

India

**Overweight** (no change)

# Financial Services - Overall

## Credit card players keep their guard up

- Credit card spending fell by ~9% mom in Feb 2025 on sustained cautious approach in a seasonally slow month as credit scores remain under pressure.
- IIB, Axis Bank & HDFCB gained highest market share, up ~48bp, ~32bp & ~22bp mom while ICICI Bank & SBIC shed ~84bp & ~8bp mom, respectively.
- The trend in card issuance remained sluggish at ~0.4% mom. HDFCB and SBIC inched up their market share by ~8bp and ~9 bp mom, respectively.

### Cautious approach by credit card players in a seasonally slow month

Elevated stress in retail loans and the consequent deterioration in credit scores are leading to consistently slower issuance of credit cards and tightening of credit card limits. Moreover, February being a seasonally slower month, saw credit card spending plummeting to the lowest level since Jul 2024, at Rs1.67tr. The overall credit card market reported ~9% mom fall in spending, which was mainly because of the Point-of-Sale or PoS transactions declining by ~11% mom and online platforms posting ~8% mom decline. However, we assume an improved momentum in Mar 2025F amid the spending picking up due to Gudi Padwa and Holi festivals.

### HDFCB, Axis, IIB see spending gains; SBIC, ICICIB market share dips

All large banks witnessed a decline in card spending mom, weighed down by the cautious approach of credit card players and seasonally slower spending. ICICI Bank witnessed the sharpest decline in market share, down ~84bp mom, thus reversing last month's market share gain. SBI Cards or SBIC witnessed a decline of ~8bp of its market share in spending to 15.7%. HDFC Bank strengthened its leadership gap further and gained market share by ~22bp to 27.7%. Among other players, Axis Bank and IndusInd Bank or IIB gained ~32bp at 11.3% and ~48bp at 5.3% mom, respectively. Finally, the top five credit card players (HDFC Bank, SBI Cards, ICICI Bank, Axis Bank & IndusInd Bank) witnessed a mom rise in market share to ~78.5%, from 78.4% in Jan 2025.

### Card issuance remains sluggish amid high defaults in smaller cities

Total credit card issuance (cards in force) continued to move at a slow pace and stood at ~109.3m (+0.4% mom) as players remained cautious while issuing new credit cards. HDFC Bank remains the leader with ~21.6% market share, followed by SBIC at ~18.9%. In the mid- to long-term, we remain optimistic about the presence of credit cards improving across new geographies. However, considering the elevated stress levels in smaller cities, the overall trend in non-performing assets or NPAs is expected to remain volatile as mis-selling of credit cards has been a common phenomenon.

### Asset quality stress continues to remain elevated

The asset quality trend continues to remain elevated, with the 90+dpd bucket flat qoq at 2.0% in the Dec 2024 quarter, as per TransUnion CIBIL India. We are witnessing rising defaults by new-to-credit customers who are facing difficulties in paying their dues on time, specifically in Tier-2 cities and beyond. Consequently, we are witnessing a higher focus on premium cards by select players.

### We remain negative on SBI Cards and maintain our REDUCE rating

We have witnessed a gradual rise in card issuance by SBI Cards in recent months; however, we continue to remain cautious amid the elevated asset quality stress level. We reiterate our high-conviction REDUCE rating on SBI Cards with a target price of Rs550 as we continue to remain sceptical on asset quality stress easing in the near future. Despite a decline in gross non-performing assets or GNPA's, down by 3bp qoq to 3.24%, credit costs surged by 40bp qoq to 9.4%. We continue to believe that SBI Cards cannot sustain its premium valuation amid rising concerns over slowing growth and elevated credit costs. We expect SBI Cards to continue to struggle in gaining market share in overall spending due to its weak capital adequacy ratio and tighter risk weights.

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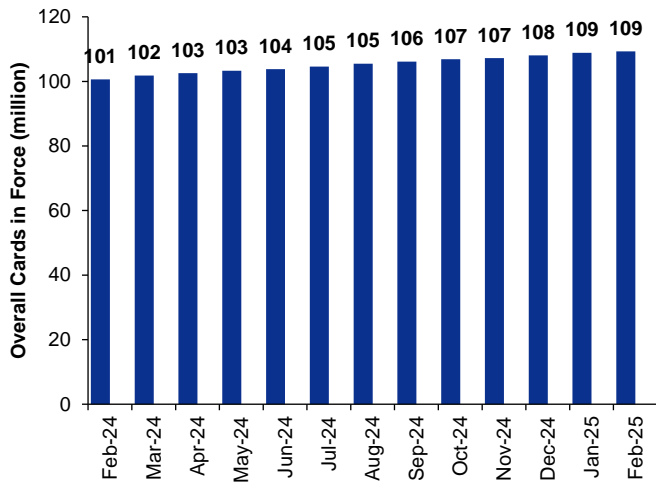
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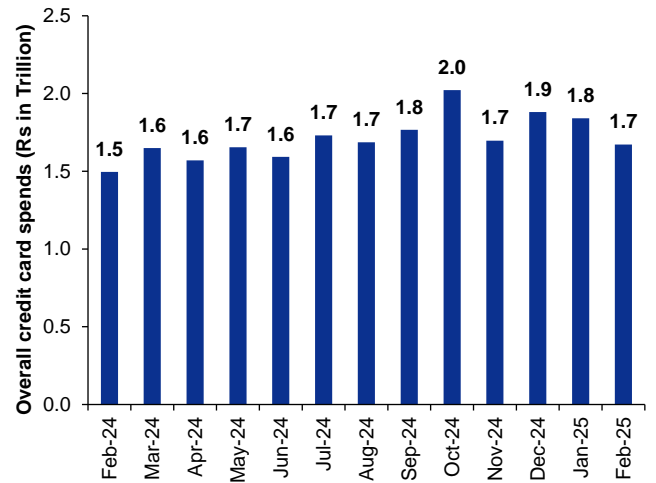
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Figure 1: Overall cards in force (m) move at a slow pace



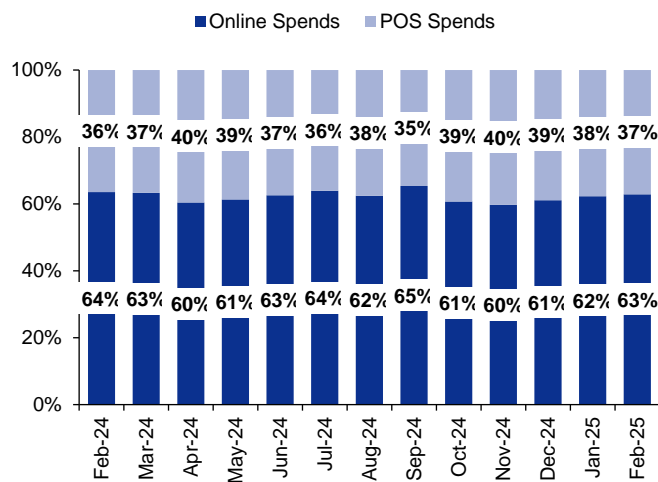
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Overall spending (Rs tr) remains subdued amid tightening credit limits



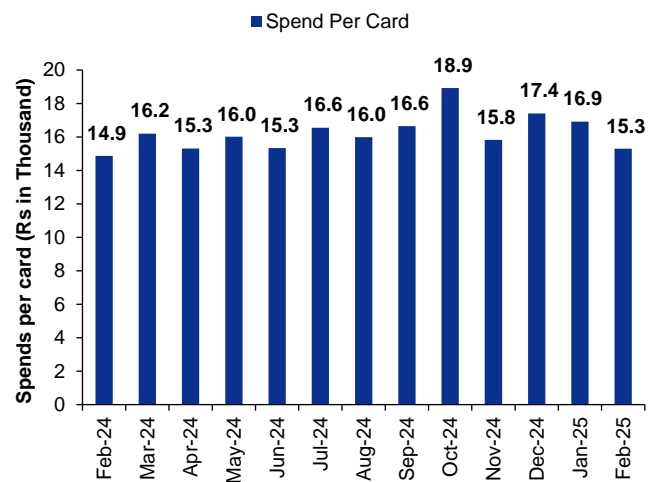
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Figure 3: Online and PoS spending as a % of total spending



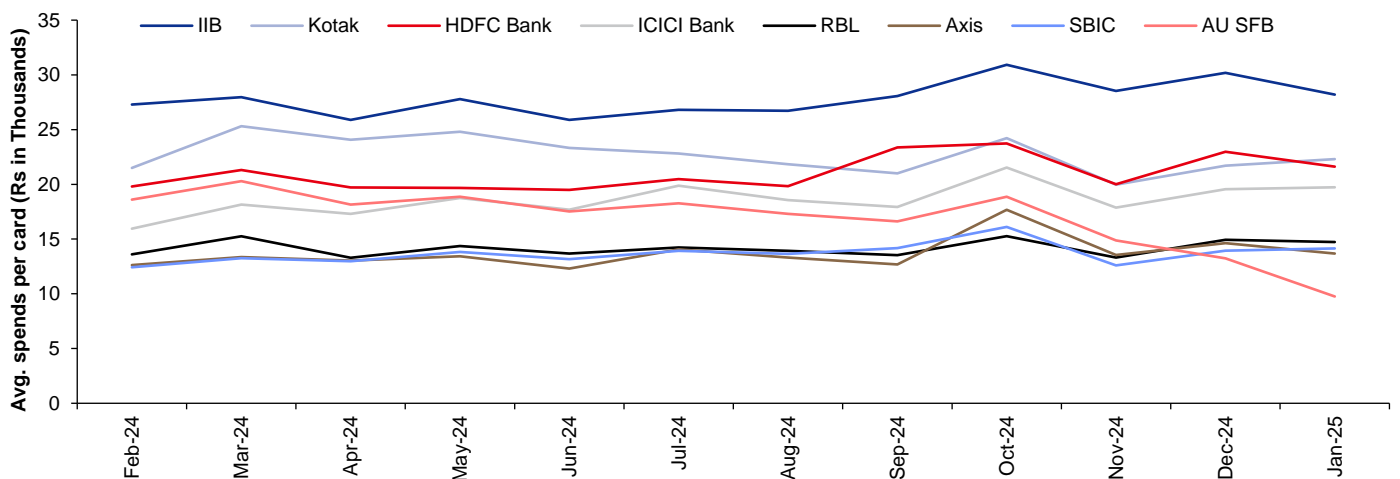
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Lowest spending per card (Rs '000) since Jul 2024



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Average spending per card (Rs '000) - IIB dominates high-ticket spending followed by HDFC Bank, Kotak Mahindra Bank and ICICI Bank



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- 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.*

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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