



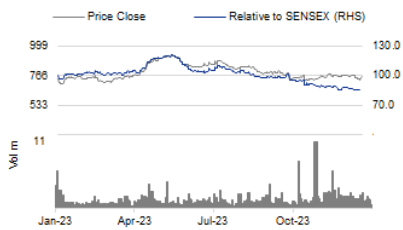
India

REDUCE (no change)

Consensus ratings*: Buy 14 Hold 5 Sell 9	
Current price:	Rs760
Target price:	Rs500
Previous target:	Rs600
Up/downside:	-34.2%
InCred Research / Consensus:	-40.2%
Reuters:	
Bloomberg:	SBICARD IN
Market cap:	US\$8,692m Rs722,433m
Average daily turnover:	US\$15.3m Rs1270.5m
Current shares o/s:	0.0m
Free float:	40.0%
*Source: Bloomberg	

Key changes in this note

After an adverse policy action by the RBI, we expect a slowdown in card issuance amid weak capital adequacy along with margin pressure & elevated credit costs in 4QFY24F.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(1.1)	(1.6)	6.3
Relative (%)	(0.2)	(12.1)	(9.5)

<b>Major shareholders</b>	% held
State Bank of India	69.3
CA Rover	3.1
Nippon life	1.4

Research Analyst(s)



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

**Mayank AGARWAL**  
T (91) 22 4161 0000  
E mayank.agarwal@incredresearch.com

**Rishabh JOGANI**  
T (91) 22 4161 0000  
E rishabh.jogani@incredresearch.com

SBI Cards

There is enough room for valuation erosion

- SBI Cards posted lower-than-expected 3Q PAT of Rs5.49bn (InCred est: Rs6.69bn), despite flat margins, amid a rise in operating costs & high provision.
- Post adverse policy action by the RBI, we expect a slowdown in card issuance amid weak adequacy along with margin pressure & elevated credit costs in 4Q.
- We expect its premium valuation to erode due to slowing growth & declining profitability. It is our high-conviction bet. Retain REDUCE with a TP of Rs500.

New account additions remain low & the momentum to ease further

SBI Cards (SBIC) witnessed a ~4% sequential decline (-33% yoy) in new account additions in 3QFY24 to 1.09m vs. 1.14m in 2QFY24. The overall spending rose to Rs968.6bn (+22% qoq) amid the festive season but a surge in spending per card remains a worry considering the volatile asset quality trend of the company. The Reserve Bank of India (RBI) has increased the risk weight on consumer credit exposure of NBFCs, which is applicable to new loans as well as existing loans. This has negatively impacted the capital adequacy whereby its Tier-I capital dipped to ~16.3% in Dec 2023 vs. ~20.8% in Sep 2023. Though its management remains confident of managing healthy card issuance with the support of Tier-II capital, we expect the overall growth momentum in issuances as well as advances to ease in the coming quarters.

Manages margins sequentially but a correction likely in 4QFY24F

SBIC could manage to hold sequentially flat margins at ~11.3%, despite the consistent rise in the cost of funds amid elevated spending during the quarter, However, its management has highlighted that the impact of a rise in risk weight for NBFCs is yet to be factored in the overall cost of funds. This indicates a further rise in the cost of funds. With slowing growth and elevated cost of funds, margins to remain under pressure in 4QFY24F.

Asset quality trend to remain volatile; credit costs to remain elevated

SBIC has reported a sequential rise in GNPA's to 2.64% vs. 2.43% last quarter whereas the provision charges rose by ~19% sequentially. Management expects such an elevated trend to continue in 4QFY24F as well, considering the portfolio behaviour. SBIC's focus on Tier-3 cities and beyond has resulted in its large exposure to a vulnerable customer base which has limited understanding of the credit card product. This, coupled with weak underwriting practices of the company, will keep the overall credit costs elevated.

Outlook & valuation

We believe the premium valuation will erode as the exclusivity attached with the credit card model is fading. RBI has made the cost of funds elevated while credit costs are staying elevated as the mass population has a limited understanding of credit cards. We retain our REDUCE rating on SBIC with a lower target price of Rs500 (Rs600 earlier) or ~3.5x FY25F ABV and recommending a high-conviction Sell. Superior growth or lower non-performing assets remain an upside risk to our investment thesis.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	38,387	45,051	53,028	62,859	75,315
Total Non-Interest Income (Rsm)	64,355	81,327	98,151	112,627	137,123
Operating Revenue (Rsm)	102,742	126,378	151,178	175,486	212,437
Total Provision Charges (Rsm)	(22,558)	(21,591)	(32,279)	(35,715)	(42,217)
Net Profit (Rsm)	16,161	22,585	23,292	23,578	26,786
Core EPS (Rs)	17.14	23.87	24.62	24.92	28.32
Core EPS Growth	64%	39%	3%	1%	14%
FD Core P/E (x)	44.34	31.83	30.86	30.49	26.84
DPS (Rs)	2.50	2.00	3.71	3.76	4.27
Dividend Yield	0.33%	0.26%	0.49%	0.49%	0.56%
BVPS (Rs)	82.2	103.9	124.8	146.0	170.1
P/BV (x)	9.24	7.31	6.09	5.20	4.47
ROE	23.0%	25.7%	21.5%	18.4%	17.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly results summary**

Particulars (Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Net Interest Income	11,446	11,651	12,332	12,969	13,870	21.2%	6.9%
Fee-Based Income	20,473	22,442	22,416	23,196	26,591	29.9%	14.6%
Total Income	31,919	34,093	34,748	36,165	40,461	26.8%	11.9%
Operating Expenses	19,745	19,799	19,599	20,656	24,256	22.8%	17.4%
C/I Ratio (%)	61.9%	58.1%	56.4%	57.1%	59.9%		
<b>Operating Profit</b>	<b>12,174</b>	<b>14,294</b>	<b>15,149</b>	<b>15,510</b>	<b>16,205</b>	<b>33.1%</b>	<b>4.5%</b>
Provisions	5,330	6,298	7,186	7,416	8,829	65.6%	19.1%
% of Operating Profit	43.8%	44.1%	47.4%	47.8%	54.5%		
Exceptional Items	-	-	-	-	-		
<b>PBT</b>	<b>6,843</b>	<b>7,997</b>	<b>7,963</b>	<b>8,094</b>	<b>7,376</b>	<b>7.8%</b>	<b>-8.9%</b>
Tax	1,749	2,032	2,033	2,064	1,885	7.8%	-8.7%
Tax Rate (%)	25.6%	25.4%	25.5%	25.5%	25.6%		
<b>PAT</b>	<b>5,095</b>	<b>5,965</b>	<b>5,931</b>	<b>6,030</b>	<b>5,491</b>	<b>7.8%</b>	<b>-8.9%</b>
<b>Gross NPL</b>	<b>8,575</b>	<b>9,570</b>	<b>10,428</b>	<b>10,954</b>	<b>12,896</b>	<b>50.4%</b>	<b>17.7%</b>
GNPL (% of loans)	2.2%	2.4%	2.4%	2.4%	2.6%		
<b>Net NPL</b>	<b>2,988</b>	<b>3,424</b>	<b>3,721</b>	<b>3,876</b>	<b>4,528</b>	<b>51.5%</b>	<b>16.8%</b>
NNPL (% of loans)	0.8%	0.9%	0.9%	0.9%	1.0%		
Provision Coverage (%)	64.0%	63.0%	63.1%	63.4%	63.6%		
<b>Advances (Rs m)</b>	<b>373,540</b>	<b>393,610</b>	<b>418,130</b>	<b>435,560</b>	<b>471,640</b>	<b>26.3%</b>	<b>8.3%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

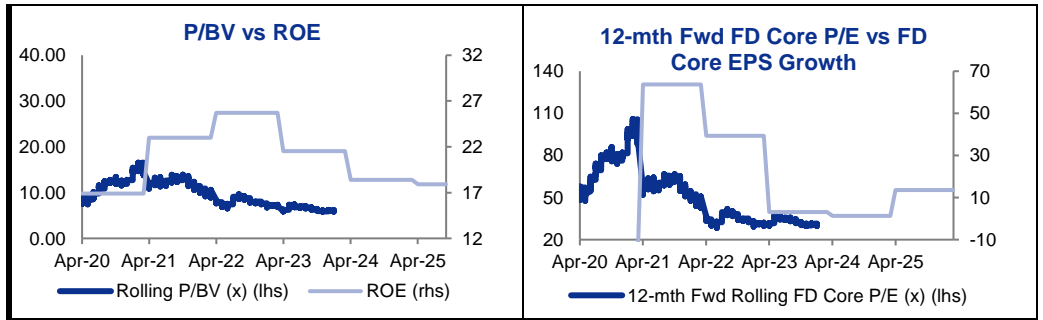
Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	52,181	53,028	1.6%	64,840	62,859	-3.1%	79,237	75,315	-5.0%
Non-Interest Income	95,309	98,151	3.0%	113,894	112,627	-1.1%	140,172	137,123	-2.2%
PPOP	62,771	63,544	1.2%	73,952	67,364	-8.9%	90,918	78,171	-14.0%
PAT	25,227	23,292	-7.7%	30,253	23,578	-22.1%	36,957	26,786	-27.5%
EPS (Rs)	26.8	24.7	-7.7%	32.1	25.0	-22.0%	39.2	28.4	-27.4%
BV (Rs)	127.1	125.4	-1.3%	154.4	146.7	-5.0%	187.8	170.9	-9.0%
ABV (Rs)	124.1	122.3	-1.4%	150.4	142.7	-5.1%	182.1	165.9	-8.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Conference-call highlights

- Management indicated that margin decline will be higher in 4QFY24F due to the rise in cost of borrowing as interest rate rises.
- Most of the clean-up in card default is done by the company while 40% to 45% of customer attrition is due to the blocking done by the company.
- While processing a credit card application, if the credit score of a customer is at 730+ level, and by then the customer takes cards from multiple places and later defaults, his credit score stands reduced to 600.
- New-to-credit customers comprise 10%-15% of the customers acquired through the State Bank of India route where the screening is done by looking at their bank statements based on which the products are offered.
- Due to the festive season spending peaking in Oct and mid-Nov 2023, spending in Dec 2023 was slightly lower.
- SBIC is planning to raise Tier-2 capital.
- The Unified Payment Interface or UPI functionality on Rupay credit cards is becoming popular among customers, with 25% of all Rupay cardholders already enrolled for UPI usage.
- The underwriting policy is refined based on portfolio diagnostics and bureau information, and SBIC has implemented actions such as a reduction in limits, restrictions on cross-selling and spending, and trigger-based early blocking to manage risk.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	38,387	45,051	53,028	62,859	75,315
<b>Total Non-Interest Income</b>	<b>64,355</b>	<b>81,327</b>	<b>98,151</b>	<b>112,627</b>	<b>137,123</b>
Operating Revenue	102,742	126,378	151,178	175,486	212,437
<b>Total Non-Interest Expenses</b>	<b>(58,462)</b>	<b>(74,481)</b>	<b>(87,634)</b>	<b>(108,122)</b>	<b>(134,266)</b>
Pre-provision Operating Profit	44,280	51,896	63,544	67,364	78,171
<b>Total Provision Charges</b>	<b>(22,558)</b>	<b>(21,591)</b>	<b>(32,279)</b>	<b>(35,715)</b>	<b>(42,217)</b>
Operating Profit After Provisions	21,722	30,306	31,265	31,649	35,955
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	21,722	30,306	31,265	31,649	35,955
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	21,722	30,306	31,265	31,649	35,955
<b>Exceptional Items</b>					
Pre-tax Profit	21,722	30,306	31,265	31,649	35,955
Taxation	(5,560)	(7,721)	(7,973)	(8,070)	(9,168)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	16,161	22,585	23,292	23,578	26,786
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	16,161	22,585	23,292	23,578	26,786
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%	7.5%	6.7%	5.7%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>7.3%</b>	<b>8.1%</b>	<b>8.2%</b>	<b>7.2%</b>	<b>6.0%</b>
Net Cust Loans/Assets	87.1%	86.4%	87.1%	88.7%	90.0%
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans	25.7%	25.0%	24.1%	22.7%	21.7%
Asset Risk Weighting	85.0%	85.0%	85.0%	85.0%	85.0%
<b>Provision Charge/Avg Cust Loans</b>	<b>8.41%</b>	<b>6.21%</b>	<b>7.30%</b>	<b>6.50%</b>	<b>6.25%</b>
<b>Provision Charge/Avg Assets</b>	<b>7.32%</b>	<b>5.38%</b>	<b>6.33%</b>	<b>5.72%</b>	<b>5.59%</b>
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
<b>Total Gross Loans</b>	<b>301,873</b>	<b>393,610</b>	<b>490,753</b>	<b>608,185</b>	<b>742,748</b>
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	516,005	637,478	776,141
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	314,844	415,010	516,005	637,478	776,141
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>20,576</b>	<b>26,910</b>	<b>31,431</b>	<b>35,543</b>	<b>38,781</b>
<b>Total Non-Interest Earning Assets</b>	<b>20,576</b>	<b>26,910</b>	<b>31,431</b>	<b>35,543</b>	<b>38,781</b>
Cash And Marketable Securities	11,064	13,540	16,234	12,582	10,236
<b>Long-term Investments</b>					
Total Assets	346,484	455,460	563,670	685,603	825,158
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	229,825	311,100	392,602	486,548	594,198
Total Interest-Bearing Liabilities	229,825	311,100	392,602	486,548	594,198
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	445,571	547,463	664,250
Shareholders Equity	77,527	98,300	118,098	138,140	160,908
<b>Minority Interests</b>					
Total Equity	77,527	98,300	118,098	138,140	160,908

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Income Growth	(1.2%)	17.4%	17.7%	18.5%	19.8%
Operating Profit Growth	11.8%	17.2%	22.4%	6.0%	16.0%
Pretax Profit Growth	64%	40%	3%	1%	14%
Net Interest To Total Income	37.4%	35.6%	35.1%	35.8%	35.5%
Cost Of Funds	5.01%	6.09%	7.55%	7.20%	7.00%
Return On Interest Earning Assets	17.4%	16.9%	17.1%	16.4%	16.0%
Net Interest Spread	12.40%	10.77%	9.55%	9.19%	9.01%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	14.65%	13.22%	12.24%	11.84%	11.73%
Provisions to Pre Prov. Operating Profit	51%	42%	51%	53%	54%
Interest Return On Average Assets	12.45%	11.24%	10.41%	10.06%	9.97%
Effective Tax Rate	25.6%	25.5%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	5.24%	5.63%	4.57%	3.77%	3.55%

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. Whilst 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 are 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 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

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

#### 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 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.