



India

REDUCE (no change)

Consensus ratings*: Buy 8 Hold 9 Sell 12

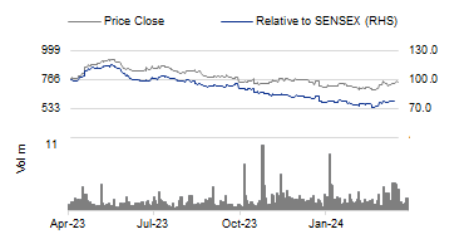
Current price:	Rs750
Target price:	Rs500
Previous target:	Rs500
Up/downside:	-33.3%
InCred Research / Consensus:	-34.7%

Reuters:	
Bloomberg:	SBICARD IN
Market cap:	US\$8,562m
	Rs713,654m
Average daily turnover:	US\$17.4m
	Rs1451.9m
Current shares o/s:	0.0m
Free float:	40.0%

*Source: Bloomberg

Key changes in this note

- Post adverse policy action by the RBI, we expect a slowdown in card issuance and overall spending amid weak capital adequacy & deteriorating asset quality,



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.7	(1.2)	(3.3)
Relative (%)	7.6	(3.6)	(19.9)

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

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SBI Cards**Premium valuation is unjustified**

- SBI Cards continued to demonstrate a weak profitability trend, with its 4QFY24 PAT at Rs6.6bn (+11% yoy) amid falling margins and elevated credit costs.
- Post adverse policy action by the RBI, we expect a slowdown in card issuance and overall spending amid weak capital adequacy & deteriorating asset quality,
- We expect its premium valuation to erode with growth slowing & profitability weakening. It is our high-conviction REDUCE-rated stock with a TP of Rs500.

New account additions remain low and momentum to ease further

SBI Cards (SBIC) witnessed a ~6% sequential decline (-25% yoy) in new account additions in 4QFY24 at 1.03m against 1.09m in 3QFY24. Overall spending also declined sequentially by 18% to Rs796.5bn amid slowing fresh card issuance and limited balance sheet strength of the company to take risks. The Reserve Bank of India or 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 hit the capital adequacy ratio. Though SBIC's management remains confident of managing healthy card issuance with the support of Tier-II capital (raised Rs12.8bn in Tier-II bonds), we expect the overall growth momentum in card issuance & advances to ease in the coming quarters.

Margins managed qoq but near-term margin trajectory to be softer

SBIC witnessed a ~40bps sequential decline in margins to ~10.8% amid a consistent rise in the cost of funds as well as the limited ability of the company to increase yields due to stiff competition. Management has highlighted that the overall borrowing profile of the company may remain volatile after a rise in risk weight for NBFCs, which will hit the overall cost of funds. Thus, margin pressure may continue in 1HFY25F.

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

SBIC reported a sequential rise in gross non-performing assets or GNPA's to 2.76%, against 2.64% last quarter, whereas provisioning increased by ~7% sequentially. Management expects such an elevated trend to continue in FY25F 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 the weak underwriting practices of the company, would 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. The central bank has kept the cost of funds elevated whereas lower revolver rates are keeping the yields in check. This has always been a high opex business whereas the fee income has been sacrificed for card partnerships. Finally, credit costs are staying elevated as the mass population has limited understanding of credit cards. We retain REDUCE rating with a target price of Rs500 or ~2.9x FY26F BV and assigning a high-conviction Sell status. Superior growth or lower non-performing assets remains 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	53,319	59,826	75,145
Total Non-Interest Income (Rsm)	64,355	81,327	95,564	115,136	137,143
Operating Revenue (Rsm)	102,742	126,378	148,883	174,961	212,288
Total Provision Charges (Rsm)	(22,558)	(21,591)	(32,874)	(38,334)	(46,377)
Net Profit (Rsm)	16,161	22,585	24,079	22,138	25,362
Core EPS (Rs)	17.14	23.87	25.32	23.28	26.67
Core EPS Growth	64%	39%	6%	(8%)	15%
FD Core P/E (x)	43.80	31.43	29.64	32.24	28.14
DPS (Rs)	2.50	2.00	2.50	3.50	4.01
Dividend Yield	0.33%	0.27%	0.33%	0.47%	0.53%
BVPS (Rs)	82.2	103.9	127.1	146.9	169.5
P/BV (x)	9.13	7.22	5.91	5.11	4.43
ROE	23.0%	25.7%	22.0%	17.0%	16.9%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings estimates

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)
Net Interest Income	10,789	11,160	11,446	11,651	12,332	12,969	13,870	14,149	21.4%	2.0%
Fee-Based Income	18,755	19,690	20,473	22,442	22,416	23,196	26,591	23,360	4.1%	-12.2%
Total Income	29,545	30,850	31,919	34,093	34,748	36,165	40,461	37,509	10.0%	-7.3%
Operating Expenses	16,633	18,340	19,745	19,799	19,599	20,652	24,256	19,184	-3.1%	-20.9%
C/I Ratio (%)	56.3%	59.4%	61.9%	58.1%	56.4%	57.1%	59.9%	51.1%		
Operating Profit	12,912	12,510	12,174	14,294	15,149	15,514	16,205	18,325	28.2%	13.1%
Provisions	4,503	5,460	5,330	6,298	7,186	7,416	8,829	9,444	50.0%	7.0%
% of operating profit	34.9%	43.6%	43.8%	44.1%	47.4%	47.8%	54.5%	51.5%		
Exceptional Items	-	-	-	-	-	-	-	-		
PBT	8,409	7,050	6,843	7,997	7,963	8,098	7,376	8,881	11.1%	20.4%
Tax	2,140	1,790	1,749	2,032	2,033	2,064	1,885	2,257	11.1%	19.7%
Tax rate (%)	25.4%	25.4%	25.6%	25.4%	25.5%	25.5%	25.6%	25.4%		
PAT	6,269	5,260	5,095	5,965	5,931	6,034	5,491	6,624	11.0%	20.6%
Gross NPL	7,440	8,074	8,575	9,570	10,428	10,954	12,896	14,022	46.5%	8.7%
GNPL (% of loans)	2.2%	2.1%	2.2%	2.4%	2.4%	2.4%	2.6%	2.8%		
Net NPL	2,534	2,847	2,988	3,424	3,721	3,876	4,528	4,879	51.5%	16.8%
NNPL (% of loans)	0.8%	0.8%	0.8%	0.9%	0.9%	0.9%	1.0%	1.0%		
Provision Coverage (%)	64.7%	63.6%	64.0%	63.0%	63.1%	63.4%	63.6%	64.0%		
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	26.3%	8.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

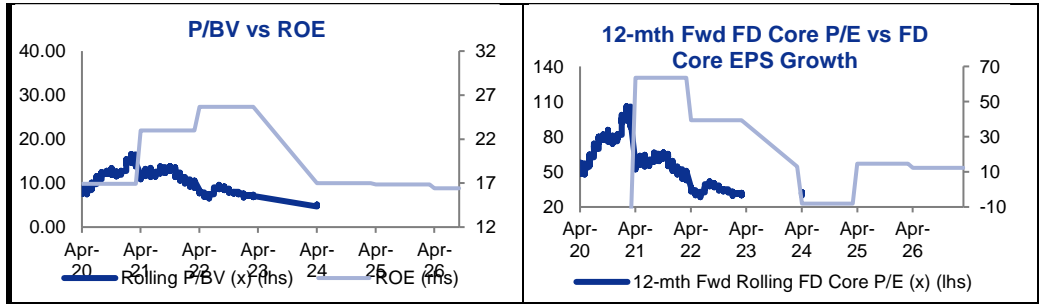
Y/E Mar (Rs m)	FY25F			FY26F			FY27F (Introduced)		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	62,859	59,826	-4.8%	75,315	75,145	-0.2%	NA	93,651	NA
Non-interest Income	1,12,627	1,15,136	2.2%	1,37,123	1,37,143	0.0%	NA	1,69,056	NA
PPOP	67,364	68,049	1.0%	78,171	80,420	2.9%	NA	93,651	NA
PAT	23,578	22,138	-6.1%	26,786	25,362	-5.3%	NA	28,457	NA
EPS (Rs)	25.0	23.3	-6.7%	28.4	26.7	-5.9%	NA	30.0	NA
BV (Rs)	146.7	147.2	0.3%	170.9	169.9	-0.6%	NA	195.4	NA
ABV (Rs)	142.7	141.9	-0.6%	165.9	163.3	-1.6%	NA	187.4	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4Q earnings conference call - key highlights

- In new sourcing, the early delinquency rate has been better.
- The market share in spending was healthy until 3QFY24, but the RBI's action on peer-to-peer transactions in mid-Feb 2024 impacted 4QFY24. It will be back on track in Jun-Jul this year.
- After the corporate spending gets normal, the opex-to-CV ratio will come back to 55%+.
- Tier-2 towns have seen a better pick-up in RuPay UPI terminal.
- Net interest margin or NIM is expected to be around 20-22% in FY25F. No rate cuts are expected, at least till the first half of FY25F.
- The portfolio is analyzed and monitored closely to identify the trend of early delinquency, which will bring down credit costs to below 7%.
- Average monthly spending per customer is Rs0.148m, which comes to Rs 12,000 to 13,000 per customer, per month. As only 50% of the customers are active, the average spending per active customer, per month, goes to around Rs26,000. Out of this, UPI credit card spending is Rs13,000 (~50%) and the remaining is pure credit card spending.
- The rental spending growth reduced considerably.
- The new vintage is in the range of 22-24 months, which constitutes around 40% of the loan book.
- The customer bureau data is viewed once a quarter. In case there is risk, the data is viewed much more frequently.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	38,387	45,051	53,319	59,826	75,145
Total Non-Interest Income	64,355	81,327	95,564	115,136	137,143
Operating Revenue	102,742	126,378	148,883	174,961	212,288
Total Non-Interest Expenses	(58,462)	(74,481)	(83,691)	(106,912)	(131,868)
Pre-provision Operating Profit	44,280	51,896	65,192	68,049	80,420
Total Provision Charges	(22,558)	(21,591)	(32,874)	(38,334)	(46,377)
Operating Profit After Provisions	21,722	30,306	32,318	29,716	34,043
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	21,722	30,306	32,318	29,716	34,043
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	21,722	30,306	32,318	29,716	34,043
Exceptional Items					
Pre-tax Profit	21,722	30,306	32,318	29,716	34,043
Taxation	(5,560)	(7,721)	(8,239)	(7,578)	(8,681)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	16,161	22,585	24,079	22,138	25,362
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	16,161	22,585	24,079	22,138	25,362
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%	9.4%	10.4%	9.6%
Avg Liquid Assets/Avg IEAs	7.3%	8.1%	10.4%	11.5%	10.4%
Net Cust Loans/Assets	87.1%	86.4%	84.4%	85.3%	86.9%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	25.7%	25.0%	24.6%	23.1%	21.2%
Asset Risk Weighting	81.8%	79.8%	93.5%	93.5%	93.5%
Provision Charge/Avg Cust Loans	8.41%	6.21%	7.43%	7.00%	6.80%
Provision Charge/Avg Assets	7.32%	5.38%	6.34%	5.94%	5.86%
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	490,790	604,462	759,559
Liquid Assets & Invst. (Current)	12,972	21,397	35,191	45,749	59,473
Other Int. Earning Assets					
Total Gross Int. Earning Assets	314,844	415,007	525,981	650,211	819,032
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	314,844	415,007	525,981	650,211	819,032
Intangible Assets					
Other Non-Interest Earning Assets	20,576	26,904	28,435	32,136	35,053
Total Non-Interest Earning Assets	20,576	26,904	28,435	32,136	35,053
Cash And Marketable Securities	11,064	13,545	27,296	26,628	20,416
Long-term Investments					
Total Assets	346,484	455,456	581,712	708,975	874,502
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	229,825	342,010	443,649	549,511	690,508
Total Interest-Bearing Liabilities	229,825	342,010	443,649	549,511	690,508
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	39,133	15,146	17,223	19,807	22,778
Total Liabilities	268,957	357,156	460,872	569,317	713,286
Shareholders Equity	77,527	98,300	120,840	139,658	161,216
Minority Interests					
Total Equity	77,527	98,300	120,840	139,658	161,216

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	(1.2%)	17.4%	18.4%	12.2%	25.6%
Operating Profit Growth	11.8%	17.2%	25.6%	4.4%	18.2%
Pretax Profit Growth	64%	40%	7%	(8%)	15%
Net Interest To Total Income	37.4%	35.6%	35.8%	34.2%	35.4%
Cost Of Funds	5.01%	5.76%	6.61%	6.70%	6.25%
Return On Interest Earning Assets	17.4%	16.9%	16.8%	15.8%	15.5%
Net Interest Spread	12.40%	11.10%	10.24%	9.13%	9.25%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	14.96%	13.93%	11.75%	9.91%	10.15%
Provisions to Pre Prov. Operating Profit	51%	42%	50%	56%	58%
Interest Return On Average Assets	12.45%	11.24%	10.28%	9.27%	9.49%
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%	4.64%	3.43%	3.20%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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