India

Overweight *(no change)*

Finance Companies

Credit Card Monthly: Festivals-led recovery

- Credit card spending in Sep 2024 witnessed ~4.7% mom/23.8% yoy growth amid pre-festive demand and online sales.
- HDFC Bank showcased its dominance with ~380bp rise in market share to ~29.6% whereas ICICI Bank lost market share by ~150bp to ~17.8%.
- Rising Reserve Bank of India (RBI) scrutiny impacted fresh issuances, which continued to witness a sluggish pace of growth at ~60bp mom.

Spending witnesses a mom growth, upcoming festive season is key

Credit card spending recovered in Sep 2024 amid pre-festive season-led buying, reporting ~4.7% growth mom at Rs1.77tr, after reporting a weak momentum in Aug 2024. Online spending saw a gain of ~9.7% mom while the Point-of-Sale (PoS) transactions witnessed a dip in spending by 3.4% mom, with the growth in online spending led by pre-festive season offers. Oct 2024 is expected to be robust amid the dual festive season of Dussehra and Diwali, but our ground check indicates mixed demand momentum currently.

HDFC Bank reiterates its dominance in credit card business

HDFC Bank (HDFCB) gained market share by ~380bp whereas SBI Cards or SBIC was able to maintain its market share. HDFC Bank's market share gains were on the back of massive gains in online spending and, in contrast, ICICI Bank (ICICIB) witnessed a dip of 150bp amid weak online spending. IndusInd Bank maintained its market share. However, Axis Bank and Kotak Mahindra Bank shed 30bp and 10bp in market share, respectively. The top five credit card players (HDFC Bank, SBI Cards, ICICI Bank, Axis Bank & IndusInd Bank) witnessed mom market share improvement to ~78.6% vs. ~77.3% in Aug 2024.

HDFC Bank remains aggressive in card issuance

Total credit card issuance (Cards in Force or CIF) continues to remain moderate at ~106.1m (+0.6% mom) due to stricter scrutiny by the Reserve Bank of India. HDFC Bank has been issuing new credit cards at a more intense pace than that of the other players. Being the market leader, it witnessed an expansion in market share, up by ~30bp mom at ~21.1%. While ICICI Bank saw a decline by ~10bp, SBIC managed to keep its overall CIF flat on a mom basis. We remain optimistic about the presence of credit cards improving across new geographies. However, considering the historic track record, the overall trend in non-performing assets is likely to remain volatile, as mis-selling of credit cards has been a common phenomenon.

Asset quality trend seems to be weak

There are heightened concerns about asset quality stress building in with the rise in 90+ dpd by 14bp qoq to 1.8%, as per TransUnion CIBIL India. We are observing rising defaults by new-to-credit (NTC) customers who are facing difficulty in paying their dues on time, specifically from Tier-2 cities and beyond. The same is reflected in lower origination by players in 1QFY25 (-21% yoy by volume) and consequently, slower growth in issuance.

We remain negative on SBI Cards; maintain our REDUCE rating

We reiterate our high-conviction REDUCE rating on SBI Cards with a target price of Rs500. We continue to believe that SBI Cards cannot sustain its premium valuation amid raising concerns over slowing growth, rise in the cost of funds and deteriorating asset quality. We expect SBI Cards to continue losing market share in overall spending due to its weak capital adequacy ratio and tighter risk weights. We expect the cost of funds for SBI Cards to increase, despite probable monetary easing, amid an increase in risk weight.

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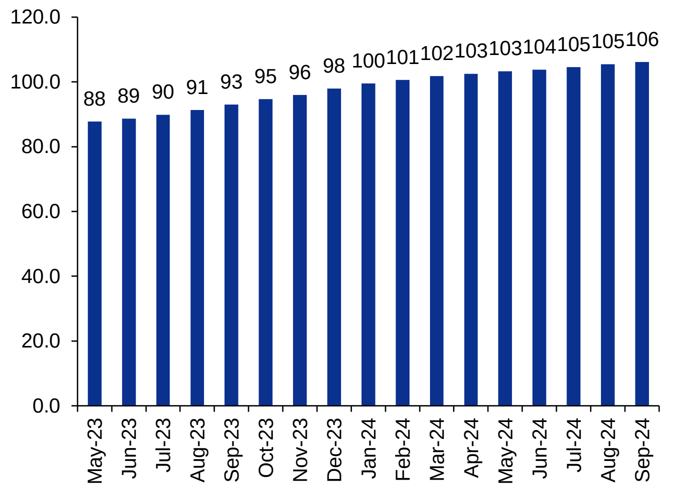
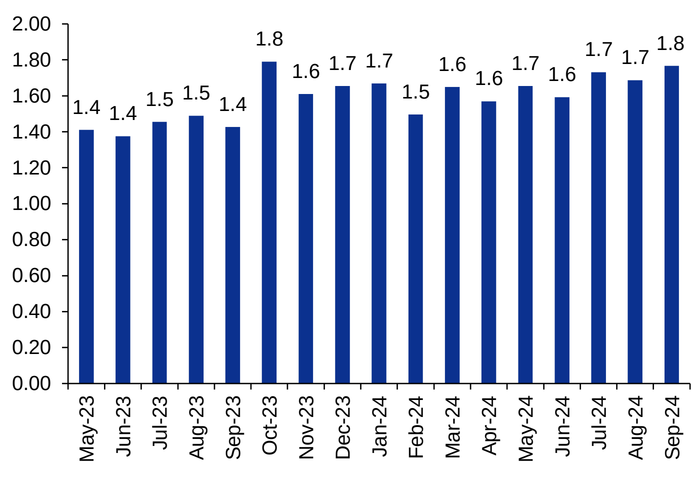
Figure 1: Card issuance grows at a slow pace (m)



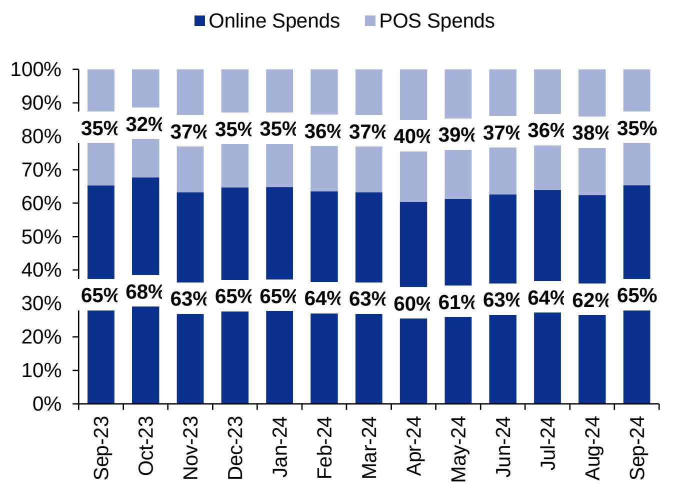
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Credit card spending gains momentum (Rs tr)



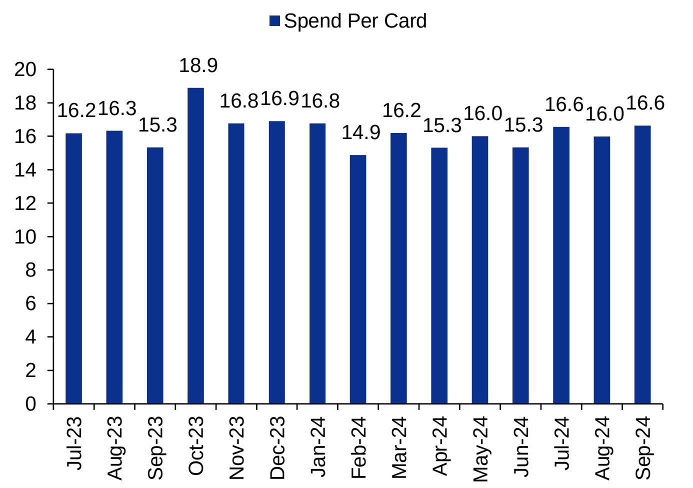
SOURCE: INCRED RESEARCH, COMPANY REPORTS \

Figure 3: : Share in online and PoS spending



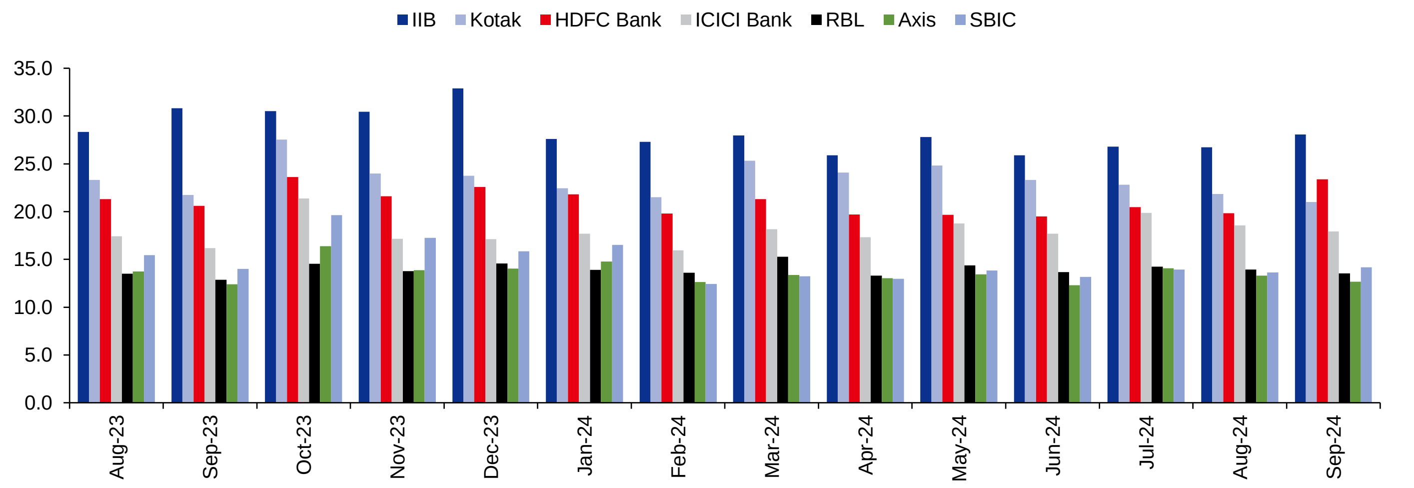
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Spending per card



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: HDFC Bank's spending per card rises



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.

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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.