

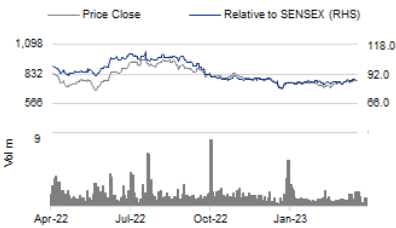
India

ADD (no change)

Consensus ratings*:	Buy 21	Hold 4	Sell 3
Current price:	Rs772		
Target price:	Rs900		
Previous target:	Rs950		
Up/downside:	16.6%		
InCred Research / Consensus:	-4.6%		
Reuters:			
Bloomberg:	SBICARD IN		
Market cap:	US\$8,928m		
	Rs730,606m		
Average daily turnover:	US\$11.0m		
	Rs900.4m		
Current shares o/s:	0.0m		
Free float:	40.0%		
<small>*Source: Bloomberg</small>			

Key changes in this note

- SBI Cards continued to witness strong card issuance with an addition of ~1.14m new customers, amid rising penetration in Tier-2 cities and beyond.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.2	10.4	(7.1)
Relative (%)	3.5	7.9	(13.2)

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

Analyst(s)



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SBI Cards

Strong growth outlook; margins near bottom

- SBI Cards posted better-than-expected 4Q PAT of Rs5.96bn, despite elevated provisioning, amid stable qoq margins and a healthy operating performance.
- SBI Cards continued to witness strong card issuance with an addition of ~1.14m new customers, amid rising penetration in Tier-2 cities and beyond.
- With the monetary policy easing, we expect a gradual rise in margins & a pick-up in revolvers and overall spending. Retain ADD with a lower TP of Rs900.

Manages growth momentum despite consistently low revolver rates

SBI Cards (SBIC) witnessed a healthy growth momentum in 4QFY23 with ~1.14m new accounts (1.1m last quarter) opened amid consistent focus on increasing the penetration in Tier-2 cities and beyond. Overall spending rose to Rs716.8bn (+32% yoy) despite a sluggish trend in revolver rates, at around ~24%. Management is focused on increasing overall interest-bearing assets (rising share of equated monthly instalment or EMI clients) along with a change in the fee structure to compensate for low revolver rates, but the impact of the same is yet to be seen. With a rise in utilization of cards issued recently, we expect a growth in spending in FY24F despite the uncertainty on revolvers.

Margins near bottom but improvement to remain gradual

SBIC has been facing margin pressure for the past few quarters with its fixed-rate lending book and a variable rate borrowing profile (mainly short-term loans) which, in turn, exerted pressure on margins. However, SBIC managed to hold its margins sequentially at ~11.5%, despite a consistent surge in the cost of funds. With policy rates remaining stagnant, we remain optimistic about a gradual recovery in margins. Fee income for the company also witnessed an improvement due to the income from branded card partners.

Asset quality trend to remain volatile; credit cost to be range-bound

SBIC reported a sequential rise in gross non-performing assets or GNPA's to 2.35% vs. 2.22% last quarter and, similarly, provision charges increased by ~18% qoq. Management indicated that the surge in credit cost was partly due to a change in expected credit loss model estimation (~20 bp). We expect the volatility to continue in the coming quarters due to a steep rise in card issuance but with a gradual maturity of onboarded customers coupled with lower revolvers, we believe future deterioration will be under check. On the provisioning front, considering a favourable asset quality cycle, we expect the credit cost to remain within SBIC's guided range of around ~600bp.

Outlook & valuation

We turn optimistic on the margin profile of SBIC due to a favourable interest rate scenario but the uncertainty around low revolvers may continue for some time. We equally remain optimistic on the healthy growth trend and best-in-class return ratios (RoE of 24% and RoA of 5.5% for FY25F). We retain ADD rating on SBIC with a target price of Rs900 or ~6x FY25BV. Downside risk: Slowing growth or a rise in non-performing assets (NPAs).

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	38,387	45,051	57,130	69,669	88,851
Total Non-Interest Income (Rsm)	64,355	81,327	103,556	128,590	157,220
Operating Revenue (Rsm)	102,742	126,378	160,686	198,259	246,071
Total Provision Charges (Rsm)	(22,558)	(21,591)	(26,806)	(32,804)	(40,395)
Net Profit (Rsm)	16,161	22,585	27,866	32,636	40,538
Core EPS (Rs)	17.14	23.87	29.46	34.50	42.85
Core EPS Growth	64%	39%	23%	17%	24%
FD Core P/E (x)	45.07	32.35	26.22	22.39	18.02
DPS (Rs)	2.50	2.00	4.44	5.20	6.46
Dividend Yield	0.32%	0.26%	0.57%	0.67%	0.84%
BVPS (Rs)	82.2	103.9	128.9	158.3	194.7
P/BV (x)	9.40	7.43	5.99	4.88	3.97
ROE	23.0%	25.7%	25.3%	24.0%	24.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Particulars (Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
Net Interest Income	9,987	10,789	11,160	11,446	11,651	16.7%	1.8%
Fee-based Income	17,494	18,755	19,690	20,473	22,442	28.3%	9.6%
Total Income	27,481	29,545	30,850	31,919	34,093	24.1%	6.8%
Operating Expenses	15,779	16,633	18,340	19,745	19,799	25.5%	0.3%
C/I Ratio (%)	57.4%	56.3%	59.4%	61.9%	58.1%		
Operating Profit	11,703	12,912	12,510	12,174	14,294	22.1%	17.4%
Provisions	3,902	4,503	5,460	5,330	6,298	61.4%	18.1%
% of operating profit	33.3%	34.9%	43.6%	43.8%	44.1%		
Exceptional Items	-	-	-	-	-		
PBT	7,800	8,409	7,050	6,843	7,997	2.5%	16.9%
Tax	1,984	2,140	1,790	1,749	2,032	2.4%	16.2%
Tax rate (%)	25.4%	25.4%	25.4%	25.6%	25.4%		
PAT	5,816	6,269	5,260	5,095	5,965	2.6%	17.1%
Gross NPL	6,944	7,440	8,074	8,575	9,570	37.8%	11.6%
GNPL (% of loans)	2.2%	2.2%	2.1%	2.2%	2.4%		
Net NPL	2,355	2,534	2,847	2,988	3,424	45.4%	14.6%
NNPL (% of loans)	0.8%	0.8%	0.8%	0.8%	0.9%		
Provision Coverage (%)	64.9%	64.7%	63.6%	64.0%	63.0%		
Adv (Rs m)	301,873	320,790	365,000	373,540	393,610	30.4%	5.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised estimates

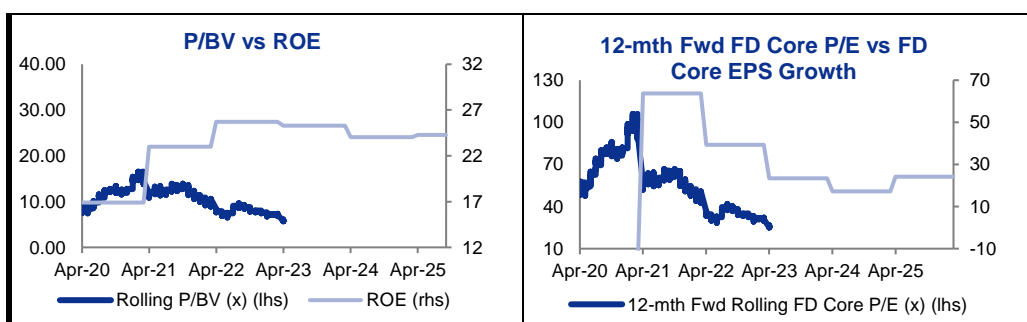
Y/e Mar (Rs m)	FY24F			FY25F			FY26F
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net interest income	51,728	57,130	10.4%	63,127	69,669	10.4%	88,851
Non-interest Income	104,891	103,556	-1.3%	134,372	128,590	-4.3%	157,220
PPOP	68,117	64,272	-5.6%	86,222	76,683	-11.1%	94,898
PAT	31,619	27,866	-11.9%	40,105	32,636	-18.6%	40,538
EPS (Rs)	33.6	29.6	-11.9%	42.6	34.7	-18.6%	43.0
BV (Rs)	140.0	129.5	-7.5%	180.0	159.0	-11.7%	195.6
ABV (Rs)	136.3	126.4	-7.2%	175.2	154.9	-11.6%	190.3

SOURCE: INCRED RESEARCH

Conference-call takeaways

- Retail spending per card increased by 7% yoy.
- SBIC expects a further increase of 10-15 bp in the cost of borrowing and sees net interest margin or NIM improving in the second-half of FY24F.
- The cost of acquisition of clients moderated by 10% yoy. The cost of acquisition through the State Bank of India channel is lower than the cost of acquisition via open market.
- New customers that were acquired during the Covid-19 pandemic are now showing some signs of stress.
- New customers acquired during the last 15 to 18 months are displaying very good spending behaviour & good activation rates.
- SBIC, which has started charging a fee of Rs99 for rental payment, increased the same to Rs199 during the quarter. The company has not witnessed any decline in spending after the introduction of a higher fee.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	38,387	45,051	57,130	69,669	88,851
Total Non-Interest Income	64,355	81,327	103,556	128,590	157,220
Operating Revenue	102,742	126,378	160,686	198,259	246,071
Total Non-Interest Expenses	(58,462)	(74,481)	(96,414)	(121,576)	(151,173)
Pre-provision Operating Profit	44,280	51,896	64,272	76,683	94,898
Total Provision Charges	(22,558)	(21,591)	(26,806)	(32,804)	(40,395)
Operating Profit After Provisions	21,722	30,306	37,466	43,878	54,503
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	21,722	30,306	37,466	43,878	54,503
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	21,722	30,306	37,466	43,878	54,503
Exceptional Items					
Pre-tax Profit	21,722	30,306	37,466	43,878	54,503
Taxation	(5,560)	(7,721)	(9,600)	(11,243)	(13,965)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	16,161	22,585	27,866	32,636	40,538
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	16,161	22,585	27,866	32,636	40,538
Recurring Net Profit					

Balance Sheet

(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%	6.5%	5.4%	5.1%
Avg Liquid Assets/Avg IEAs	7.3%	8.1%	7.0%	5.7%	5.4%
Net Cust Loans/Assets	87.1%	86.4%	88.9%	89.7%	90.5%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	25.7%	25.0%	24.4%	23.7%	23.4%
Asset Risk Weighting	85.0%	85.0%	85.0%	85.0%	85.0%
Provision Charge/Avg Cust Loans	8.41%	6.21%	6.00%	5.80%	5.70%
Provision Charge/Avg Assets	7.32%	5.38%	5.27%	5.18%	5.14%
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	5,886	7,717	10,101
Long-term Investments					
Total Assets	346,484	455,460	562,495	703,813	868,377
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	229,825	311,100	387,539	493,172	614,142
Total Interest-Bearing Liabilities	229,825	311,100	387,539	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	440,508	554,087	684,194
Shareholders Equity	77,527	98,300	121,986	149,727	184,184
Minority Interests					
Total Equity	77,527	98,300	121,986	149,727	184,184

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	(1.2%)	17.4%	26.8%	21.9%	27.5%
Operating Profit Growth	11.8%	17.2%	23.8%	19.3%	23.8%
Pretax Profit Growth	64%	40%	24%	17%	24%
Net Interest To Total Income	37.4%	35.6%	35.6%	35.1%	36.1%
Cost Of Funds	5.01%	6.09%	5.85%	5.50%	5.20%
Return On Interest Earning Assets	17.4%	16.9%	16.5%	15.8%	15.9%
Net Interest Spread	12.40%	10.77%	10.65%	10.34%	10.70%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	14.65%	13.22%	13.21%	12.95%	13.30%
Provisions to Pre Prov. Operating Profit	51%	42%	42%	43%	43%
Interest Return On Average Assets	12.45%	11.24%	11.22%	11.00%	11.30%
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%	5.47%	5.15%	5.16%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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