India

Overweight *(no change)*

Financial Services - Overall

Pace of card spending slows down

- Credit card spending in Jan 2025 declined by ~2.1% mom to ~Rs1.84tr as the month witnessed tail-end of the holiday season and wedding-related spending.
- HDFC Bank shed ~80bp share in card spending due to volatile online spends, while SBI Cards & ICICI Bank gained 70bp and 80bp, respectively.
- The fresh card issuance trend remains moderate as Jan 2025 maintained the pace of new card issuance at ~80bp mom, for the second consecutive month.

Spending moderates due to tail-end of holiday & wedding seasons

Credit card spending witnessed a slight moderation in Jan 2025 because of the tail-end of holiday season & wedding-related spending. Spending was down by ~2.1% mom at ~Rs1.84tr. Spending through Point-of-Sale (PoS) transactions fell by ~5.1% mom whereas online spending was flattish mom. We expect the spending to remain sluggish for the next few months as lenders continue to move in a measured manner, although we remain watchful about the changing spending and asset quality trends, given the seasoning of the books.

HDFC Bank's market share moderates due to volatile online spends

HDFC Bank shed its market share in spending by 80bp mom due to volatile online spends. HDFC Bank has a strong hold in the PoS segment. SBI Cards or SBIC and ICICI Bank gained market share by 70bp and 80bp mom, respectively, given that these players have a strong presence in the online spending space. Axis Bank witnessed a drop in its market share by 50bp mom. IndusInd Bank shed market share by 20bp mom. The card spending market share of top five credit card players (HDFC Bank, SBI Cards, ICICI Bank, Axis Bank & IndusInd Bank) was flat at ~78.4% in Jan 2025.

HDFC Bank remains aggressive in card issuance

Total credit card issuance (cards in force or CIF) continued to moderate at ~109m (+0.8% mom) due to stricter scrutiny by the Reserve Bank of India (RBI). HDFC Bank has been issuing new credit cards at a more intense pace than the other players, gaining a 1.3% market share over Jan 2024 whereas big players like SBI Cards gained 0.1% market share, while ICICI Bank shed 0.3% market share over the same period. On a mom basis, HDFC Bank witnessed an expansion of ~11bp mom to ~21.5% whereas ICICI Bank had a flat market share at 16.6%. SBI Cards witnessed ~10bp improvement in market share to 18.8%. We remain optimistic about the presence of credit cards improving across new geographies. However, considering the recent track record, the overall trend in NPAs is likely to remain volatile as mis-selling of credit cards has been a common phenomenon.

Asset quality stress continues to move to higher buckets

The asset quality trend seems to be weak, as seen in the caution exercised on new card issuance by most players. There are heightened concerns about asset quality stress building in with the rise in 90+dpd bucket by ~20bp qoq to 2.0% in Sep 2024, as per TransUnion CIBIL India. We are witnessing rising defaults by new-to-credit (NTC) customers who are facing difficulty 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; maintain REDUCE rating

We reiterate our high-conviction REDUCE rating on SBI Cards with a target price of Rs550. SBI Cards is witnessing rising stress in its asset quality, with gross non-performing assets or GNPAs down by 3bp QoQ to 3.24% and credit costs surging by 40bp QoQ to 9.4%. We continue to believe that SBI Cards cannot sustain its premium valuation amid rising concerns over slowing growth, increase in the cost of funds and deteriorating asset quality. We expect SBI Cards to continue to lose 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 weights.

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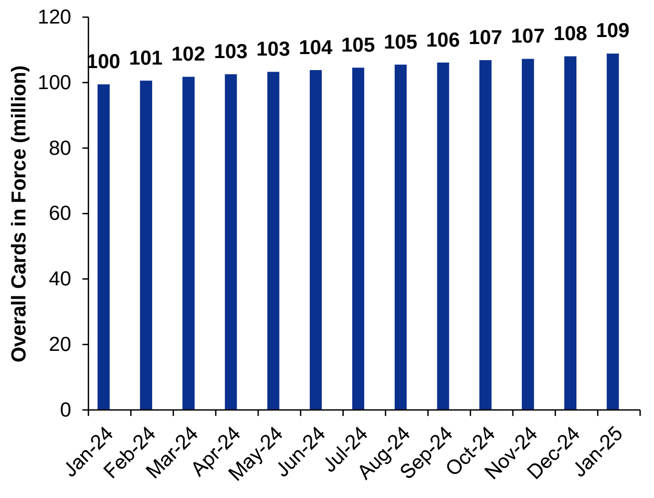
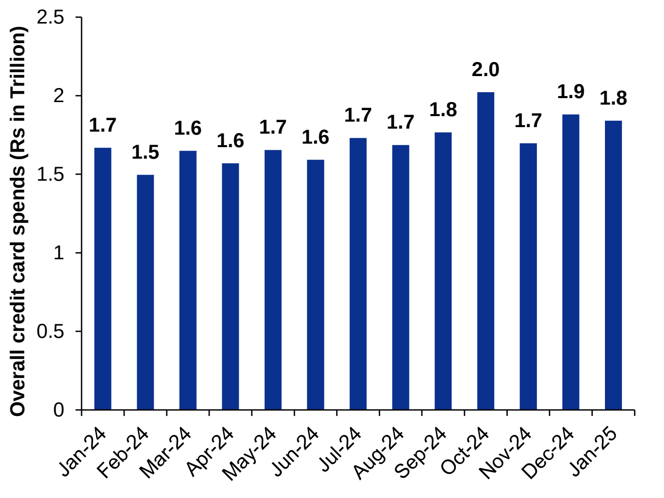
Figure 1: A gradual rise in credit cards in force



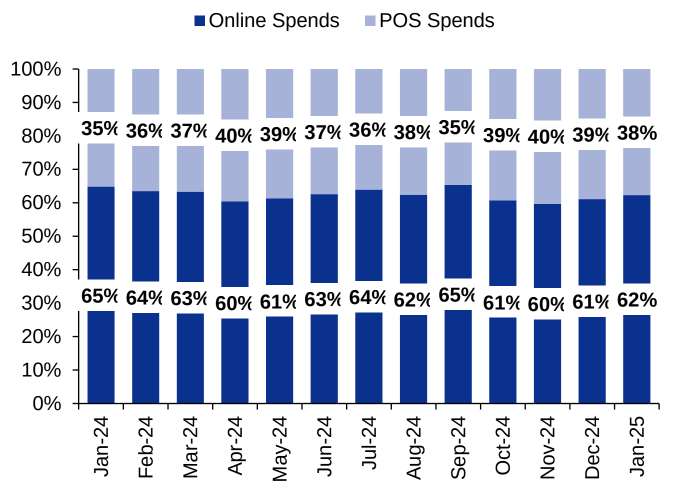
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Card spending per month



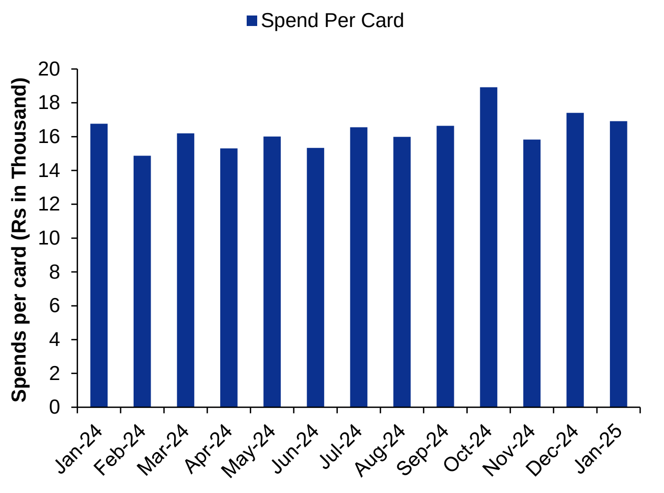
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Online and PoS spending break-up



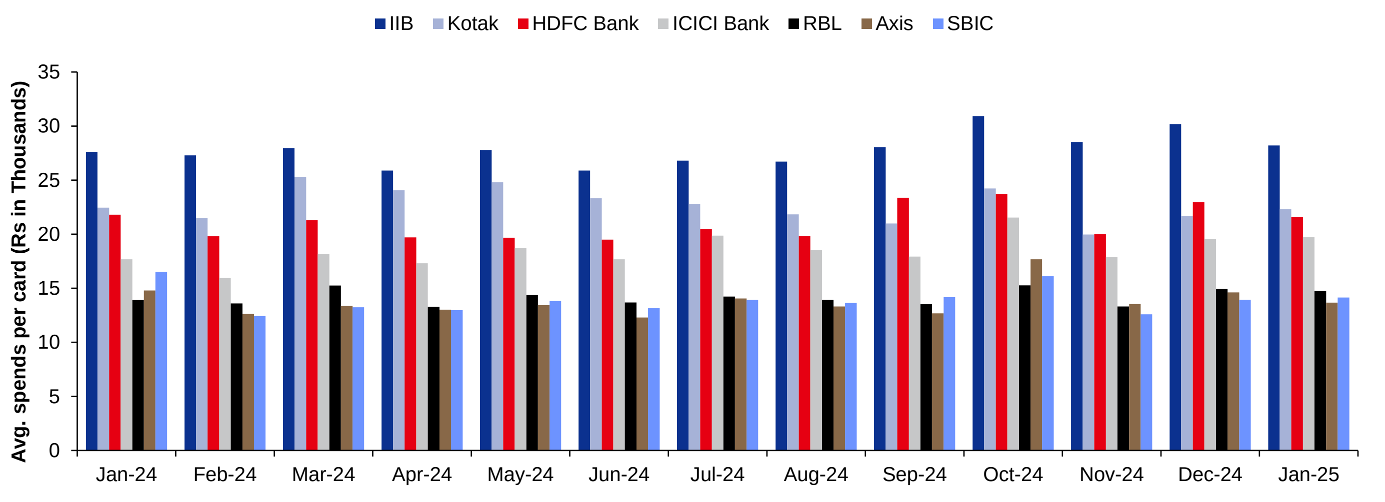
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Overall spending per card



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: HDFC Bank regains average spending per card share as new cards issued contribute to spending



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Stock Ratings	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.