

SBI Cards and Payment Services (SBICARD IN)

Rating: ACCUMULATE | CMP: Rs965 | TP: Rs1,081

January 8, 2021

Event Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,081		895	
NII (Rs.)	49,265	52,768	49,946	54,028
% Chng.	(1.4)	(2.3)		
PPoP (Rs.)	40,478	42,299	34,302	31,583
% Chng.	18.0	33.9		
EPS (Rs.)	21.3	25.0	16.7	19.3
% Chng.	27.3	29.2		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Int.Inc. (Rs m)	35,404	42,793	49,265	52,768
Growth (%)	38.0	20.9	15.1	7.1
Op. Profit (Rs m)	36,699	38,729	40,478	42,299
PAT (Rs m)	12,448	10,413	20,001	23,464
EPS (Rs.)	13.3	11.1	21.3	25.0
Gr. (%)	28.3	(16.4)	92.1	17.3
DPS (Rs.)	1.0	1.3	2.5	3.1
Yield (%)	0.1	0.1	0.3	0.3
Margin (%)	15.6	15.7	14.8	13.0
RoAE (%)	27.9	18.0	28.1	26.0
RoAA (%)	5.5	3.8	6.0	5.8
PE (x)	72.8	87.1	45.3	38.7
P/BV (x)	17.0	14.5	11.3	9.0
P/ABV (x)	17.5	15.7	12.0	9.1

Key Data

SBIC.BO | SBICARD IN

52-W High / Low	Rs.1,002 / Rs.495
Sensex / Nifty	48,783 / 14,347
Market Cap	Rs.908bn/ \$ 12,393m
Shares Outstanding	941m
3M Avg. Daily Value	Rs.3159.4m

Shareholding Pattern (%)

Promoter's	69.46
Foreign	5.93
Domestic Institution	3.23
Public & Others	21.38
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	12.8	38.8	-
Relative	5.5	3.4	-

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Business traction on roll; AQ monitorable

The October'20 RBI credit card suggests SBICARD maintaining MoM cards-in-force share at ~19% clocking better than industry averages and stood second best to ICICIB and HDFCB wrt cards-in-force and spends traction respectively. As structural demand begins to roll in and shock absorbers (25% CAR, 64% PCR, 6%YoY growth expectation in PPop for FY21) in place to tackle credit quality, SBICARD geared to return to normalcy sooner than expected with increased spends (25%YoY growth) and fee income (20%YoY growth) for FY22-23E. Such a robust performance places SBICARD as the only NBFC to clock industry best 24-26% RoE and 5-5.7% RoAs over FY22-23E. Such a robust performance coupled with recent stock momentum, we tweak the valuation multiple to 43x P/E (earlier 44.5x) arriving at price target of Rs 1,081 (earlier Rs895). Reiterate ACCUMULATE RATING on the stock.

- SBICARD maintains market share; clocks industry best cards-in-force traction:** The RBI Oct'20 credit card statistics suggest SBICARD clocks better than industry averages on cards-in-force and spends traction. (a) SBICARD records 16%YoY/1.4%MoM card-in-force growth, second best to ICICIB and better than HDFCB. (b) On card spends, SBICARD registers 1.5%YoY/32.7%MoM growth, second best to HDFCB. Moreover, the Co. has maintained MoM market share in terms of outstanding cards at 19% for Oct'20. We expect 17% CAGR in outstanding cards traction over FY21-23 with the count climbing to ~16mn byFY23 from current 11mn.
- Return to normalcy sooner than expected:** SBICARD stands geared to return to normalized business scenario sooner on the back of: (a) emergence of green shoots (fall in unemployment rate to pre-COVID levels, digital transactions uptick), (b) improving corporate spends led by non-discretionary focus (vendor, tax & utility payments & gradual pick-up in domestic travels) (c) increasing banca potential (58% new account sourcing from SBI) (d) focus on non-discretionary (88-90% of spends led by both retail & corporate) (e) digital spends (online retail spends rose to 55% in H1FY21 from 44% in FY20) (f) suitable customer mix (84% salaried) (g) robust data analytics and risk management systems (h) almost matched ALM even on shorter tenure side. Q2FY21 already demonstrated business rebound with spends growing 55%QoQ buoyed by retail segment (90% pre-COVID levels). With increasing focus on retail, sticky customer base and increased co-branded tie-ups, spends are expected to record 25%YoY growth translating into renewed 20%YoY fees and 19%YoY growth in receivables in FY23.
- Antidotes present to combat asset quality stress:** Q2FY21 observed sharp deterioration in asset quality with NPA spiking north of 4% and restructured book just short of 10%. Said that, ~60% new customer sourcing from parent SBI, 48% customer mix falling into working age group (31-45) and proactive measures post on-boarding (lowering credit limits and blocking cards of moratorium availed customers) would prove as antidotes against incremental delinquencies ahead. We still build-in elevated NPA (4.5% in FY21) and credit costs (6.3%), albeit lower than earlier estimates as controlled delinquencies (morat decline), suitable customer mix (85% salaried) and robust data analytics and risk management systems are gradually paying off.

Exhibit 1: SBICARD clocks better than industry avgs. - stands second best to ICICIB/HDFCB wrt cards-in-force and spends

Banks/NBFCs	Cards O/s (Units mn)	YoY (%)		Spends (Rs bn)	YoY (%)		Spends/ card (Rs)	YoY (%)		Transaction (Units mn)	YoY (%)		Spend/ Transaction (Rs)	YoY (%)	
		MoM (%)	MoM (%)		MoM (%)	MoM (%)		MoM (%)	MoM (%)		MoM (%)	MoM (%)			
SBICARD	11.1	15.9%	1.4%	132	1.5%	32.7%	11838	-12.4%	30.9%	34.4	-8.4%	14.7%	3831.8	10.8%	15.6%
HDFCB	15.2	12.8%	1.5%	218	5.8%	37.7%	14317	-6.2%	35.6%	50.2	-10.6%	18.3%	4333.8	18.3%	16.4%
ICICIB	9.5	17.2%	2.5%	88	-6.1%	17.9%	9280	-19.9%	15.0%	27.7	-8.2%	18.7%	3177.6	2.2%	-0.7%
AXSB	6.9	4.2%	0.0%	52	-31.2%	22.7%	7597	-34.0%	22.7%	15.0	-15.7%	15.4%	3494.0	-18.4%	6.3%
Industry	59.4	11.4%	1.2%	649	-9.3%	26.4%	10925	-18.6%	24.9%	172.3	-4.5%	29.9%	3766.5	-5.0%	-2.7%

Source: RBI, PL

Exhibit 2: SBICARD maintains market share MoM wrt cards outstanding

Market share (%)	Aug'19	Oct'19	Jul'20	Aug'20	Sep'20	Oct'20
SBICC	18.0%	18.0%	18.6%	18.7%	18.7%	18.8%
HDFCB	25.4%	25.3%	25.5%	25.6%	25.5%	25.6%
ICICIB	14.9%	15.2%	15.8%	15.9%	15.8%	16.0%
AXSB	12.8%	12.4%	11.9%	11.5%	11.8%	11.6%

Source: RBI, PL

Exhibit 3: With focus on non-discretionary spends, trends remain healthy

Market Share (%)	Aug'19	Oct'19	Jul'20	Aug'20	Sep'20	Oct'20
SBICC	17.1%	20.8%	19.8%	20.0%	22.6%	20.0%
HDFCB	26.7%	31.1%	28.4%	28.7%	32.0%	29.1%
ICICIB	14.3%	16.7%	15.9%	15.8%	17.6%	16.1%
AXSB	9.7%	9.9%	8.5%	8.4%	9.8%	8.7%

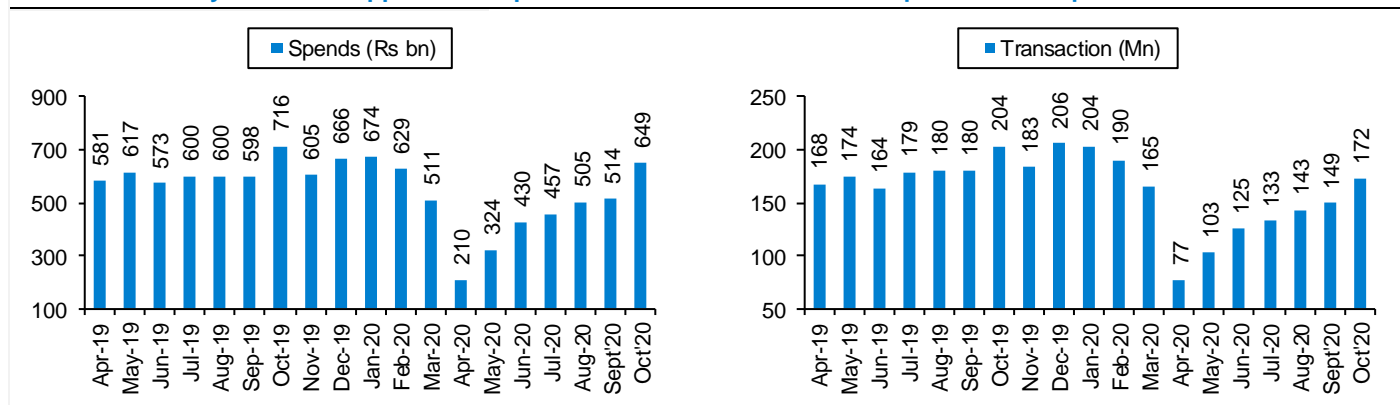
Source: RBI, PL

Exhibit 4: SBICARDS Market share increases MoM/YoY wrt spends

Market Share	Aug'19	Oct'19	Jul'20	Aug'20	Sep'20	Oct'20
SBICC	18.3%	18.2%	20.4%	20.6%	19.4%	20.3%
HDFCB	28.3%	28.8%	30.7%	32.0%	30.8%	33.5%
ICICIB	11.5%	13.1%	14.1%	13.3%	14.6%	13.6%
AXSB	10.7%	10.6%	8.2%	8.0%	8.3%	8.1%

Source: RBI, PL

Exhibit 5: Industry tailwinds supportive of Spends and transactions – Oct'20 spends back to pre-COVID levels



Source: Company, PL

Exhibit 6: Incremental provisioning requirement not quite significant

NBFCs	Phase 1 AUM Morat	Phase 2 AUM Morat	TOTAL COVID PROVS (Rs mn)	Q2FY21 AUM (Rs mn)	COVID Provs. as % of AUM
SBICARD	28%	6%	7580	239780	3.16%
BAF	27%	16%	23500	1370900	1.71%

Source: Company, PL

Exhibit 7: Strong financials display over FY22-23 for SBICARD

Particulars (%)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Yields	22.97%	22.38%	23.78%	23.15%	23.62%	22.16%
Cost of Funds	7.23%	8.09%	8.42%	6.49%	7.26%	8.02%
Cost to Income	63.09%	60.45%	56.58%	56.18%	66.37%	68.76%
GNPA	2.83%	2.44%	2.01%	7.50%	4.00%	2.60%
Credit Cost	6.66%	7.18%	9.53%	10.47%	4.95%	2.32%
RoA	4.55%	4.83%	5.48%	3.82%	5.02%	5.68%
RoE	31.62%	29.12%	27.88%	17.96%	23.86%	26.22%

Source: Company, PL

Exhibit 8: Quick snapshot of Quarterly Business Parameters for SBICARD

Key Business Parameters	Q4FY19	Q1FY20	Q2FY20	Q4FY20	Q1FY21	Q2FY21
Cards In Force (unit mn)	8.3	8.8	9.5	10.5	10.6	11.1
Growth YoY				26.5%	20.5%	15.8%
Growth QoQ		6.0%	8.0%		1.0%	3.8%
Receivable Mix (%)						
Transactor		31%	32%	27%	25%	30%
Revolver	71%	38%	39%	40%	45%	34%
EMI	29%	31%	30%	32%	30%	27%
RBI RE						9%
30 day activity rate	55%	55%	55%	54%	40%	47%
Loans per Card (Rs)	22398	24072	24355	22888	22005	21781
Growth YoY				2.2%	-8.6%	-10.6%
Growth QoQ		7.5%	1.2%		-3.9%	-1.0%
Spend per Cards (Rs)	142	141	145	126	72	110
Growth YoY				-11.3%	-48.9%	-24.1%
Growth QoQ		-0.7%	2.8%		-42.9%	52.8%
New Accounts Sourcing ('000)	955	797	912	851	288	688
Growth YoY				-10.9%	-63.9%	-24.6%
Growth QoQ		-16.5%	14.4%		-66.2%	138.9%
New Accounts Sourcing by Channel						
SBI Sourcing	55%	42%	48%	54%	55%	58%
OM Sourcing	45%	58%	52%	46%	45%	42%
Sourcing by City Tier (%)						
Tier 1					38%	40%
Tier 2					33%	32%
Tier 3					11%	11%
Others					17%	16%
Retail Spends (Rs mn)				263730	166080	248630
Growth QoQ					-37.0%	49.7%
Corporate Spends (Rs mn)				60560	24770	47280
Growth QoQ					-59.1%	90.9%
New to Credit New Acquisition			18.6%			23.4%
Online Spend					56.10%	54.60%
Key operating/profitability metrics (%)	Q4FY19	Q1FY20	Q2FY20	Q4FY20	Q1FY21	Q2FY21
Yields	21.2%	21.2%	20.8%	22.1%	23.9%	21.4%
Cost of Funds	8.3%	8.2%	7.6%	7.5%	6.6%	6.6%
Cost to Income	59.2%	53.6%	59.6%	56.3%	47.2%	49.3%
Gross NPA	2.4%	2.7%	2.3%	2.0%	1.4%	4.3%
ROAA	5.1%	6.5%	6.5%	1.3%	6.3%	3.4%
ROAE	27.8%	36.1%	36.3%	6.5%	28.3%	14.1%
Credit Cost	3.5%	4.0%	3.3%	8.4%	4.9%	8.6%
ECL	3.3%	3.6%	3.3%	5.5%	6.0%	8.6%

Source: Company, PL

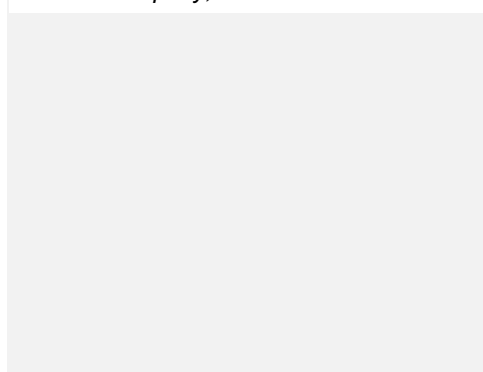
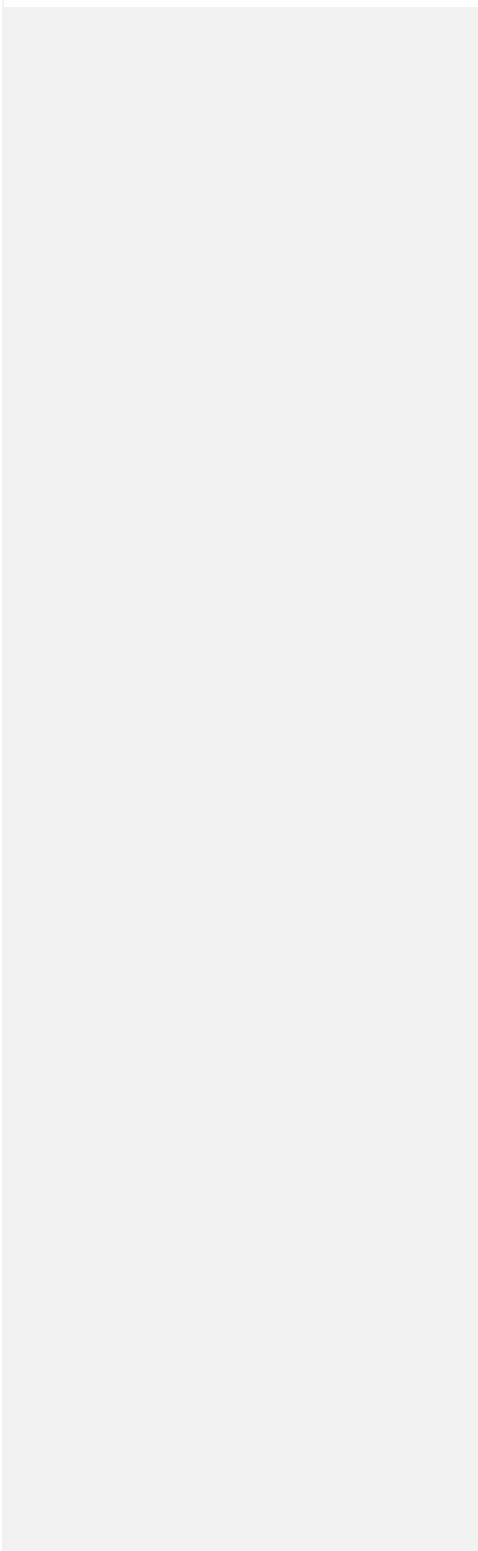




Exhibit 9: Change in Estimates – High return profile, strong parentage and recent stock run-up prompts us to tweak ests

Rs mn	Old			Revised			Change in Estimates		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Interest Income	42,793	49,946	54,028	42,793	49,265	52,768	0%	-1%	-2%
Operating Profit	40,114	34,302	31,583	38,729	40,478	42,299	-3%	18%	34%
Net Profit	8,292	15,711	18,164	10,413	20,001	23,464	26%	27%	29%
EPS (Rs)	8.8	16.7	19.3	11.1	21.3	25.0	26%	27%	29%
Price Target (Rs)	895			1,081			20.8%		
Reco	ACCUMULATE			ACCUMULATE					

Source: PL





Income Statement (Rs. m)				
Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Inc. / Opt. Inc.	48,413	54,843	65,650	75,342
Interest Expenses	13,009	12,050	16,384	22,574
Net interest income	35,404	42,793	49,265	52,768
<i>Growth(%)</i>	38.0	20.9	15.1	7.1
Non-interest income	49,110	45,594	57,796	70,150
<i>Growth(%)</i>	32.3	(7.2)	26.8	21.4
Net operating income	84,514	88,387	1,07,061	1,22,918
Expenditures				
Employees	4,684	5,202	6,317	7,358
Other Expenses	42,093	43,230	58,770	71,483
Depreciation	1,038	1,227	1,496	1,779
Operating Expenses	47,815	49,658	66,583	80,619
PPP	36,699	38,729	40,478	42,299
<i>Growth(%)</i>	47.8	5.5	4.5	4.5
Provisions	19,402	24,813	13,750	10,943
Profit Before Tax	17,296	13,916	26,728	31,356
Tax	4,848	3,503	6,727	7,892
<i>Effective Tax rate(%)</i>	28.0	25.2	25.2	25.2
PAT	12,448	10,413	20,001	23,464
<i>Growth(%)</i>	43.9	(16.3)	92.1	17.3

Balance Sheet (Rs. m)				
Y/e Mar	FY20	FY21E	FY22E	FY23E
Source of funds				
Equity	9390	9397	9397	9397
Reserves and Surplus	44,023	53,130	70,660	91,073
Networth	53,412	62,527	80,057	1,00,470
<i>Growth (%)</i>	48.9	17.1	28.0	25.5
Loan funds	1,73,649	1,97,657	2,53,564	3,09,347
<i>Growth (%)</i>	28.2	13.8	28.3	22.0
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	19,254	24,020	31,745	51,516
Other Liabilities	6,713	7,720	8,878	-
Total Liabilities	2,53,028	2,91,924	3,74,243	4,61,333
Application of funds				
Net fixed assets	3,346	4,717	5,734	6,533
Advances	2,28,116	2,45,691	3,10,123	3,69,828
<i>Growth (%)</i>	27.4	7.7	26.2	19.3
Investments	15	25	25	25
Current Assets	6,760	8,566	8,570	25,013
Net current assets	(12,493)	(15,454)	(23,175)	(26,503)
Other Assets	14,791	32,925	49,790	59,934
Total Assets	2,53,028	2,91,924	3,74,243	4,61,333
<i>Growth (%)</i>	25.6	15.4	28.2	23.3
Business Mix				
AUM	2,28,116	2,45,691	3,10,123	3,69,828
<i>Growth (%)</i>	27.4	7.7	26.2	19.3
On Balance Sheet	-	-	-	-
<i>% of AUM</i>	-	-	-	-
Off Balance Sheet	-	-	-	-
<i>% of AUM</i>	-	-	-	-

Profitability & Capital (%)				
Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	15.6	15.7	14.8	13.0
ROAA	5.5	3.8	6.0	5.8
ROAE	27.9	18.0	28.1	26.0

Source: Company Data, PL Research

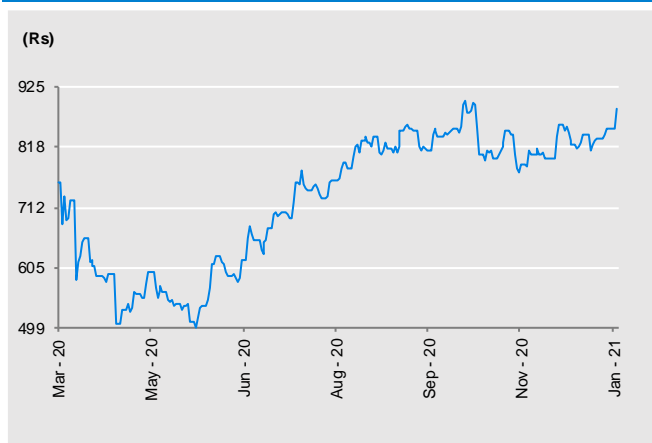
Quarterly Financials (Rs. m)				
Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Int. Inc. / Operating Inc.	12,815	13,482	14,121	12,754
Income from securitization	11,976	10,850	7,401	11,380
Interest Expenses	3,452	3,344	2,746	2,642
Net Interest Income	21,339	20,988	18,776	21,492
<i>Growth (%)</i>	33.9	22.7	6.3	8.7
Non-Interest Income	841	772	407	993
Net Operating Income	22,180	21,759	19,183	22,486
<i>Growth (%)</i>	33.1	20.7	(4.2)	9.3
Operating expenditure	12,320	11,970	8,768	10,786
PPP	9,595	9,502	10,136	11,399
<i>Growth (%)</i>	80.3	74.3	(4.8)	56.1
Provision	3,763	8,382	4,853	8,617
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	5,832	1,120	5,282	2,782
Tax	1,485	285	1,350	720
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	25.5	25.5	25.6	25.9
PAT	4,347	835	3,933	2,061
<i>Growth</i>	82	(66)	14	(46)
AUM	2,44,760	2,41,410	2,33,300	2,39,780
YoY growth (%)	42.0	34.8	9.9	4.1
Borrowing	1,85,778	1,73,649	1,60,760	1,56,966
YoY growth (%)	42.3	28.2	-	(9.9)

Key Ratios				
Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	965	965	965	965
EPS (Rs)	13.3	11.1	21.3	25.0
Book value (Rs)	56.9	66.5	85.2	106.9
Adj. BV(Rs)	55.2	61.3	80.6	105.7
P/E(x)	72.8	87.1	45.3	38.7
P/BV(x)	17.0	14.5	11.3	9.0
P/ABV(x)	17.5	15.7	12.0	9.1
DPS (Rs)	1.0	1.3	2.5	3.1
<i>Dividend Payout Ratio(%)</i>	7.5	11.5	11.8	12.5
<i>Dividend Yield(%)</i>	0.1	0.1	0.3	0.3

Asset Quality				
Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs(Rs m)	4,844	18,427	12,405	9,616
Net NPA(Rs m)	1,589	4,914	4,342	1,109
Gross NPAs to Gross Adv.(%)	2.0	7.5	4.0	2.6
Net NPAs to net Adv.(%)	0.7	2.0	1.4	0.3
NPA coverage(%)	67.2	73.3	65.0	88.5

Du-Pont as a % of AUM				
Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	15.6	15.7	14.8	13.0
NII INCL. Securitization	35.1	31.1	30.5	28.4
Total income	37.2	32.4	32.1	30.3
Operating Expenses	19.1	19.9	19.1	16.4
PPOP	16.1	14.2	12.2	10.4
Total Provisions	8.5	9.1	4.1	2.7
RoAA	5.5	3.8	6.0	5.8
Avg. Assets/Avg. net worth	19.6	23.6	23.0	24.4
RoAE	27.9	18.0	28.1	26.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	23-Oct-20	Accumulate	895	852
2	12-Oct-20	BUY	973	851
3	21-Jul-20	BUY	974	766
4	13-Jul-20	BUY	782	703
5	2-Jun-20	BUY	643	570
6	9-May-20	BUY	643	562
7	17-Apr-20	BUY	646	531

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	Accumulate	5,491	5,217
2	Cholamandalam Investment and Finance Company	BUY	310	273
3	HDFC	Accumulate	2,185	2,041
4	L&T Finance Holdings	Sell	52	65
5	LIC Housing Finance	Hold	316	324
6	Mahindra & Mahindra Financial Services	Reduce	124	131
7	Manappuram Finance	Accumulate	196	162
8	Muthoot Finance	BUY	1,364	1,152
9	SBI Cards and Payment Services	Accumulate	895	852
10	Shriram Transport Finance	Accumulate	809	693

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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