,703)	(117,670)
Pre-provision Operating Profit	51,896	65,192	72,965	80,394	91,944
Total Provision Charges	(21,591)	(32,874)	(46,006)	(51,804)	(59,082)
Operating Profit After Provisions	30,306	32,318	26,959	28,590	32,862
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	30,306	32,318	26,959	28,590	32,862
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	30,306	32,318	26,959	28,590	32,862
Exceptional Items					
Pre-tax Profit	30,306	32,318	26,959	28,590	32,862
Taxation	(7,721)	(8,239)	(6,875)	(7,291)	(8,380)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	22,585	24,079	20,084	21,300	24,482
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	22,585	24,079	20,084	21,300	24,482
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%	9.8%	8.8%	8.4%
Avg Liquid Assets/Avg IEAs	8.1%	10.4%	10.8%	9.6%	9.0%
Net Cust Loans/Assets	86.4%	84.4%	86.3%	87.0%	87.7%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	25.0%	24.6%	23.3%	22.4%	21.6%
Asset Risk Weighting	79.8%	93.5%	93.5%	93.5%	93.5%
Provision Charge/Avg Cust Loans	6.21%	7.43%	8.50%	8.05%	7.80%
Provision Charge/Avg Assets	5.38%	6.34%	7.26%	6.97%	6.81%
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	22,066	22,704	22,046
Long-term Investments					
Total Assets	455,456	581,712	686,035	799,626	934,797
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	137,912	156,017	176,827
Minority Interests					
Total Equity	98,300	120,840	137,912	156,017	176,827

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	17.4%	18.4%	14.7%	19.7%	18.4%
Operating Profit Growth	17.2%	25.6%	11.9%	10.2%	14.4%
Pretax Profit Growth	40%	7%	(17%)	6%	15%
Net Interest To Total Income	35.6%	35.8%	39.2%	40.4%	41.3%
Cost Of Funds	5.76%	6.61%	6.80%	6.30%	6.00%
Return On Interest Earning Assets	16.9%	16.8%	16.3%	15.9%	15.7%
Net Interest Spread	11.10%	10.24%	9.47%	9.63%	9.75%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	13.93%	11.75%	10.31%	10.54%	10.69%
Provisions to Pre Prov. Operating Profit	42%	50%	63%	64%	64%
Interest Return On Average Assets	11.24%	10.28%	9.64%	9.85%	9.99%
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%	3.17%	2.87%	2.82%

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. While 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 is 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 a 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

Research Analyst or his/her relative(s) or InCred Research Services Private Limited or our associate may have any financial interest in the subject company.

Research Analyst or his/her relatives or InCred Research Services Limited or our associates may have actual or beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report.

Research Analyst or his/her relative or InCred Research Services Private Limited or our associate entities may have any other material conflict of interest at the time of publication of the Research Report.

In the past 12 months, IRSPL or any of its associates may have:

- Received any compensation/other benefits from the subject company,
- Managed or co-managed public offering of securities for the subject company,
- Received compensation for investment banking or merchant banking or brokerage services from the subject company,
- Received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company

We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Research Analyst may have served as director, officer, or employee in the subject company.

We or our research analyst may engage in market-making activity of the subject company.

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 on 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.

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.