

June 2, 2020

Company Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	643		643	
NII (Rs.)	24,196	34,540	24,196	34,540
% Chng.	-	-	-	-
PPoP (Rs.)	10,850	27,666	10,850	27,666
% Chng.	-	-	-	-
EPS (Rs.)	1.3	17.8	1.3	17.8
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Int.Inc. (Rs m)	25,664	35,404	24,196	34,540
Growth (%)	25.3	38.0	(31.7)	42.8
Op. Profit (Rs m)	24,828	36,699	10,850	27,666
PAT (Rs m)	8,649	12,448	1,205	16,751
EPS (Rs.)	10.7	14.0	1.3	17.8
Gr. (%)	39.3	31.4	(90.8)	1,289.7
DPS (Rs.)	1.0	1.5	0.1	2.1
Yield (%)	0.2	0.3	0.0	0.4
Margin (%)	14.3	15.6	8.8	10.5
RoAE (%)	29.1	27.9	2.2	27.1
RoAA (%)	4.8	5.5	0.4	5.1
PE (x)	53.5	40.7	NA	32.0
P/BV (x)	13.3	10.0	9.8	7.8
P/ABV (x)	13.9	10.3	10.3	7.9

Key Data

SBIC.BO | SBICARD IN

52-W High / Low	Rs.769 / Rs.495
Sensex / Nifty	33,826 / 9,979
Market Cap	Rs.535bn/ \$ 7,105m
Shares Outstanding	939m
3M Avg. Daily Value	Rs.-4293652546m

Shareholding Pattern (%)

Promoter's	69.55
Foreign	4.07
Domestic Institution	3.79
Public & Others	22.59
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.8)	-	-
Relative	(5.1)	-	-

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Pent up demand drive May business

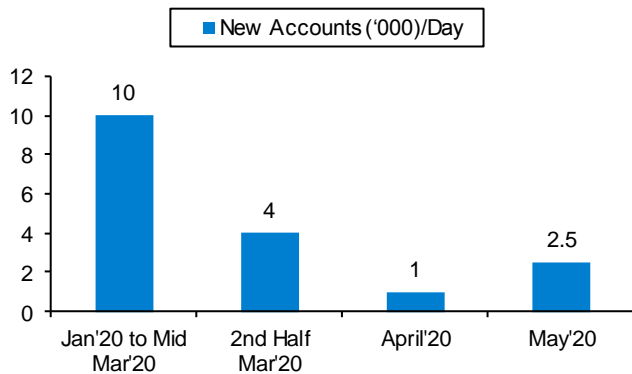
Quick Pointers:

- New cards per day run-rate rises to 2500 in May'20 from 1000 in Apr'20
- Spends per day at Rs2000mn in last 7 days of May'20 vs Rs2900mn in Q4

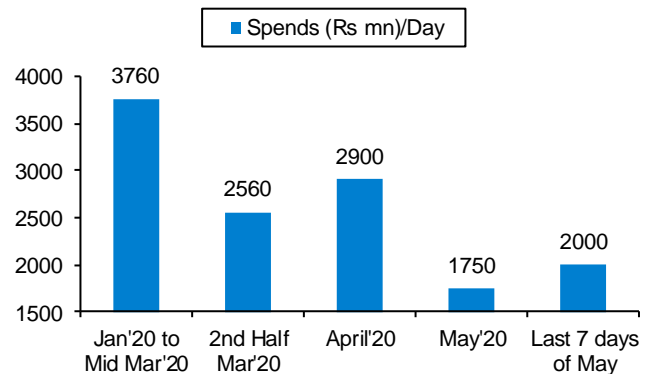
SBICARD May-month business update threw a few positive surprises. Amidst lockdown challenges, (a) ~27k new card additions in Apr'20 (b) increase in new card additions per day to 2500 in May'20 from 1000 in Apr'20 (c) spends per day at Rs2000mn in last 7 days of May'20 (Rs2900mn in Q4) (d) online spends share up to 55% in May'20 (44% in Q4) (e) morat customers stood steady at 12% between Apr-May'20. We reckon May'20-month business stands largely driven by pent-up demand and the same should moderate in H1FY21 on account of macro headwinds (job layoffs, salary cuts). To combat such challenges, Co has been focusing on new spend categories (education, online health & pharmacies) and utility spends (D&G, fuel, electronic, wellness). Moreover, continued interest income and repayments from morat customers (24% at Apr-end) could act as cushions. We expect moderation in per card spends (0.5-1% vs ~6% pre-COVID era) and card additions (2% in H1FY21 vs avg 27% pre-COVID era) in H1FY21. While near term challenges stand imminent, sufficient capital, liquidity buffers and robust risk management would support balance sheet resilience. We have built-in meaningful stress (6%NPA, 90% dip in EPS growth) into our FY21 earnings, but FY22 should witness strong earnings revival (RoE/RoA at 27/5%) back to pre-COVID levels. Maintain BUY, TP: Rs 643 (36x PE FY22E).

Key business highlights:

- **New accounts show pick up:** New card additions per day climbed from 1000 cards in Par'20 to 2500 in May'20. ~27K new cards were added in Apr'20.
- **Spends pick up from 2HMay:** Avg daily spends at Rs2000mn+ (last 7 days of May'20) stood closer to Rs 2900mn+ (Q4FY20); **online spends** at 55% in May'20 stood higher than 44% in Q4FY20: 44%, May'20: 55% led by D&G, fuel, electronics and health and wellness; new categories like education, online health and pharmacies have come up; certain categories of spends like travel, dining and lodging have remained weak
- **Moratorium repayments:** Mar'20 saw 8.4% of customers opting for morat. Apr May'20 both months saw 12% of customers under morat. 24% of morat customer base repaid back in part/ full as of 30thApr'20. While few failed to pay back, overall morat customer stood steady at 12% between Apr to May'20.
- **Collections:** 80% of its tele-calling infrastructure stood remotely operational; focus on digital modes.
- **Operations:** >70% workforce operational; since lockdown relaxation, card renewals & new issues stood at ~140k+, customer verification at~70k+ and new accounts at 100k+

Exhibit 1: New accounts traction bounced back in May'20


Source: Company, PL

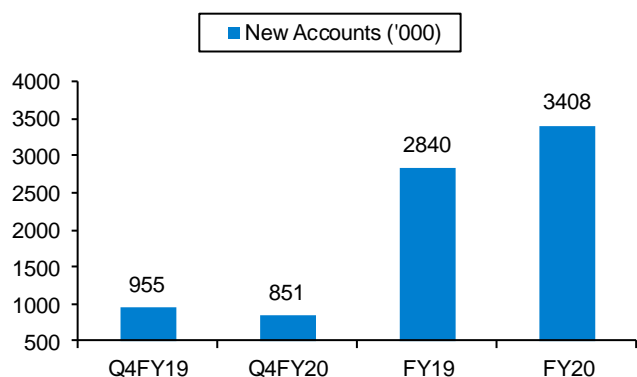
Exhibit 2: Spends per day rose in last 7 days of May


Source: Company, PL

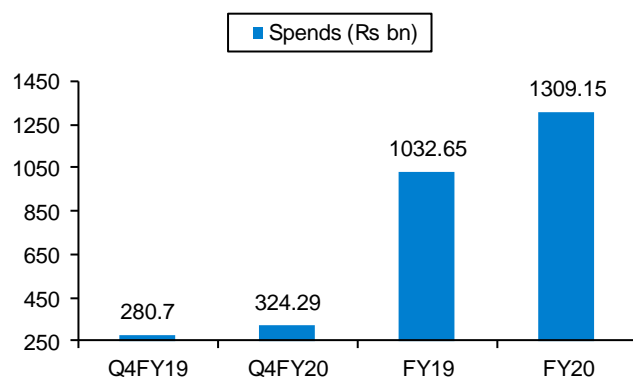
Exhibit 3: Co. measures to tackle pandemic challenges

COVID Responses	Q4FY20	Apr-May'20
Moratorium	Relief provided to cardholders in line with RBI moratorium; 8.4% of customers (16% in balance opted for moratorium) but 25% of these made repayments in part/full as end of April'20	Apr'20: 12.3% of customers stood under moratorium out of which 24% of customers have paid in part/full; 22nd May'20: 11.8% of customers stood under moratorium
Manage Risk	Monitoring portfolio closely for early stress indicators Additional COVID provision of Rs4.9bn taken in books to protect future losses	Undertaken actions such as credit limit decrease, blocking of cards, restricting cash withdrawal etc as part of risk mitigating exercise
Collections	Field collection has come to complete halt, tele-calling capabilities being enhanced Collections strategy being revamped	In Initial phase of lockdown, field and tele-calling were impacted 80% of its tele-calling infrastructure stood remotely operational
Servicing & Operations	Leveraging digital capabilities to service customers Account management being handled remotely	Deployment of >70% of workforce; Sales agents in bank branches & tele-calling workforce have been operationalized through WFH
Employee Safety	Work from home guidelines implemented Dedicated COVID-19 medical advisory helpline set up	WFH & set up of quick response team (QRT) at head office to address COVID scenarios
IT & InfoSec	All business-critical applications supported remotely Enhanced controls and monitoring for information security	Digital modes are being used to build the communication intensity with the customers Enhanced controls and monitoring for information security, availability of data centers and onsite support staff in place
Liquidity	Treasury operations managed remotely, all payment obligations serviced on time Sufficient banking credit lines available	Diversified funding; unutilized 35% of total sanctioned bank lines CAR: 22%; Tier 1 18%

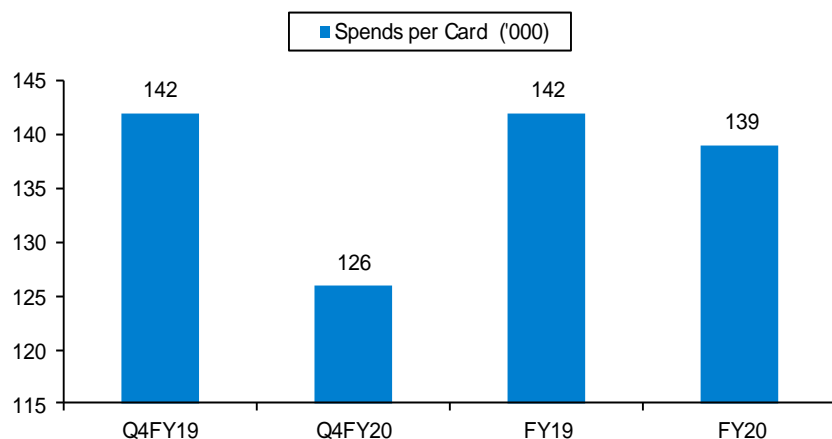
Source: Company, PL

Exhibit 4: New accounts traction slows


Source: Company, PL

Exhibit 5: Q4FY20 spends yet put up a steady show


Source: Company, PL

Exhibit 6: Spends per card have reduced as also a reflection of reduction in transaction value


Source: Company, PL

Exhibit 7: COVID-19 led credit costs spike; but hefty provisioning in place

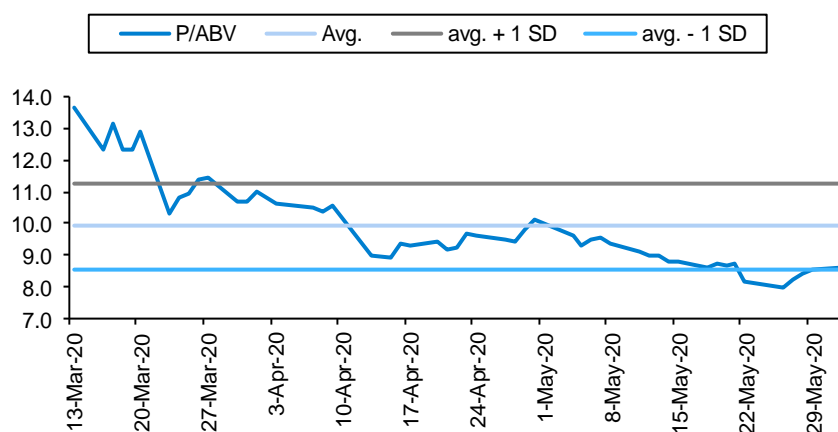
Asset Quality (Rs mn)	Q4FY19	Q4FY20	YoY gr.	FY19	FY20	YoY gr.
Impairment and losses	3,520	8,380	138.0%	11,480	19,400	69.0%
Gross Credit Costs	2,310	8,380	262.0%	10,270	19,370	89.0%
Gross Credit Costs (Ex COVID)	2,310	3,480	51.0%	10,270	14,480	41.0%
COVID Impact		4,890			4,890	
Recoveries	(700)	(760)	7.0%	(2,530)	(3,060)	21.0%
Net Credit Costs	1,610	7,620	374.0%	7,740	16,310	111.0%
Net Credit Costs (Ex COVID)	1,610	273	70.0%	7,740	1,142	48.0%
Gross Credit Cost %	5.1%	13.7%	861 bps	6.2%	9.1%	288 bps
Net Credit Cost %	3.5%	12.5%	893 bps	4.7%	7.6%	297 bps
Ex-COVID						
Gross Credit Costs %	5.1%	5.7%	61 bps	6.2%	6.8%	58 bps
Net Credit Costs %	3.5%	4.5%	92 bps	4.7%	5.4%	68 bps

Source: Company, PL

Exhibit 8: Credit Card Comparison metrics

Q4FY20 (Rs mn)	HDFC Bank	ICICI Bank	Axis Bank	RBL Bank	SBICARD
No. of cards O/S (units mn)	14.5	9.1	7.0	2.75	10.5
Card additions (units mn)	0.60	0.50	0.20	0.34	0.47
Spends	-	247390	183210	83270	324290
Spends growth YoY %		45.0%	10.5%	76.7%	15.5%
Spends per card (Rs)	-	27186	26173	30280	30885
Spends per card growth YoY %		5.1%	-5.3%	9.9%	-9.0%
Receivables	575750	156540	152700	105090	241410
Term (%)	-	-	-	47%	32%
Non-Term (%)	-	-	-	53%	68%
GNPA (%)	0.9%	-	-	1.4%	2.0%
Customer Mix (%)					
Salaried	-	85%	90%	70%	85%
Self employed	-	-	10%	30%	15%
Fee income as a % of revenue	-	-	-	41%	48%
Lowering cards spends in Mar'20 vs Jan'20 & Feb'20	21%	26%	25%	NA	32%

Source: Company, RBI, PL

Exhibit 9: Multiple de-rating visible as valuations factor near term challenges


Source: Company, PL



Income Statement (Rs. m)				
Y/e Mar	FY19	FY20	FY21E	FY22E
Int. Inc. / Opt. Inc.	35,757	48,413	39,601	52,465
Interest Expenses	10,094	13,009	15,406	17,925
Net interest income	25,664	35,404	24,196	34,540
<i>Growth(%)</i>	25.3	38.0	(31.7)	42.8
Non-interest income	37,111	49,110	32,698	46,968
<i>Growth(%)</i>	42.2	32.3	(33.4)	43.6
Net operating income	62,775	84,514	56,894	81,508
Expenditures				
Employees	3,789	4,684	5,430	6,012
Other Expenses	33,605	42,093	39,409	46,446
Depreciation	552	1,038	1,206	1,384
Operating Expenses	37,947	47,815	46,044	53,842
PPP	24,828	36,699	10,850	27,666
<i>Growth(%)</i>	44.4	47.8	(70.4)	155.0
Provisions	11,477	19,402	9,239	5,281
Profit Before Tax	13,351	17,296	1,611	22,385
Tax	4,701	4,848	405	5,634
<i>Effective Tax rate(%)</i>	35.2	28.0	25.2	25.2
PAT	8,649	12,448	1,205	16,751
<i>Growth(%)</i>	43.9	43.9	(90.3)	1,289.7

Balance Sheet (Rs. m)				
Y/e Mar	FY19	FY20	FY21E	FY22E
Source of funds				
Equity	-	-	-	-
Reserves and Surplus	27,506	44,023	44,981	59,645
Networth	35,878	53,412	54,371	69,034
<i>Growth (%)</i>	52.5	48.9	1.8	27.0
Loan funds	1,35,494	1,73,649	1,99,629	2,38,051
<i>Growth (%)</i>	18.7	28.2	15.0	19.2
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	20,513	19,254	32,072	35,679
Other Liabilities	9,577	6,713	13,090	15,053
Total Liabilities	2,01,462	2,53,028	2,99,162	3,57,817
Application of funds				
Net fixed assets	2,164	3,346	5,026	5,135
Advances	1,79,087	2,28,116	2,44,437	2,88,349
<i>Growth (%)</i>	27.5	27.4	7.2	18.0
Investments	15	15	25	25
Current Assets	7,768	6,760	8,694	12,914
Net current assets	(12,746)	(12,493)	(23,378)	(22,765)
Other Assets	12,428	14,791	40,980	51,394
Total Assets	2,01,462	2,53,028	2,99,162	3,57,817
<i>Growth (%)</i>	28.4	25.6	18.2	19.6
Business Mix				
AUM	1,79,087	2,28,116	2,44,437	2,88,349
<i>Growth (%)</i>	27.5	27.4	7.2	18.0
On Balance Sheet	-	-	-	-
<i>% of AUM</i>	-	-	-	-
Off Balance Sheet	-	-	-	-
<i>% of AUM</i>	-	-	-	-

Profitability & Capital (%)				
Y/e Mar	FY19	FY20	FY21E	FY22E
NIM	14.3	15.6	8.8	10.5
ROAA	4.8	5.5	0.4	5.1
ROAE	29.1	27.9	2.2	27.1

Source: Company Data, PL Research

Quarterly Financials (Rs. m)			
Y/e Mar	Q3FY20	Q4FY20	
Int. Inc. / Operating Inc.	12,815	13,482	
Income from securitization	11,976	10,850	
Interest Expenses	3,452	3,344	
Net Interest Income	21,339	20,988	
<i>Growth (%)</i>	33.9	22.7	
Non-Interest Income	841	772	
Net Operating Income	22,180	21,759	
<i>Growth (%)</i>	33.1	20.7	
Operating expenditure	12,320	11,970	
PPP	9,595	9,502	
<i>Growth (%)</i>	80.3	74.3	
Provision	3,763	8,382	
Exchange Gain / (Loss)	-	-	
Profit before tax	5,832	1,120	
Tax	1,485	285	
Prov. for deferred tax liability	-	-	
Effective Tax Rate	25.5	25.5	
PAT	4,347	835	
<i>Growth</i>	82	(66)	
AUM	2,39,332	2,28,116	
<i>YoY growth (%)</i>	0.4	0.3	
Borrowing	1,85,778	1,73,649	
<i>YoY growth (%)</i>	42.3	28.2	

Key Ratios				
Y/e Mar	FY19	FY20	FY21E	FY22E
CMP (Rs)	570	570	570	570
EPS (Rs)	10.7	14.0	1.3	17.8
Book value (Rs)	42.9	56.9	57.9	73.5
Adj. BV(Rs)	41.0	55.2	55.3	72.3
P/E(x)	53.5	40.7	444.2	32.0
P/BV(x)	13.3	10.0	9.8	7.8
P/ABV(x)	13.9	10.3	10.3	7.9
DPS (Rs)	1.0	1.5	0.1	2.1
<i>Dividend Payout Ratio(%)</i>	9.7	11.2	11.5	11.8
<i>Dividend Yield(%)</i>	0.2	0.3	0.0	0.4

Asset Quality				
Y/e Mar	FY19	FY20	FY21E	FY22E
Gross NPAs(Rs m)	4,529	4,852	13,444	11,534
Net NPA(Rs m)	1,518	1,592	2,444	1,153
Gross NPAs to Gross Adv.(%)	-	-	-	-
Net NPAs to net Adv.(%)	0.8	0.7	1.0	0.4
NPA coverage(%)	66.5	67.2	81.8	90.0

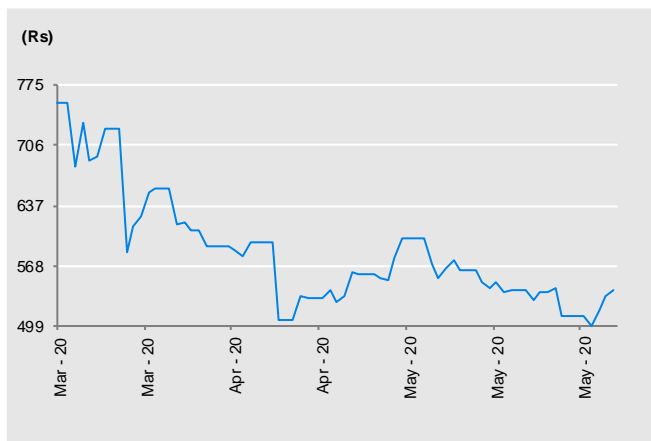
Du-Pont as a % of AUM				
Y/e Mar	FY19	FY20	FY21E	FY22E
NII	14.3	15.6	8.8	10.5
NII INCI. Securitization	33.4	35.1	19.6	23.7
Total income	35.0	37.2	20.6	24.8
Operating Expenses	21.2	21.0	16.7	16.4
PPOP	13.9	16.1	3.9	8.4
Total Provisions	6.4	8.5	3.3	1.6
RoAA	4.8	5.5	0.4	5.1
Avg. Assets/Avg. net worth	16.6	19.6	22.0	21.4
RoAE	29.1	28.0	2.0	23.8

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-May-20	BUY	643	562
2	17-Apr-20	BUY	646	531

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,000	1,965
2	Cholamandalam Investment and Finance Company	BUY	229	177
3	HDFC	Accumulate	1,992	1,516
4	L&T Finance Holdings	Sell	50	53
5	LIC Housing Finance	Reduce	282	278
6	Mahindra & Mahindra Financial Services	Reduce	171	168
7	Manappuram Finance	Accumulate	142	123
8	SBI Cards and Payment Services	BUY	643	562
9	Shriram Transport Finance	BUY	940	802

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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