



India

REDUCE (no change)

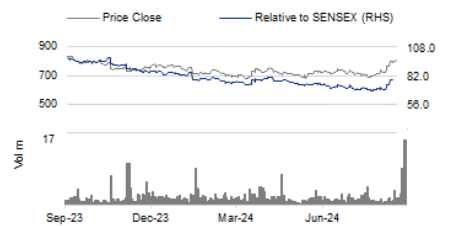
Consensus ratings*: Buy 6 Hold 7 Sell 13

Current price:	Rs805
Target price:	Rs500
Previous target:	Rs500
Up/downside:	-37.9%
InCred Research / Consensus:	-29.9%
Reuters:	SBIC.NS
Bloomberg:	SBICARD IN
Market cap:	US\$10,547m Rs765,887m
Average daily turnover:	US\$18.0m Rs1309.1m
Current shares o/s:	951.1m
Free float:	31.4%

*Source: Bloomberg

Key changes in this note

- 40% of the cards in force for SBIC are from Tier-III cities and beyond as of Jun 2024-end, with ~50% new sourcing from similar geographies.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	16.4	10.7	(3.2)
Relative (%)	12.9	2.9	(20.8)

Major shareholders	% held
State Bank of India	68.6
LIC	6.0
ICICI Pru	5.4

Research Analyst(s)



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SBI Cards

Will take a while to make you smile

- SBIC shed ~290bp market share in spending & ~100bp in issuance since Aug 2023, which may continue due to weak capital adequacy & tight competition.
- With ~40% of the cards issued in semi-urban & rural areas as well as defaults witnessed across vintages, elevated NPAs & credit costs are here to stay.
- We expect its premium valuation to erode with weak profitability & deteriorating return ratios. It is our High Conviction REDUCE-rated stock with a TP of Rs500.

ICICI Bank is already the second-largest player in card spending

SBI Cards (SBIC) has already lost its second position to ICICI Bank in card spending (Fig. 1) by losing ~290bp of its market share since Aug 2023. On analyzing further, we observe that the market share loss in the case of online spending (Fig. 2) had been even steeper at ~410bp whereas for the offline mode (PoS), the loss is ~50bp (Fig. 3). In the case of cards in force or CIF (Fig. 4), SBIC lost market share of ~100bp, though it maintained its position of being the second-largest issuer. We believe that the softening of the capital base (Fig. 5) has affected the growth, which will continue in the coming quarters as well.

Monetary easing benefits margin but rising term loans are a problem

As almost ~100% of SBIC's advances are fixed-rate ones, the margin trajectory is expected to witness an improvement during monetary easing. However, we observe that though the quantum of working capital loans (Fig. 6), which is typically linked to the external benchmark, has remained flat yoy at ~63%, SBIC has increased its term loan exposure from ~13% in 1QFY24 to ~20% in 1QFY25, which may get repriced gradually. We also believe that the quantum of margin gains would be lower compared to previous cycles, as the cost of funds for NBFCs has increased due to the increase in risk weights for banks.

Concerns persist on elevated exposure to Tier-III cities and beyond

SBIC has been witnessing a volatile trend in asset quality and a rise in credit costs for the past few quarters. 40% of the CIF for SBIC is from Tier-III cities and beyond (Fig. 7) as of Jun 2024-end, with ~50% new sourcing from similar geographies (Fig. 8). We are witnessing rising EMI payment bouncing and stickier defaults, especially in semi-urban/rural areas amid over-leveraging as well as weak income growth. Also, the defaults for SBIC are witnessed across vintages (old vs. new or else salaried vs. self-employed customers) and geographies, indicating problems with the collection mechanism as well as underwriting practices. Thus, elevated NPAs and credit costs are here to stay.

Declining return ratios do not justify premium valuation

We double downgraded SBIC's rating from ADD to REDUCE in Nov 2023, post tightening of risk weights by the Reserve Bank of India, raising concerns over slowing growth, rise in the cost of funds and deteriorating asset quality. We believe the consistent deterioration in return ratios (Fig. 9) does not justify the premium valuation. We retain our High Conviction REDUCE rating on SBIC with a target price of Rs500 or ~3x FY26F BV. Superior growth or lower NPAs remains a key downside risk.

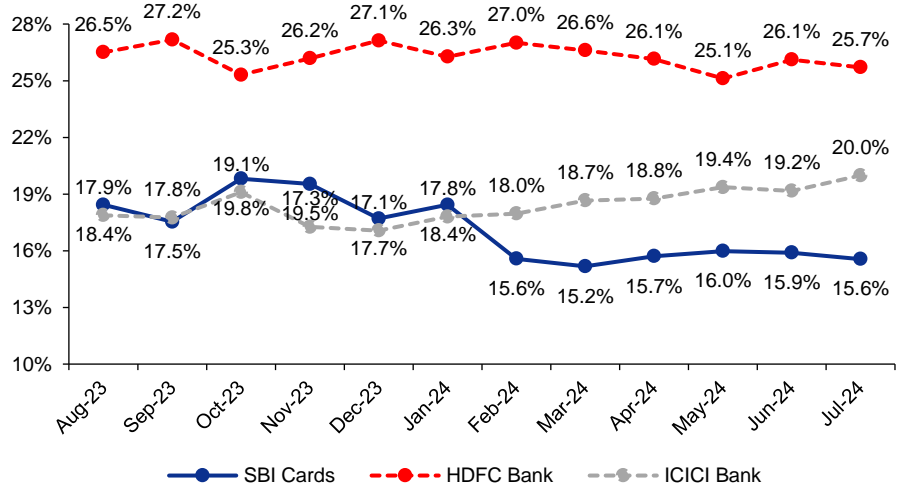
Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	45,051	53,319	61,617	72,052	82,374
Total Non-Interest Income (Rsm)	81,327	95,564	98,619	115,089	131,720
Operating Revenue (Rsm)	126,378	148,883	160,236	187,141	214,094
Total Provision Charges (Rsm)	(21,591)	(32,874)	(40,594)	(45,047)	(49,235)
Net Profit (Rsm)	22,585	24,079	24,479	27,264	31,231
Core EPS (Rs)	23.87	25.32	25.74	28.67	32.84
Core EPS Growth	39%	6%	2%	11%	15%
FD Core P/E (x)	33.73	31.80	31.28	28.09	24.52
DPS (Rs)	2.00	2.50	3.87	4.31	4.94
Dividend Yield	0.25%	0.31%	0.48%	0.54%	0.61%
BVPS (Rs)	103.9	127.1	149.0	173.3	201.2
P/BV (x)	7.75	6.34	5.41	4.65	4.00
ROE	25.7%	22.0%	18.7%	17.8%	17.5%

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

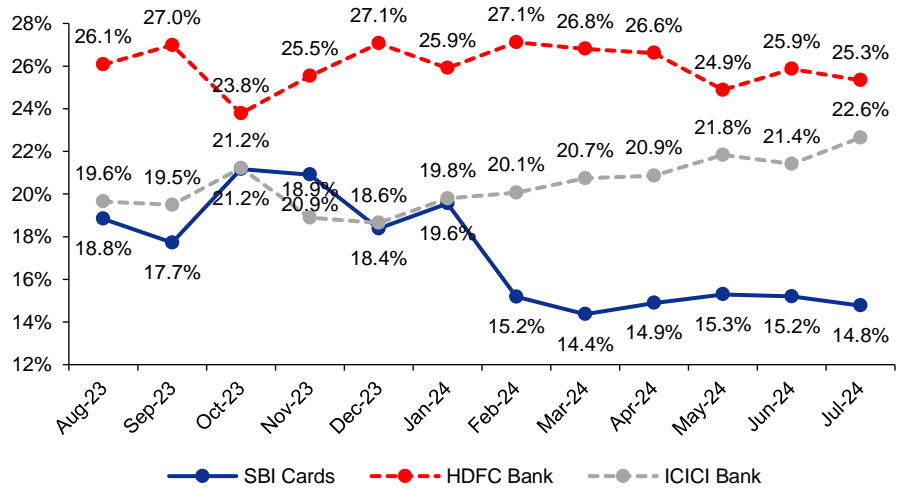
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: ICICI Bank is the second-largest credit card issuer based on total spending



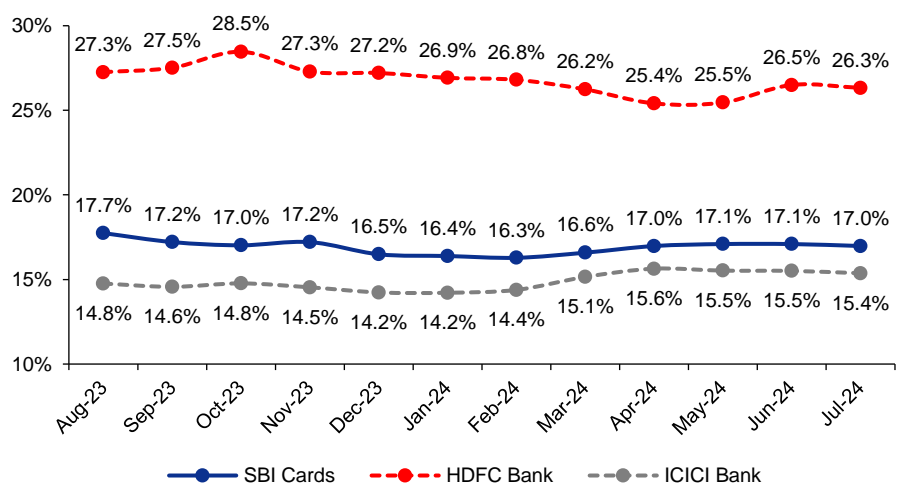
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Market share loss in online spending has been steeper



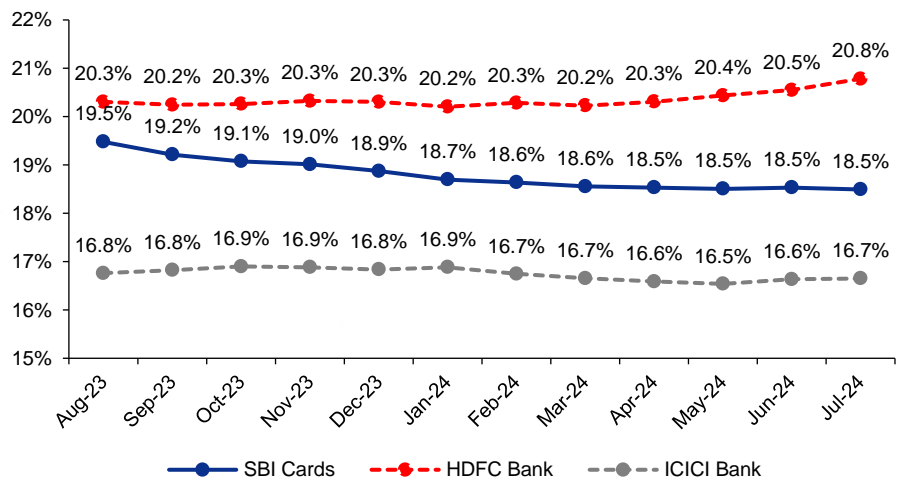
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Even offline channels for SBI Cards have witnessed market share loss



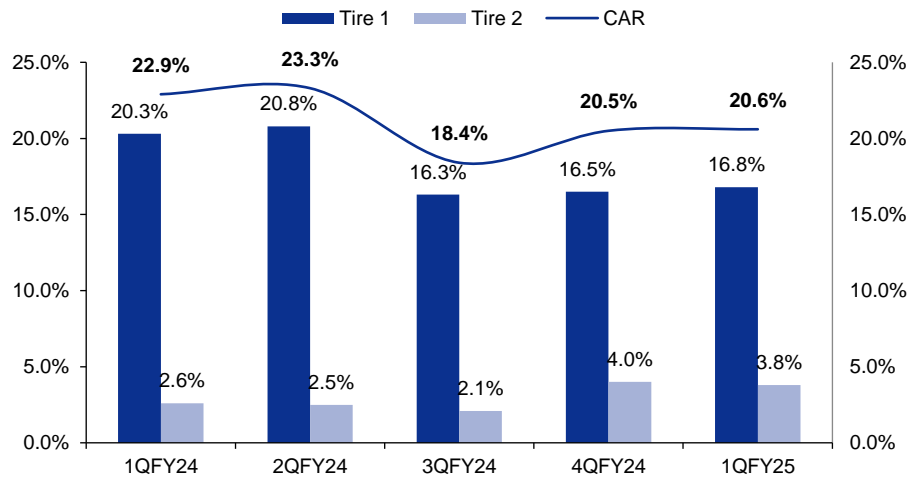
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: SBI Cards maintains its leadership in CIF despite losing market share



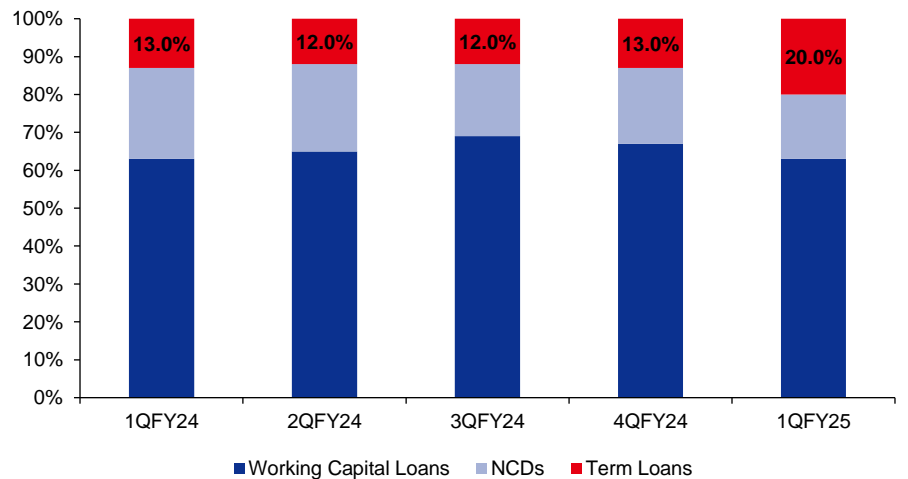
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Capital adequacy ratio witnesses a steep decline post rise in RWAs



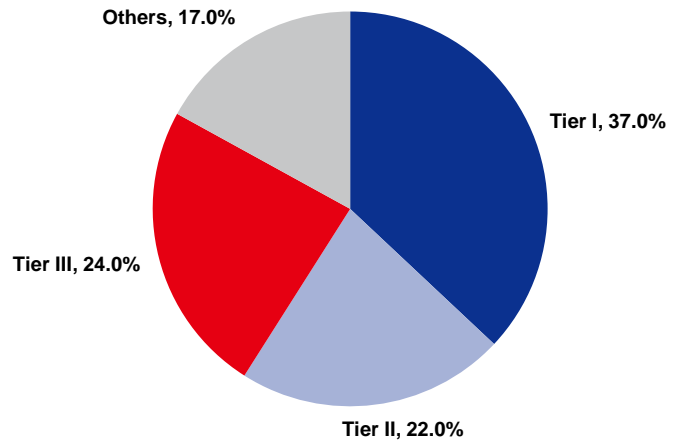
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: The share of term loans witnessed a surge over the past one year



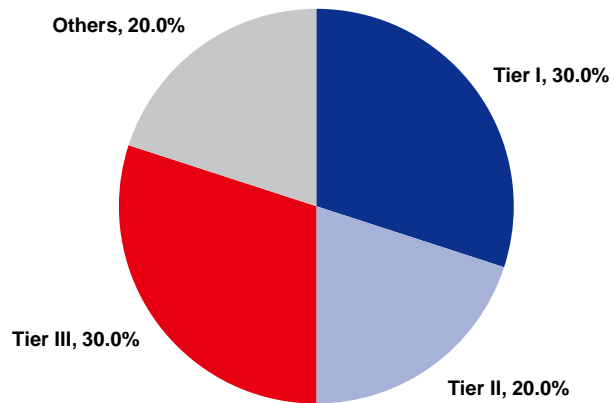
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: 40% of existing cards issued are in Tier-III cities and beyond



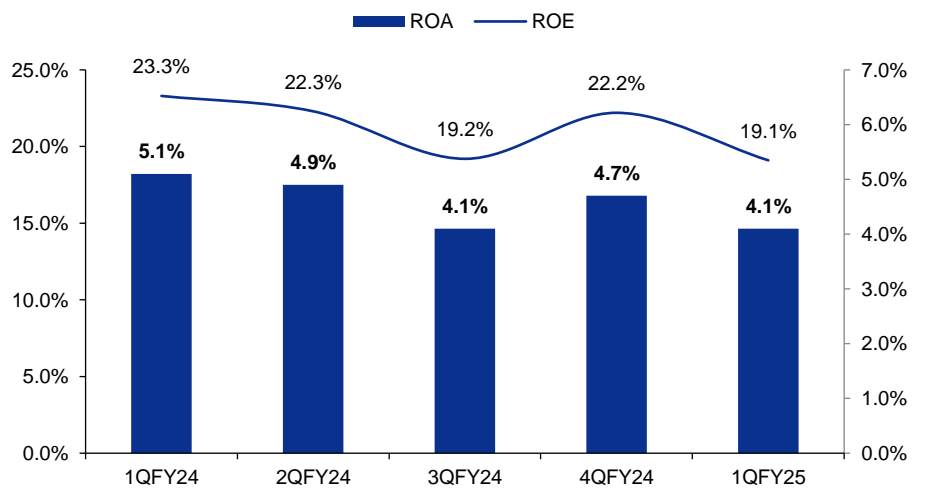
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 50% of incremental sourcing is from Tier-III cities & beyond



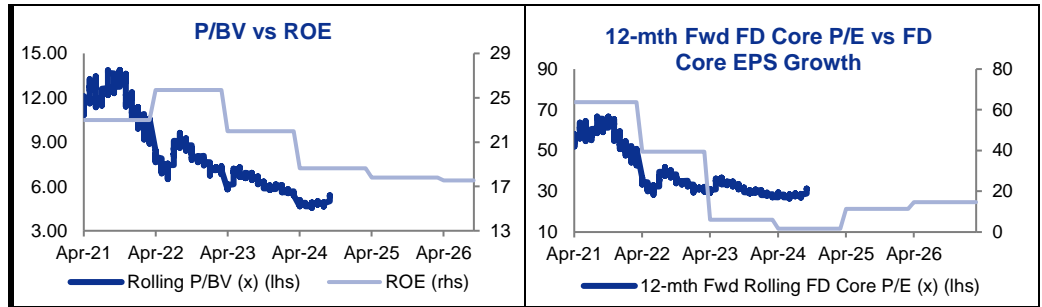
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Deteriorating return ratios do not justify premium valuation



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	45,051	53,319	61,617	72,052	82,374
Total Non-Interest Income	81,327	95,564	98,619	115,089	131,720
Operating Revenue	126,378	148,883	160,236	187,141	214,094
Total Non-Interest Expenses	(74,481)	(83,691)	(86,785)	(105,499)	(122,938)
Pre-provision Operating Profit	51,896	65,192	73,451	81,642	91,155
Total Provision Charges	(21,591)	(32,874)	(40,594)	(45,047)	(49,235)
Operating Profit After Provisions	30,306	32,318	32,857	36,596	41,920
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	30,306	32,318	32,857	36,596	41,920
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	30,306	32,318	32,857	36,596	41,920
Exceptional Items					
Pre-tax Profit	30,306	32,318	32,857	36,596	41,920
Taxation	(7,721)	(8,239)	(8,379)	(9,332)	(10,690)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	22,585	24,079	24,479	27,264	31,231
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	22,585	24,079	24,479	27,264	31,231
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%	10.1%	9.6%	9.6%
Avg Liquid Assets/Avg IEAs	8.1%	10.4%	11.1%	10.5%	10.5%
Net Cust Loans/Assets	86.4%	84.4%	85.8%	86.0%	86.3%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	25.0%	24.6%	23.9%	23.7%	23.3%
Asset Risk Weighting	79.8%	93.5%	93.5%	93.5%	93.5%
Provision Charge/Avg Cust Loans	6.21%	7.43%	7.50%	7.00%	6.50%
Provision Charge/Avg Assets	5.38%	6.34%	6.39%	6.01%	5.60%
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	25,802	31,509	36,587
Long-term Investments					
Total Assets	455,456	581,712	689,771	808,431	949,338
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	141,647	164,822	191,367
Minority Interests					
Total Equity	98,300	120,840	141,647	164,822	191,367

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	17.4%	18.4%	15.6%	16.9%	14.3%
Operating Profit Growth	17.2%	25.6%	12.7%	11.2%	11.7%
Pretax Profit Growth	40%	7%	2%	11%	15%
Net Interest To Total Income	35.6%	35.8%	38.5%	38.5%	38.5%
Cost Of Funds	5.76%	6.61%	6.70%	6.50%	6.30%
Return On Interest Earning Assets	16.9%	16.8%	16.3%	15.9%	15.5%
Net Interest Spread	11.10%	10.24%	9.57%	9.43%	9.16%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	13.93%	11.75%	10.37%	10.29%	10.02%
Provisions to Pre Prov. Operating Profit	42%	50%	55%	55%	54%
Interest Return On Average Assets	11.24%	10.28%	9.69%	9.62%	9.37%
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%	3.85%	3.64%	3.55%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.

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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.