



India

REDUCE (no change)

Consensus ratings*: Buy 7 Hold 10 Sell 10

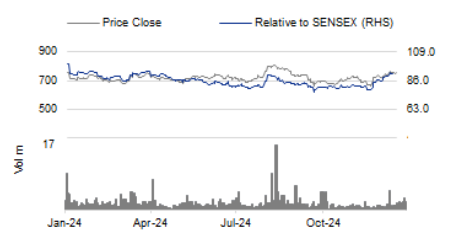
Current price: Rs759
Target price: Rs550
Previous target: Rs550
Up/downside: -27.5%
InCred Research / Consensus: -22.8%

Reuters:
Bloomberg: SBICARD IN
Market cap: US\$8,346m
Average daily turnover: US\$14.0m
Current shares o/s: 0.0m
Free float: 40.0%

*Source: Bloomberg

Key changes in this note

Write-offs continue to remain elevated, keeping overall credit costs elevated at ~940bp for the quarter against ~900bp in 2QFY25.



Source: Bloomberg

Table with 4 columns: Price performance, 1M, 3M, 12M. Rows: Absolute (%), Relative (%).

Table with 2 columns: Major shareholders, % held. Rows: State Bank of India, CA Rover, Nippon life.

Research Analyst(s)



Jignesh SHIAL

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

Meghna LUTHRA

T (91) 22 4161 1553
E meghna.luthra@incredresearch.com

Rishabh JOGANI

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

SBI Cards

Unconvincing optimism

- SBI Cards posted a weak PAT in 3QFY25 at Rs3.8bn, despite in-line operating performance, amid elevated write-offs (credit costs at ~9.4%, +40bp qoq).
Though management remains optimistic about fresh delinquencies, we remain cautious amid elevated write-offs, subdued macro situation & legacy issues.
The premium valuation to erode with slowing growth, weak profitability & declining return ratios. Retain high-conviction REDUCE rating with Rs550 TP.

Receivables witness a decline as management turns selective

SBI Cards (SBIC) witnessed improved momentum in new account additions during 3QFY25 at 1.18m (+30% qoq) amid festive demand whereas the growth in spending was ~5% qoq at Rs860.9bn, similar to the previous quarter, primarily aided by online spending. Interestingly, despite the rise in spending, receivables remained flat qoq at Rs547.7bn, with a ~1% qoq rise in the revolver rate to ~24%. The company prefers to remain selective in fresh card issuance and new customer addition & its management expects ~10-12% rise in receivables in FY26F. However, we prefer to remain watchful of the future trend considering the volatile past history as well as weak capital adequacy.

Flat margin with weak fee income amid slower card issuances

Margin remained flat qoq at ~10.6% (+3bp), despite ~12bp sequential rise in yields, flat cost of funds amid elevated borrowings & ~1.5% qoq decline in receivables. The trend in core fee income continues to remain sluggish amid weak issuance as well as a rising share of online spending (which is a relatively competitive market). Opex grew ~5% sequentially, which kept the cost-to-income ratio flat on a qoq basis at ~53.5%. Management expects an improvement in fee-based income in the coming quarters with a rise in fresh issuance and expects the cost-to-income ratio to remain in the range of ~52%.

Management optimism over asset quality despite elevated write-offs

Management has turned optimistic as SBI Cards is witnessing a reduction in headline NPAs. The company has reported ~10bp decline each in Stage-II and Stage-III assets during 3QFY25. However, write-offs continued to remain elevated, keeping the overall credit costs elevated at ~940bp for the quarter against ~900bp in 2QFY25. Despite management's optimism, we prefer to remain cautious on fresh slippage as well as the credit cost trend for the company amid its legacy portfolio, macroeconomic volatility, the overleveraging trend, and any fall in credit costs taking 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 Rs550 or ~3.4x FY26F ABV. Upside risk: Superior growth or else lower NPAs.

Financial Summary

Table with 6 columns: Mar-23A, Mar-24A, Mar-25F, Mar-26F, Mar-27F. Rows: Net Interest Income (Rsm), Total Non-Interest Income (Rsm), Operating Revenue (Rsm), Total Provision Charges (Rsm), Net Profit (Rsm), Core EPS (Rs), Core EPS Growth, FD Core P/E (x), DPS (Rs), Dividend Yield, BVPS (Rs), P/BV (x), ROE, % 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	3QFY25	YoY (%)	QoQ (%)
Net Interest Income	12,332	12,969	13,870	14,149	14,765	15,021	15,705	13.2%	4.6%
Fee-Based Income	22,419	23,196	26,591	23,358	22,393	22,661	23,675	-11.0%	4.5%
Total Income	34,751	36,165	40,461	37,506	37,158	37,682	39,379	-2.7%	4.5%
Operating Expenses	19,599	20,652	24,256	19,183	18,160	20,109	21,072	-13.1%	4.8%
C/I Ratio (%)	56.4%	57.1%	59.9%	51.1%	48.9%	53.4%	53.5%		
Operating Profit	15,151	15,514	16,205	18,323	18,998	17,573	18,308	13.0%	4.2%
Provisions	7,186	7,416	8,829	9,444	11,006	12,120	13,131	48.7%	8.3%
% of Operating Profit	47.4%	47.8%	54.5%	51.5%	57.9%	69.0%	71.7%		
Exceptional Items	-	-	-	-	-	-	-		
PBT	7,966	8,098	7,376	8,879	7,992	5,452	5,176	-29.8%	-5.1%
Tax	2,033	2,064	1,885	2,257	2,047	1,408	1,344	-28.7%	-4.5%
Tax Rate (%)	25.5%	25.5%	25.6%	25.4%	25.6%	25.8%	26.0%		
PAT	5,933	6,034	5,491	6,622	5,944	4,044	3,832	-30.2%	-5.2%
Gross NPL	10,428	10,954	12,896	14,022	15,935	18,182	17,746	37.6%	-2.4%
GNPL (% of loans)	2.4%	2.4%	2.6%	2.8%	3.1%	3.3%	3.2%		
Net NPL	3,721	3,876	4,528	4,879	5,640	6,378	6,231	37.6%	-2.3%
NNPL (% of loans)	0.9%	0.9%	1.0%	1.0%	1.1%	1.2%	1.2%		
Provision Coverage (%)	63.1%	63.4%	63.6%	64.0%	63.7%	63.6%	63.6%		
Advances (Rs m)	4,18,130	4,35,560	4,71,640	4,90,790	5,08,070	5,35,959	5,28,080	12.0%	-1.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

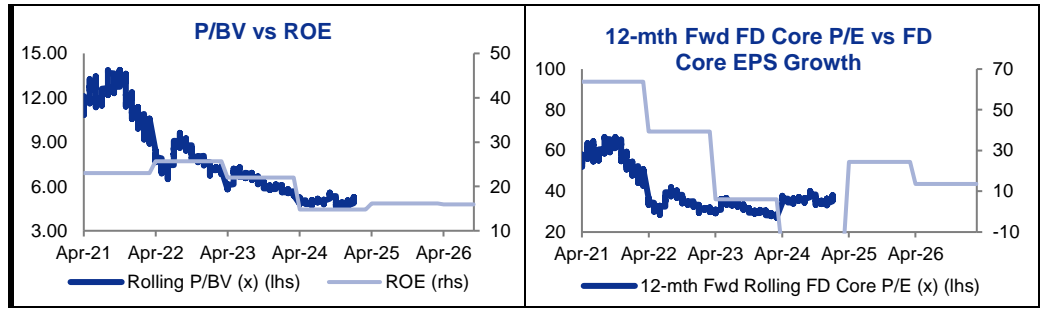
Y/e Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	61,131	61,761	1.0%	75,032	68,611	-8.6%	92,257	77,415	-16.1%
Non-Interest Income	98,619	92,971	-5.7%	1,16,145	1,01,821	-12.3%	1,39,622	1,22,415	-12.3%
PPOP	76,910	73,593	-4.3%	84,710	80,830	-4.6%	95,292	89,907	-5.7%
PAT	23,023	19,086	-17.1%	24,565	23,747	-3.3%	27,645	26,953	-2.5%
EPS (Rs)	24.3	20.1	-17.1%	25.9	25.0	-3.3%	29.1	28.4	-2.5%
BV (Rs)	148.0	144.5	-2.4%	170.0	165.7	-2.5%	194.8	189.9	-2.5%
ABV (Rs)	142.8	139.2	-2.5%	165.7	160.0	-3.4%	192.2	183.5	-4.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key takeaways from 3QFY25 earnings call

- Stage-2 and Stage-3 assets have reduced during the quarter. We are also seeing a reduction in the delinquency rate.
- Inflection point is seen already and should be clearly visible from 4QFY25F.
- The company has remained selective in customer selection, which is the reason for the slowdown in growth in receivables. For the next year, it should be in the range of 12-15%.
- The company has been identifying customers who are overleveraged. Action has been taken in time to reduce losses.
- The delinquent pool to write-off pool time has reduced along with a reduction in 30-90dpd whereas Stage-2 and Stage-3 assets have seen a 10bp reduction sequentially.
- Online spending has seen a growth to ~58.5% against 57.9% in Mar 2024.
- It is difficult to give credit card guidance for FY26F currently.
- Revolver rates are expected to remain low. The focus is on increasing the equated monthly instalment or EMI-led customer base rather than revolving rate customers.
- The growth rate in the near future should come down to 18-20%, against 30% historically, at least for the next three-to-four quarters.
- The cost-to-income ratio should see some improvement in 4QFY25F and 52% should be ideal in FY25F.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	45,051	53,319	61,761	68,611	77,415
Total Non-Interest Income	81,327	95,564	92,971	101,821	122,415
Operating Revenue	126,378	148,883	154,732	170,432	199,830
Total Non-Interest Expenses	(74,481)	(83,691)	(81,139)	(89,603)	(109,924)
Pre-provision Operating Profit	51,896	65,192	73,593	80,830	89,907
Total Provision Charges	(21,591)	(32,874)	(47,975)	(48,954)	(53,728)
Operating Profit After Provisions	30,306	32,318	25,619	31,876	36,178
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	30,306	32,318	25,619	31,876	36,178
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	30,306	32,318	25,619	31,876	36,178
Exceptional Items					
Pre-tax Profit	30,306	32,318	25,619	31,876	36,178
Taxation	(7,721)	(8,239)	(6,533)	(8,128)	(9,225)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	22,585	24,079	19,086	23,747	26,953
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	22,585	24,079	19,086	23,747	26,953
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%	10.4%	10.3%	10.2%
Avg Liquid Assets/Avg IEAs	8.1%	10.4%	11.3%	11.0%	10.8%
Net Cust Loans/Assets	86.4%	84.4%	84.8%	84.8%	85.3%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	25.0%	24.6%	25.3%	25.7%	25.8%
Asset Risk Weighting	79.8%	93.5%	93.5%	93.5%	93.5%
Provision Charge/Avg Cust Loans	6.21%	7.43%	9.30%	8.50%	8.20%
Provision Charge/Avg Assets	5.38%	6.34%	7.87%	7.21%	6.97%
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	540,925	610,929	699,514
Liquid Assets & Invst. (Current)	21,397	35,191	54,547	63,274	74,663
Other Int. Earning Assets					
Total Gross Int. Earning Assets	415,007	525,981	595,471	674,203	774,177
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	415,007	525,981	595,471	674,203	774,177
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	10,085	11,415	7,537
Long-term Investments					
Total Assets	455,456	581,712	637,692	720,671	819,962
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	342,010	443,649	480,822	540,645	613,609
Total Interest-Bearing Liabilities	342,010	443,649	480,822	540,645	613,609
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	500,629	563,423	639,803
Shareholders Equity	98,300	120,840	137,063	157,249	180,159
Minority Interests					
Total Equity	98,300	120,840	137,063	157,249	180,159

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	17.4%	18.4%	15.8%	11.1%	12.8%
Operating Profit Growth	17.2%	25.6%	12.9%	9.8%	11.2%
Pretax Profit Growth	40%	7%	(21%)	24%	13%
Net Interest To Total Income	35.6%	35.8%	39.9%	40.3%	38.7%
Cost Of Funds	5.76%	6.61%	6.95%	6.30%	6.00%
Return On Interest Earning Assets	16.9%	16.8%	16.7%	15.9%	15.5%
Net Interest Spread	11.10%	10.24%	9.79%	9.58%	9.47%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	13.93%	11.75%	10.83%	10.80%	10.75%
Provisions to Pre Prov. Operating Profit	42%	50%	65%	61%	60%
Interest Return On Average Assets	11.24%	10.28%	10.13%	10.10%	10.05%
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%	3.13%	3.50%	3.50%

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:

- a) Received any compensation/other benefits from the subject company,
- b) Managed or co-managed public offering of securities for the subject company,
- c) Received compensation for investment banking or merchant banking or brokerage services from the subject company,
- d) 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.

InCred Research Services Private Limited

Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

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.