



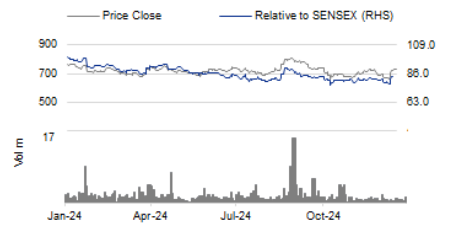
India

REDUCE (no change)

Consensus ratings*:	Buy 7	Hold 9	Sell 11
Current price:	Rs733		
Target price:	Rs550 ▲		
Previous target:	Rs500		
Up/downside:	-25.0%		
InCred Research / Consensus:	-22.1%		
Reuters:	SBIC.NS		
Bloomberg:	SBICARD IN		
Market cap:	US\$9,603m		
	Rs697,294m		
Average daily turnover:	US\$16.8m		
	Rs1216.9m		
Current shares o/s:	0.0m		
Free float:	40.0%		
*Source: Bloomberg			

Key changes in this note

- Intense competition, monoline product line and rising exposure to customers with limited financial discipline, etc to weigh over the near-term NIM advantage.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.2	0.1	(4.5)
Relative (%)	6.8	4.5	(12.9)

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

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SBI Cards

Industry-led issues to weigh over valuation

- SBIC saw ~466bp fall in market share in spending since Nov 2023 & elevated credit costs (+175bp 1HFY25) with defaults across customer vintages.
- Weak capital adequacy to keep fresh issuance & spending under check & with ~42% CIF from Tier-3 cities & beyond, credit costs to remain high till 1HFY26F.
- Intense competition, monoline product line, and rising exposure to customers with limited financial discipline, etc. to weigh over near-term NIM advantage.

Massive market share loss with low signs of a reversal

SBI Cards (SBIC) is yet to move out of the woods after facing a massive market share loss of ~466bp since Nov 2023, when the regulator changed risk-weight norms. The much-awaited festive season also did not move the needle as the spending market share decline continued through Nov 2024 to 14.9%. We believe the subdued capital adequacy ratio has affected growth, which will continue to weigh down in the coming quarters as well.

Diminishing margin benefit despite easing monetary policy

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 the quantum of working capital loans, which is typically linked to the external benchmark, has declined by ~4pp yoy to ~61% while SBIC has raised its term loan exposure from ~12% in 2QFY24 to ~21% in 2QFY25, which may get repriced gradually. We also believe that margin gains would be lower than in the previous cycles due to the increased cost of funds for non-banking finance companies or NBFCs.

Streamlining of asset quality pain to get stretched

As SBIC is tightening its underwriting mechanism, it has slowed down the overall issuance of new cards, especially in Tier-3 and beyond cities, although cards-in-force (CIF) in these cities remained high at ~42% in 2QFY25. CRIF High Mark data indicated a higher rise in the PAR 90-180% bucket (up 3-5% qoq in Jun 2024) for card limits <Rs50,000 vs. the higher categories. However, defaults in the case of SBIC are broad-based, across vintages. We believe that streamlining of the same will continue to play out over the next few quarters and expect credit costs to remain elevated in FY25F-26F.

Outlook and valuation

Monoline product risk along with weak trend in asset quality amid rising exposure towards customers with a low financial discipline is a cause of concern. However, intense competition & tighter underwriting are bringing down new issuances. Consequently, despite the near-term NIM advantage, we expect RoE to remain subdued over FY26F-27F, not justifying the premium valuation. We retain our high-conviction REDUCE rating on SBIC with a new target price of Rs550 or ~3.2x FY26F BV. Superior growth or lower NPAs remain a key upside risk. At this valuation, we prefer Bajaj Finance over SBIC which has a favourable risk-reward ratio led by superior growth (high-conviction ADD rating with a target price of Rs9,000).

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	45,051	53,319	61,131	75,032	92,257
Total Non-Interest Income (Rsm)	81,327	95,564	98,619	116,145	139,622
Operating Revenue (Rsm)	126,378	148,883	159,750	191,177	231,879
Total Provision Charges (Rsm)	(21,591)	(32,874)	(46,006)	(51,737)	(58,184)
Net Profit (Rsm)	22,585	24,079	23,023	24,565	27,645
Core EPS (Rs)	23.87	25.32	24.21	25.83	29.07
Core EPS Growth	39%	6%	(4%)	7%	13%
FD Core P/E (x)	30.70	28.95	30.27	28.37	25.21
DPS (Rs)	2.00	2.50	3.64	3.88	4.37
Dividend Yield	0.27%	0.34%	0.50%	0.53%	0.60%
BVPS (Rs)	103.9	127.1	147.6	169.6	194.3
P/BV (x)	7.05	5.77	4.96	4.32	3.77
ROE	25.7%	22.0%	17.6%	16.3%	16.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

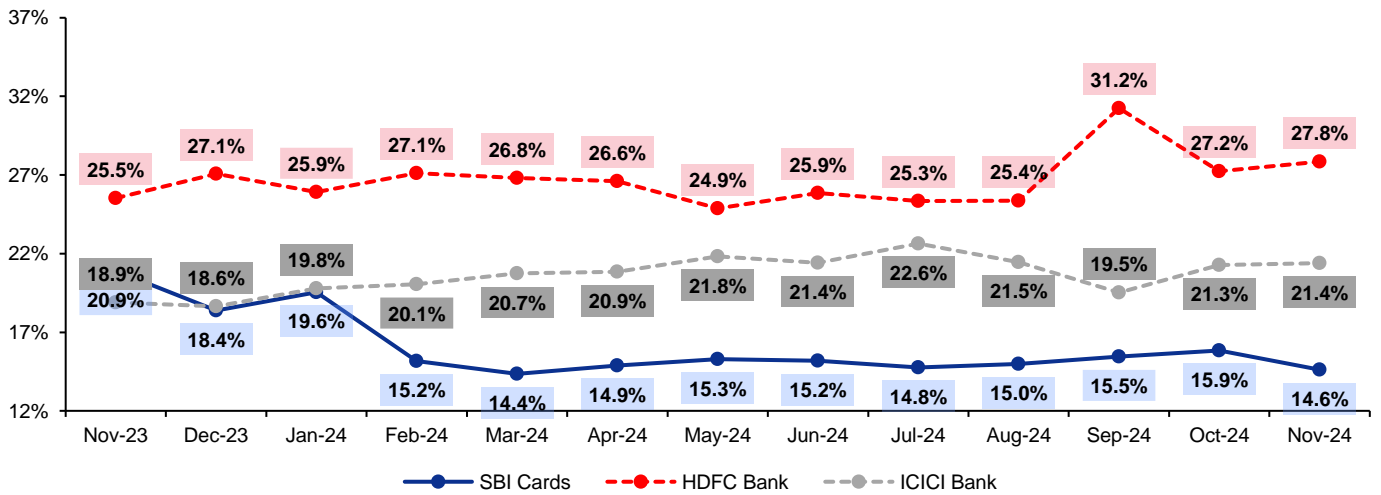
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 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	61,131	0.0%	73,201	75,032	2.5%	86,675	92,257	6.4%
Non-interest Income	94,674	98,619	4.2%	1,07,896	1,16,145	7.6%	1,22,938	1,39,622	13.6%
PPOP	72,965	76,910	5.4%	80,394	84,710	5.4%	91,944	95,292	3.6%
PAT	20,084	23,023	14.6%	21,300	24,565	15.3%	24,482	27,645	12.9%
EPS (Rs)	21.2	24.3	14.6%	22.5	25.9	15.3%	25.8	29.1	12.9%
BV (Rs)	145.4	148.0	1.8%	164.4	170.0	3.4%	186.4	194.8	4.5%
ABV (Rs)	140.1	142.8	1.9%	158.2	165.7	4.7%	179.3	192.2	7.2%

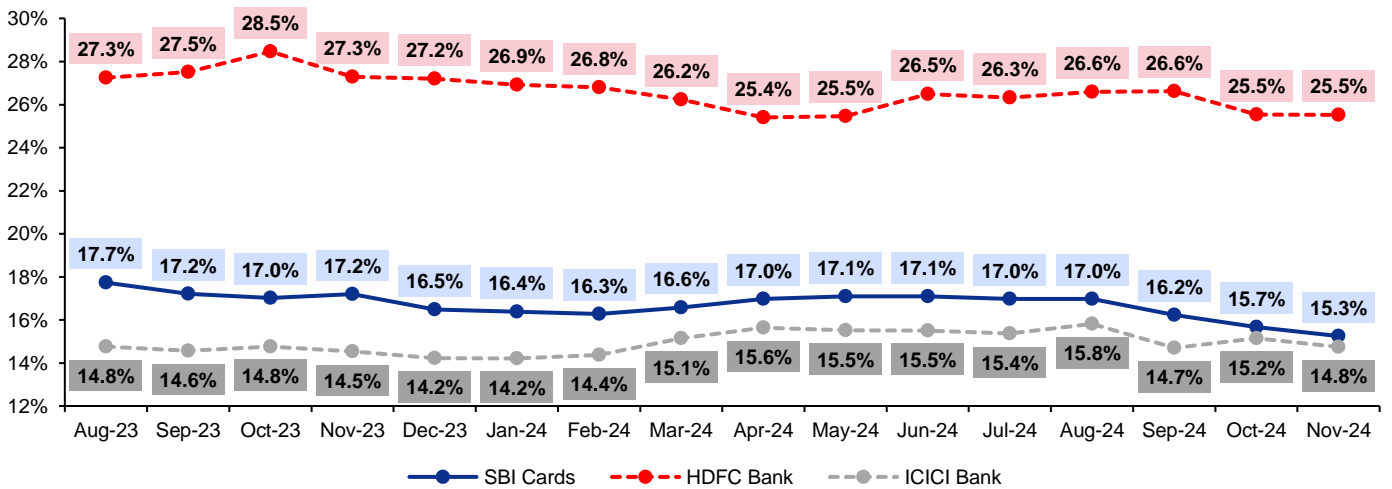
SOURCES: INCRED RESEARCH.

Figure 2: SBI Cards losing market share in online spending



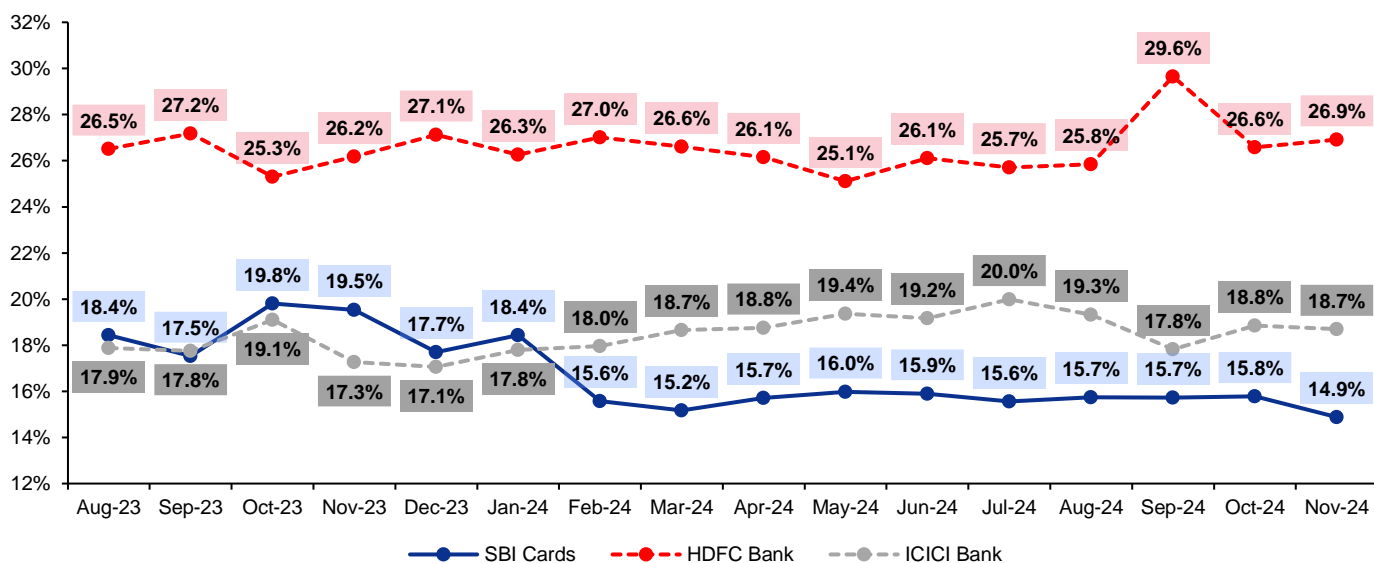
SOURCE: INCRED RESEARCH

Figure 3: SBI Cards losing market share in Point of Sale or PoS transactions



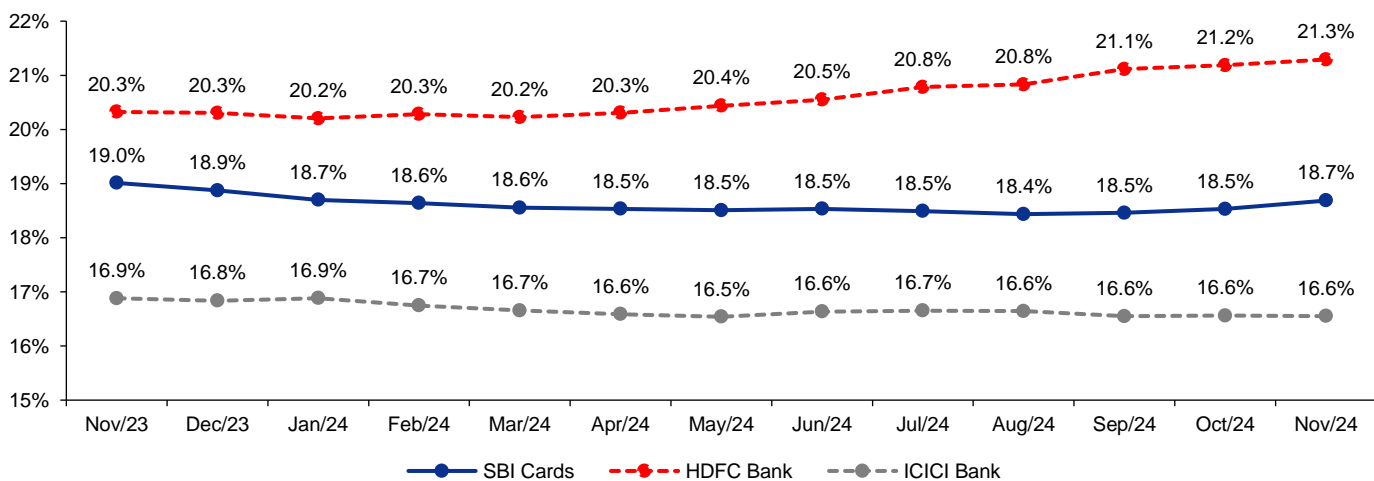
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Figure 4: SBI Cards losing market share in total spending



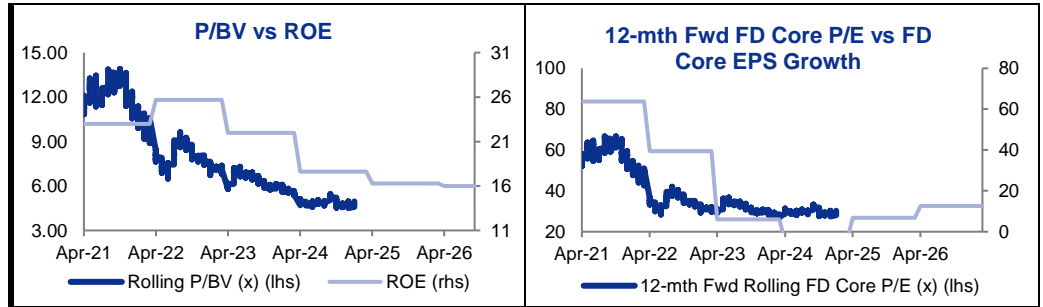
SOURCE: INCRED RESEARCH

Figure 1: SBI Cards losing market share in terms of cards-in-force or CIF



SOURCE: INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	45,051	53,319	61,131	75,032	92,257
Total Non-Interest Income	81,327	95,564	98,619	116,145	139,622
Operating Revenue	126,378	148,883	159,750	191,177	231,879
Total Non-Interest Expenses	(74,481)	(83,691)	(82,840)	(106,466)	(136,587)
Pre-provision Operating Profit	51,896	65,192	76,910	84,710	95,292
Total Provision Charges	(21,591)	(32,874)	(46,006)	(51,737)	(58,184)
Operating Profit After Provisions	30,306	32,318	30,904	32,973	37,107
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	30,306	32,318	30,904	32,973	37,107
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	30,306	32,318	30,904	32,973	37,107
Exceptional Items					
Pre-tax Profit	30,306	32,318	30,904	32,973	37,107
Taxation	(7,721)	(8,239)	(7,880)	(8,408)	(9,462)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	22,585	24,079	23,023	24,565	27,645
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	22,585	24,079	23,023	24,565	27,645
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%	10.0%	8.9%	7.8%
Avg Liquid Assets/Avg IEAs	8.1%	10.4%	11.0%	9.6%	8.3%
Net Cust Loans/Assets	86.4%	84.4%	85.9%	87.2%	88.9%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	25.0%	24.6%	23.7%	23.0%	21.7%
Asset Risk Weighting	79.8%	93.5%	93.5%	93.5%	93.5%
Provision Charge/Avg Cust Loans	6.21%	7.43%	8.50%	8.00%	7.50%
Provision Charge/Avg Assets	5.38%	6.34%	7.24%	6.93%	6.61%
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	701,711	849,873
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	748,248	904,787
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	415,007	525,981	631,833	748,248	904,787
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	24,564	21,750	13,451
Long-term Investments					
Total Assets	455,456	581,712	688,533	805,051	956,486
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	342,010	443,649	528,317	620,983	745,503
Total Interest-Bearing Liabilities	342,010	443,649	528,317	620,983	745,503
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	643,761	771,697
Shareholders Equity	98,300	120,840	140,410	161,290	184,789
Minority Interests					
Total Equity	98,300	120,840	140,410	161,290	184,789

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	17.4%	18.4%	14.7%	22.7%	23.0%
Operating Profit Growth	17.2%	25.6%	18.0%	10.1%	12.5%
Pretax Profit Growth	40%	7%	(4%)	7%	13%
Net Interest To Total Income	35.6%	35.8%	38.3%	39.2%	39.8%
Cost Of Funds	5.76%	6.61%	6.80%	6.30%	5.80%
Return On Interest Earning Assets	16.9%	16.8%	16.3%	16.1%	16.0%
Net Interest Spread	11.10%	10.24%	9.47%	9.82%	10.16%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	13.93%	11.75%	10.29%	10.75%	11.20%
Provisions to Pre Prov. Operating Profit	42%	50%	60%	61%	61%
Interest Return On Average Assets	11.24%	10.28%	9.63%	10.05%	10.47%
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%	3.63%	3.29%	3.14%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- 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.