

India

REDUCE (no change)

Consensus ratings*: Buy 9 Hold 10 Sell 10

Current price: Rs942
 Target price: ▲ Rs800
 Previous target: Rs550
 Up/downside: -15.1%
 InCred Research / Consensus: -12.0%

Reuters:
 Bloomberg: SBICARD IN
 Market cap: US\$10,433m
 Rs896,260m
 Average daily turnover: US\$14.1m
 Rs1214.3m
 Current shares o/s: 951.4m
 Free float: 31.4%

*Source: Bloomberg

Key changes in this note

- We have raised PAT estimates for FY26F to incorporate better spending, NIM improvement from the policy rate cut and lower credit costs.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.3	12.9	39.1
Relative (%)	7.0	2.7	27.7

Major shareholders	% held
State Bank of India	68.6
ICICI Prudential MF	3.5
Nippon Life India MF	2.3

Research Analyst(s)**Meghna LUTHRA**

T (91) 22 4161 1553

E meghna.luthra@incresearch.com

SBI Cards**Moving ahead of time; positives priced in**

- SBIC has been incrementally sourcing more customers from SBI, which brings in better quality retail customers with lower CAC & relatively lower spending.
- There has been a gradual rise in CIF in recent months, although it has not yet translated into a material movement in spending market share.
- We expect lower credit costs on account of stricter underwriting albeit believe that the same is priced in. Retain REDUCE with a revised TP of Rs800.

Banking on its parent – the best bet

SBI Cards (SBIC) has been incrementally moving towards a relatively lower risk customer profile with a higher share of sourcing from its parent, State Bank of India or SBI (Fig. 1). This aids in strengthening the good quality retail customer base as most cross-sell customers have an easily accessible bank record for a quicker and more efficient turnaround. Also, coming on board is relatively lower spending partially offset by lower customer acquisition cost (CAC) as compared to open market sourcing. The same is echoed by the rising market share of cards in force (CIF) but a relatively slower movement in spending (Fig 2). Weighing on spending market share is also a lower proportion of corporate spending (Fig.3), which is mostly large-ticket and low-margin (largely transactors). However, SBIC is working with its parent to increase its share of corporate cards as well. Other large players also have the bank advantage in corporate credit cards, given that merchant acquisition is under the same roof.

Credit costs to ease from 2HFY26F

Gross NPAs of SBIC have been trending above the industry levels since 1QFY24 (Fig. 4), although we expect the same to decline with easing system liquidity, fast churning of the loan book (~85-89% of the loans have a duration of <12 months) and tighter underwriting. We expect credit costs to ease from 2HFY26F, given the existing stress and the company's write-off policy of 180 days (4QFY25: gross NPAs were at 3.1%, gross stage 2% was 5%).

Outlook and valuation – the 5% RoA club

Our back-of-the-envelope calculations suggest that most big banking entities make ~5% RoA on their credit card business. SBIC was there in FY22-FY23 with ~30% yoy growth and credit costs of <7% for around seven quarters, during which the stock was trading at ~5.2-8x one-year forward P/BV or ~24-34x one-year forward P/E (Figs. 5 & 6). We appreciate the rising contribution from SBI for better credit-worthy and retail focus customers, which will lead to better profitability although we remain uncomfortable with the valuation, given the mono-line business. We expect the RoA to improve to ~4-5% and RoE to improve to ~17-18% by FY27F-28F led by a gradual rise in market share in spending and reducing credit costs. Our model sensitivity towards credit costs and the rise in AUM shows that ~50bp sensitivity to our estimated credit costs for FY27F is already priced. We retain REDUCE rating on SBIC with a higher target price of Rs800 (Rs550 earlier), valuing it at 4.1x FY27F BV & 25x FY27F P/E. Upside risks: Higher-than-expected AUM growth along with a significant improvement in asset quality.

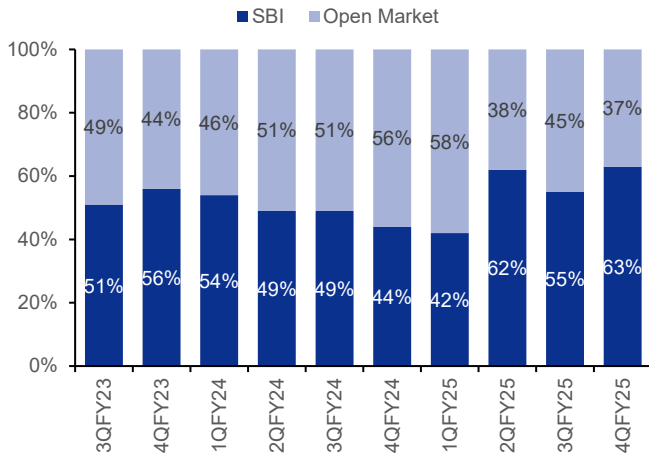
Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	53,319	61,689	70,047	78,391	91,589
Total Non-Interest Income (Rsm)	95,564	92,898	103,056	120,531	142,334
Operating Revenue (Rsm)	148,883	154,588	173,103	198,923	233,924
Total Provision Charges (Rsm)	(32,874)	(48,715)	(48,667)	(51,573)	(58,499)
Net Profit (Rsm)	24,079	19,164	24,599	30,245	36,843
Core EPS (Rs)	25.32	20.14	25.86	31.79	38.73
Core EPS Growth	6%	(20%)	28%	23%	22%
FD Core P/E (x)	37.21	46.77	36.43	29.63	24.33
DPS (Rs)	2.50	2.50	3.88	4.77	0.00
Dividend Yield	0.27%	0.27%	0.41%	0.51%	0.00%
BVPS (Rs)	127.1	144.9	166.8	193.9	226.8
P/BV (x)	7.41	6.50	5.65	4.86	4.15
ROE	22.0%	14.8%	16.6%	17.6%	18.4%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

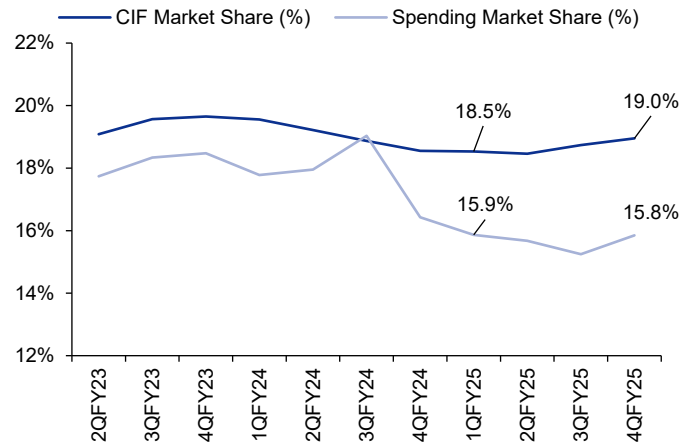
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: New CIF sourcing is incrementally higher from SBI



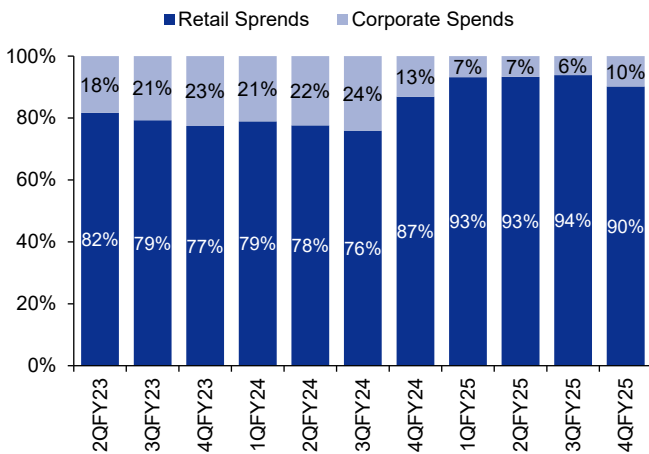
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Recent credit card market share movement for SBIC



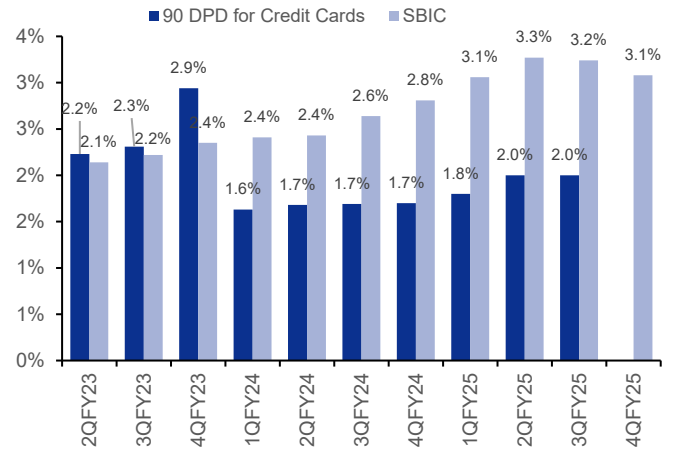
SOURCE: RBI, INCRED RESEARCH, COMPANY REPORTS

Figure 3: Retail and corporate spending as a % of total spending



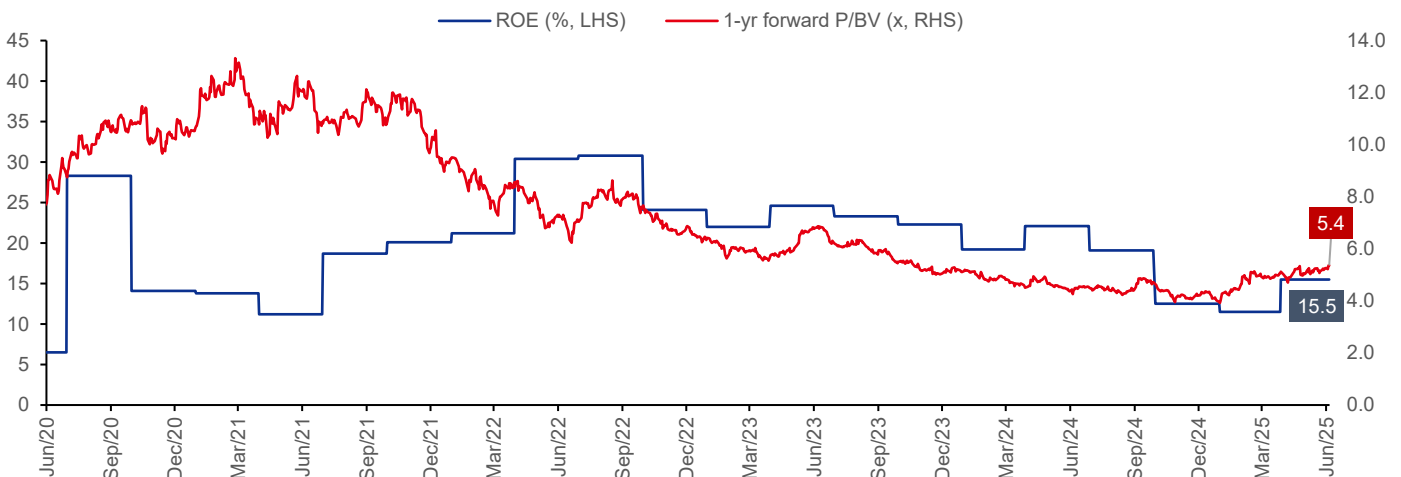
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: SBIC has been facing above industry NPAs in recent quarters



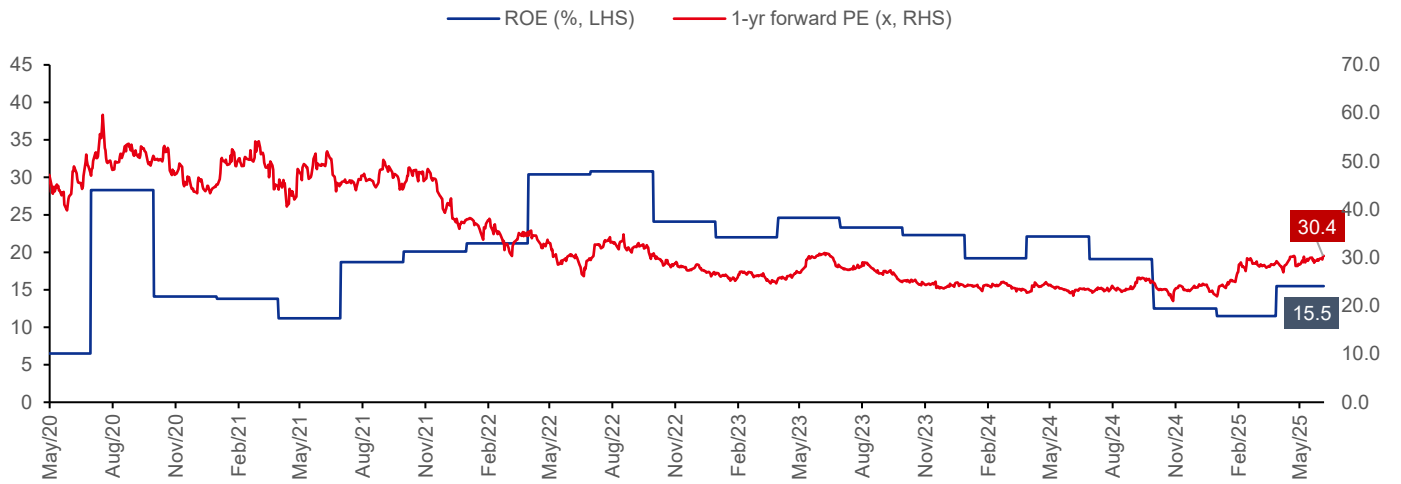
SOURCE: TRANSUNION CIBIL, INCRED RESEARCH, COMPANY REPORTS

Figure 5: RoE and one-year forward P/BV



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 6: RoE and one-year forward P/E



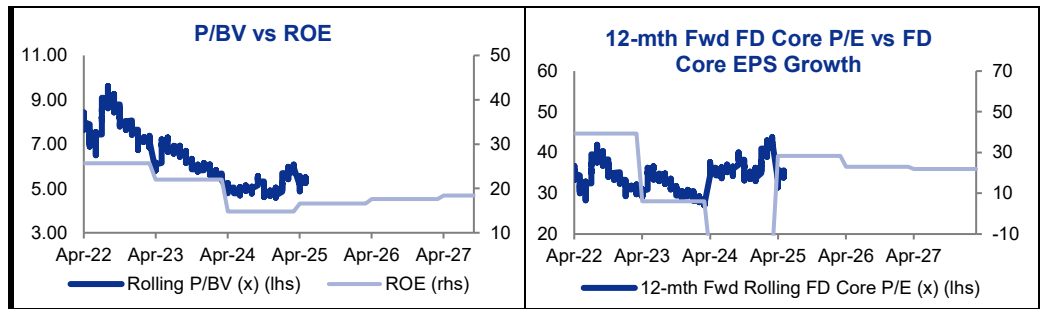
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

Y/e Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	68,611	70,047	2.1%	77,415	78,391	1.3%	-	91,589	-
Non-Interest Income	1,01,821	1,03,056	1.2%	1,22,415	1,20,531	-1.5%	-	1,42,334	-
PPOP	80,830	81,755	1.1%	89,907	92,256	2.6%	-	1,08,056	-
PAT	23,747	24,599	3.6%	26,953	30,245	12.2%	-	36,843	-
EPS (Rs)	25.0	25.9	3.3%	28.4	31.8	11.9%	-	38.7	-
BV (Rs)	165.7	166.9	0.7%	189.9	193.9	2.1%	-	226.9	-

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	53,319	61,689	70,047	78,391	91,589
Total Non-Interest Income	95,564	92,898	103,056	120,531	142,334
Operating Revenue	148,883	154,588	173,103	198,923	233,924
Total Non-Interest Expenses	(83,691)	(80,066)	(91,348)	(106,667)	(125,868)
Pre-provision Operating Profit	65,192	74,522	81,755	92,256	108,056
Total Provision Charges	(32,874)	(48,715)	(48,667)	(51,573)	(58,499)
Operating Profit After Provisions	32,318	25,807	33,089	40,683	49,557
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	32,318	25,807	33,089	40,683	49,557
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	32,318	25,807	33,089	40,683	49,557
Exceptional Items					
Pre-tax Profit	32,318	25,807	33,089	40,683	49,557
Taxation	(8,239)	(6,643)	(8,489)	(10,438)	(12,715)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	24,079	19,164	24,599	30,245	36,843
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	24,079	19,164	24,599	30,245	36,843
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	9.4%	12.3%	13.2%	11.4%	9.9%
Avg Liquid Assets/Avg IEAs	10.4%	13.5%	14.4%	12.4%	10.7%
Net Cust Loans/Assets	84.4%	82.3%	82.8%	84.9%	85.5%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	24.6%	25.6%	27.0%	26.7%	26.2%
Asset Risk Weighting	109.4%	109.4%	109.4%	109.4%	
Provision Charge/Avg Cust Loans	7.43%	9.46%	8.64%	8.08%	7.73%
Provision Charge/Avg Assets	6.34%	7.88%	7.13%	6.78%	6.59%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	490,790	539,346	587,344	689,525	823,722
Liquid Assets & Invst. (Current)	35,191	62,351	59,551	64,460	69,773
Other Int. Earning Assets					
Total Gross Int. Earning Assets	525,981	601,697	646,894	753,985	893,495
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	525,981	601,697	646,894	753,985	893,495
Intangible Assets					
Other Non-Interest Earning Assets	28,435	26,379	32,064	38,974	47,373
Total Non-Interest Earning Assets	28,435	26,379	32,064	38,974	47,373
Cash And Marketable Securities	27,296	27,382	30,789	19,124	22,820
Long-term Investments					
Total Assets	581,712	655,458	709,748	812,082	963,687
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	443,649	499,203	528,609	599,887	708,401
Total Interest-Bearing Liabilities	443,649	499,203	528,609	599,887	708,401
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	17,223	18,438	22,412	27,760	39,535
Total Liabilities	460,872	517,641	551,021	627,647	747,936
Shareholders Equity	120,840	137,817	158,727	184,435	215,751
Minority Interests					
Total Equity	120,840	137,817	158,727	184,435	215,751

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	18.4%	15.7%	13.5%	11.9%	16.8%
Operating Profit Growth	25.6%	14.3%	9.7%	12.8%	17.1%
Pretax Profit Growth	7%	(20%)	28%	23%	22%
Net Interest To Total Income	35.8%	39.9%	40.5%	39.4%	39.2%
Cost Of Funds	6.61%	6.74%	6.11%	5.97%	5.60%
Return On Interest Earning Assets	16.8%	16.6%	16.3%	16.0%	15.6%
Net Interest Spread	10.24%	9.84%	10.14%	10.03%	9.97%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	10.18%	9.12%	9.38%	9.42%	20.63%
Provisions to Pre Prov. Operating Profit	50%	65%	60%	56%	54%
Interest Return On Average Assets	10.28%	9.97%	10.26%	10.30%	10.32%
Effective Tax Rate	25.5%	25.7%	25.7%	25.7%	25.7%
Net Dividend Payout Ratio					
Return On Average Assets	4.64%	3.10%	3.60%	3.97%	4.15%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

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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.

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.