

# SBI Cards

BSE SENSEX 84,914 S&P CNX 25,940

**CMP: INR780 TP: INR850 (+9%) Neutral**



Bloomberg	SBICARD IN
Equity Shares (m)	951
M.Cap.(INRb)/(USDb)	741.9 / 8.9
52-Week Range (INR)	817 / 648
1, 6, 12 Rel. Per (%)	4/-7/-34
12M Avg Val (INR M)	1349

## Financials & Valuations (INR b)

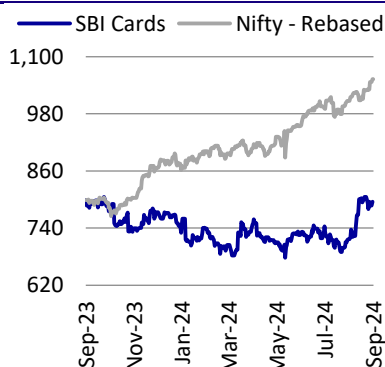
Y/E MARCH	FY24	FY25E	FY26E
NII	51.5	62.6	76.9
OP	65.2	79.7	97.0
NP	24.1	26.2	35.3
NIM (%)	11.2	11.2	11.6
EPS (INR)	25.4	27.6	37.2
EPS Gr. (%)	6.2	8.6	34.8
BV/Sh. (INR)	127	152	185
ABV/Sh. (INR)	123	147	180
<b>Ratios</b>			
RoE (%)	22.0	19.8	22.1
RoA (%)	4.6	4.1	4.6
<b>Valuations</b>			
P/E(X)	30.8	28.3	21.0
P/BV (X)	6.1	5.2	4.2
P/ABV (X)	6.3	5.3	4.3

## Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	68.6	68.6	69.0
DII	16.5	16.7	17.2
FII	8.7	8.6	9.5
Others	6.1	6.1	4.4

FII Includes depository receipts

## Stock Performance (1-year)



## Pain nearing end but not over yet

### Estimate earnings growth to accelerate in FY26

- SBI Cards (SBICARD) is the second-largest player in the card industry (in terms of CIF) with an 18.5% market share in cards-in-force (CIF) and 15.9% share in total industry spends.
- The company's market share in spends has moderated over the past few years, mainly because of the moderation in corporate spends. Meanwhile, growth in retail spends has remained healthy.
- SBICARD has been reporting high stress in asset quality, which has significantly affected its earnings growth. We estimate an 8% CAGR in earnings over FY23-25 vs. a 50% earnings CAGR over FY21-23.
- We anticipate credit cost to stay elevated in the near term, due to higher stress in unsecured segments. However, the moderation in funding cost and a gradual improvement in asset quality should boost earnings growth to a 34% CAGR over FY26-27E.
- The stock has seen significant de-rating over the years and now trades at 4.3x FY26E BV and 21x FY26E EPS, which is in line with few other high-RoE high-valuation NBFCs.
- We maintain our Neutral rating on the stock with a revised TP of INR850 (23x FY26E EPS).

## Spends to clock 16% CAGR over FY24-27E; retail spends steady

SBICARD reported healthy spend growth of 25.6% YoY in FY24, led by 27% YoY growth in retail spends. Corporate spend growth has moderated sharply in the recent quarters, down 66% YoY in 1QFY25 and 35% YoY in 4QFY24.

- The share of corporate spends in total spends has declined to 7% now from avg. 21% over FY23-24. As a result, the company's overall market share in spends has declined 190bp YoY to 15.9%.
- We estimate a 16% CAGR in total spends over FY24-27, led by continued traction in retail spends. Corporate spends are expected to recover in 2HFY25, with a recovery in Travel and Entertainment spends.
- SBICARD has a market share of over 20% in RuPay credit cards and is seeing strong traction in Tier-2 cities, where it has an UPI active CIF mix of 73%. Growth in UPI spends was robust at 50% QoQ in 1QFY25.

## Funding cost pressure to ease as rate cycle turns; NIMs to improve

SBICARD's cost of funds (CoF) has increased sharply by 240bp over the past two years, resulting in a 230bp compression in margins as lending yields were broadly stable. With prospects of a turn in the rate cycle and the recent moderation in interest rates (91 day T-bill down 37bp in past five months), we expect CoF to ease in the coming quarters. This will directly benefit margins; thus, we estimate NIMs to recover in 2HFY25. We estimate a 23% CAGR in NII over FY24-27E.

### Card issuance slows; sourcing mix tilts in favor of open market

SBICARD has reported an increase in open market sourcing to compensate for an industry-wide moderation in new card acquisition as card issuers tightened their origination criteria and strengthened the underwriting processes. The company has reported a 16% YoY decline in new card acquisition (18% YoY decline in 1QFY25) and started focusing more on open market operations, with the channel mix increasing to 58% from 46% last year. As a result, the delinquency rate has increased, which has led to a higher credit cost for SBICARD vs. other larger peers, which benefit from a higher mix of cross-selling to internal banca customers.

### Credit cost to stay elevated in near term; likely to improve to 7.5% in FY26E (8.5% in 1QFY25)

SBICARD's gross credit cost has sharply increased from 5.6% in 1QFY23 to 8.5% in 1QFY25 as the company witnessed high delinquencies in both lower and higher ticket sizes. While certain portfolio actions and tightening in underwriting practices have helped SBICARD maintain relatively healthy trends from new account originations, the persistent increase in stage-2 assets from 5.4% in 1QFY24 to 6.2% in 1QFY25 and the industry-wide increase in delinquencies in unsecured segments keep us watchful on near-term credit costs. We expect better recoveries to flow in over the medium term, which, along with a gradual moderation in delinquency, should help to ease provisioning pressure. We thus factor in a credit cost of 7.5% in FY26 vs. 8.0% in FY25.

### Tier-1 declines; internal accruals sufficient to support growth

The increase in unsecured risk-weight has affected the company's capital position; however, lower loan growth of 8% in the past two quarters (vs. avg. loan growth of ~27% over FY21-24) has helped improve Tier-1 from the lows. We estimate a 20% CAGR in the loan book over FY24-27E, backed by internal accruals, yet we estimate Tier-1 to improve slightly to 17.5% in FY27 from 16.8% currently.

### Valuation and view: Maintain Neutral with revised PT of INR850

SBICARD is the second-largest player in the card industry with an 18.5% share in CIF and 15.9% share in total industry spends. However, its market share in spends has declined over the past few years, mainly due to the moderation in corporate spends. Growth in retail spend has remained healthy.

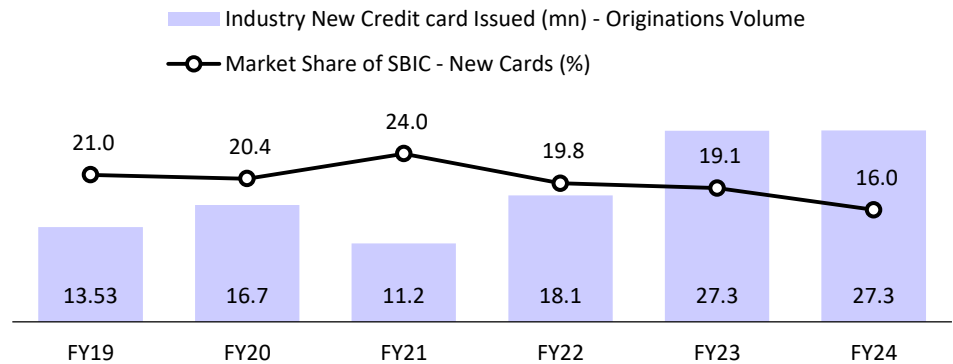
- With potential rate cuts on the horizon and the recent moderation in the 91-day T-bill rate, SBICARD is poised to benefit from a reduction in CoF.
- The stock has seen significant de-rating over the years and now trades at 4.3x FY26E BV and 21x FY26E EPS, which is close to a few other NBFCs that are generating the similar RoA.
- We anticipate near-term credit cost to stay elevated; however, the moderation in CoF and a gradual improvement in asset quality should boost earnings growth to 35%/33% over FY26E/FY27E vs. avg. earnings growth of ~8% over FY23-25E.
- We remain watchful on near-term delinquencies and the broader stress in unsecured segments as indicated by many other lenders. **Maintain NEUTRAL with a revised TP of INR850 (23x FY26E EPS).**

FY26E	SBIC	BAF	CFIC
Loan CAGR (FY24-26E)	19.0	28.0	26.57
PAT CAGR (FY24-26E)	21.1	24.1	34.5
RoA (%)	4.6	4.2	2.7
RoE (%)	22.1	21.8	22.1
P/BV (X)	4.3	4.2	4.2
P/E (X)	21.2	21.1	21.8

## Story in Charts

**Exhibit 1: Growth in new card issuance has moderated across the industry; the company's share in new cards has declined sharply in FY24**

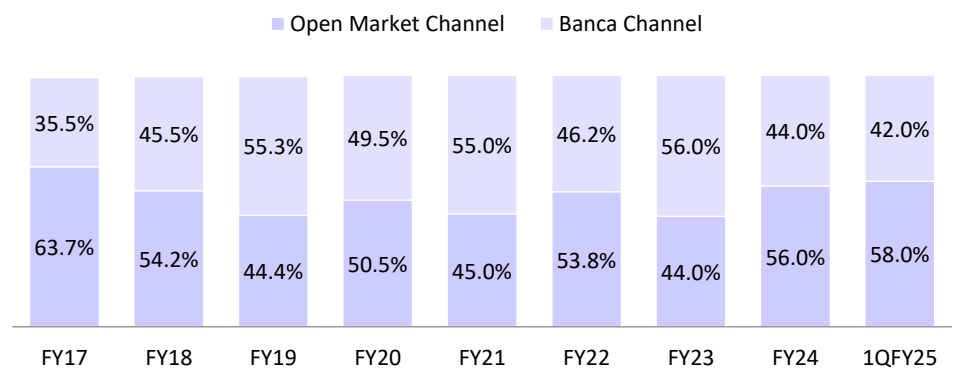
Market share of SBICARD in new cards declined to 16% in FY24 from 24% in FY21 amid rising stress across the industry



Source: MOFSL, CRIF Highmark

**Exhibit 2: New card sourcing: Mix of open market channel has increased to 58%**

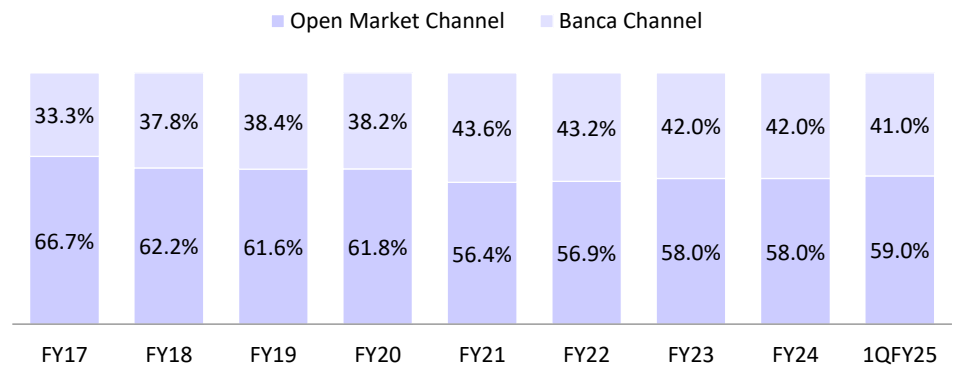
Sourcing mix has tilted toward the open market channel, which has resulted in an increase in the delinquency rate



Source: MOFSL, Company

**Exhibit 3: CIF: Open market channel accounts for ~59% of outstanding cards**

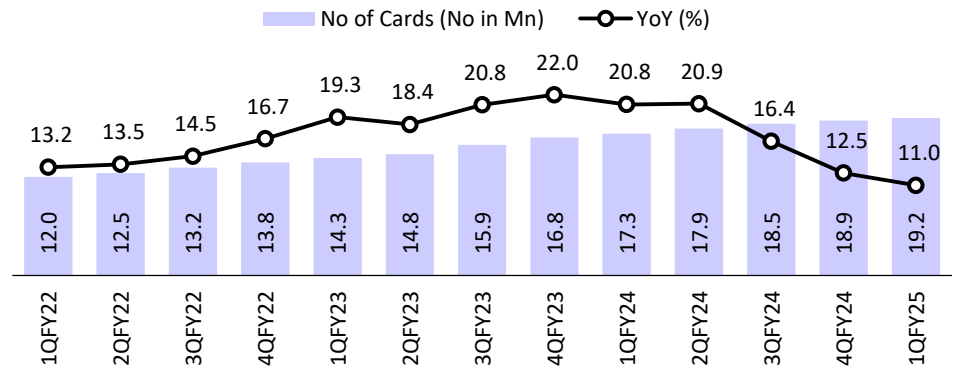
Open market channel accounts for 59% of total CIF



Source: MOFSL, Company

Card growth has moderated amid rise in stress levels

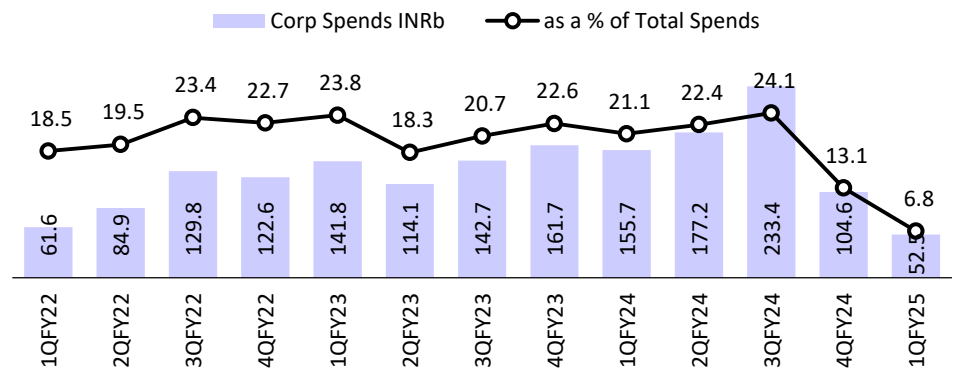
**Exhibit 4: Growth in o/s card base has declined to 11% YoY**



Source: MOFSL, Company

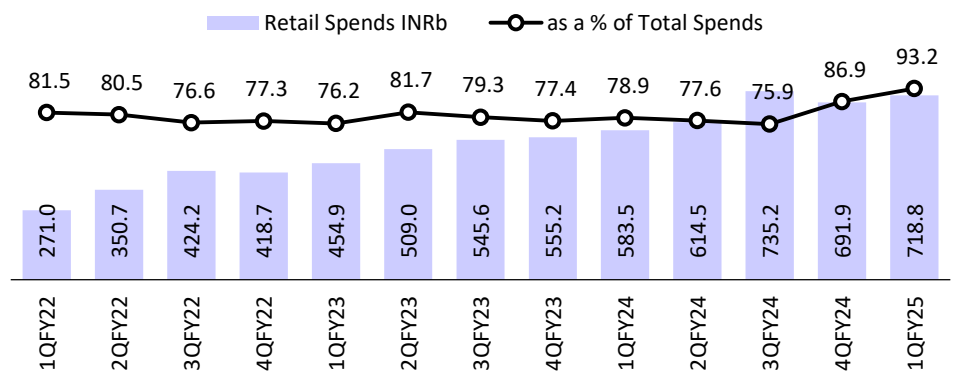
Corporate spends have declined sharply during 3QFY24 to 1QFY25

**Exhibit 5: Corporate spend mix declined sharply to 6.8% in 1QFY25**



Source: MOFSL, Company

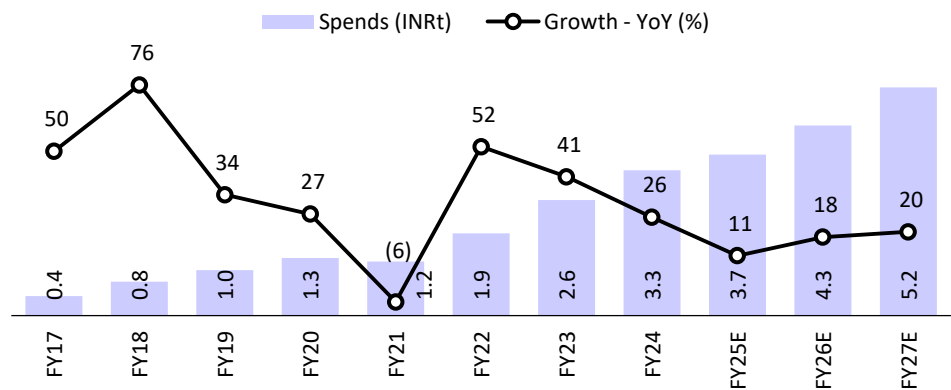
**Exhibit 6: Retail spends grew at healthy run-rate**



Source: MOFSL, Company

**Exhibit 7: Estimate spend growth to bottom out at 11% YoY in FY25 and recover thereafter**

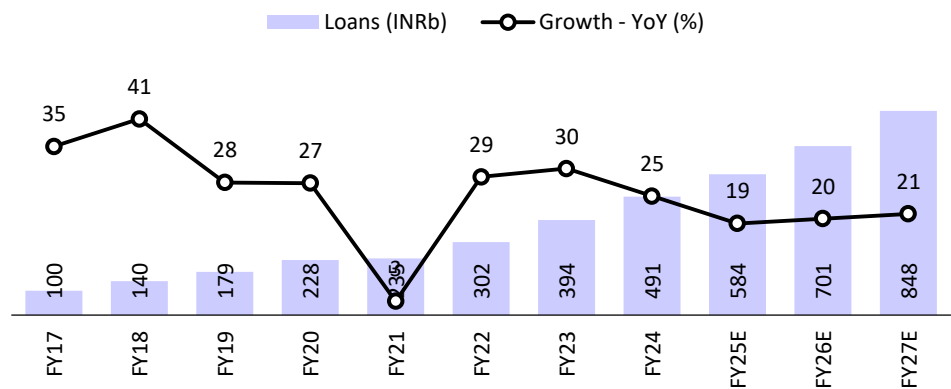
Spends expected to clock 16% CAGR to INR5.2t over FY24-27E



Source: MOFSL, Company

**Exhibit 8: Estimate loan growth to sustain at ~20% CAGR over FY24-27E**

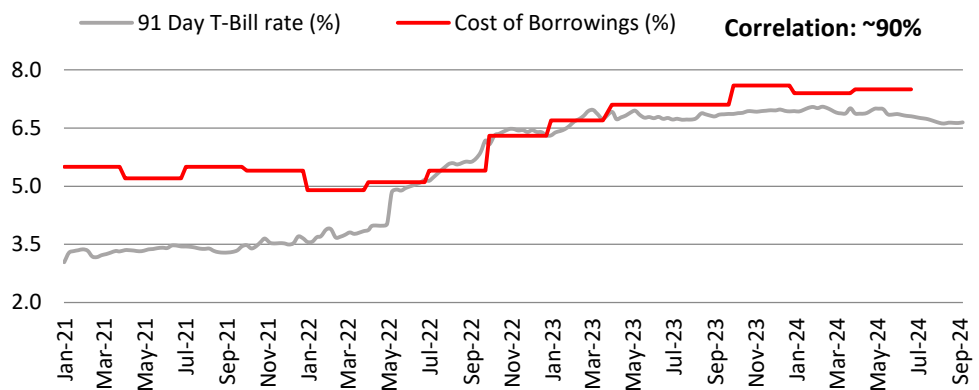
Loan growth expected to sustain at 20% CAGR to INR848b over FY24-27E



Source: MOFSL, Company

**Exhibit 9: CoF to ease as 91 day T-bill rate has softened 37bp over past five months**

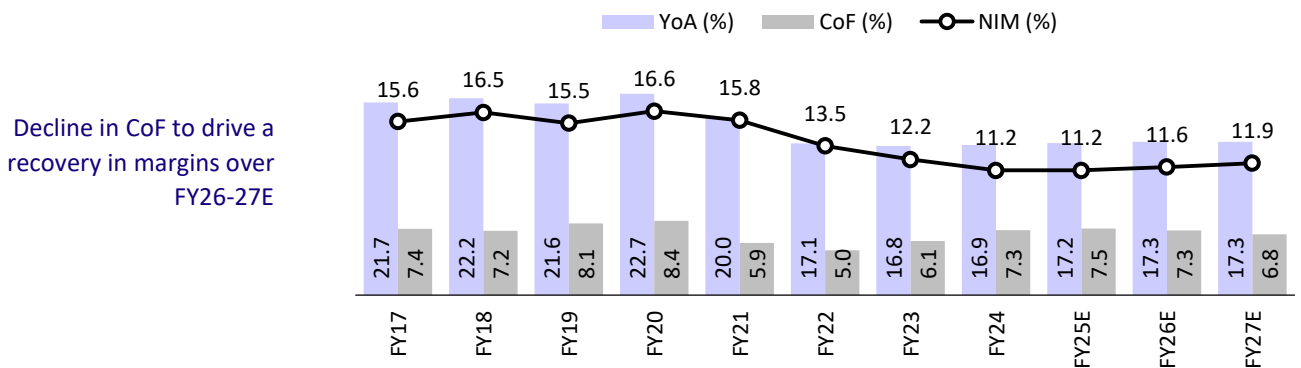
The 91-day T-bill rate has moderated 37bp over the past five months to 6.6% currently. We estimate CoF to ease going further.



Source: MOFSL, Company

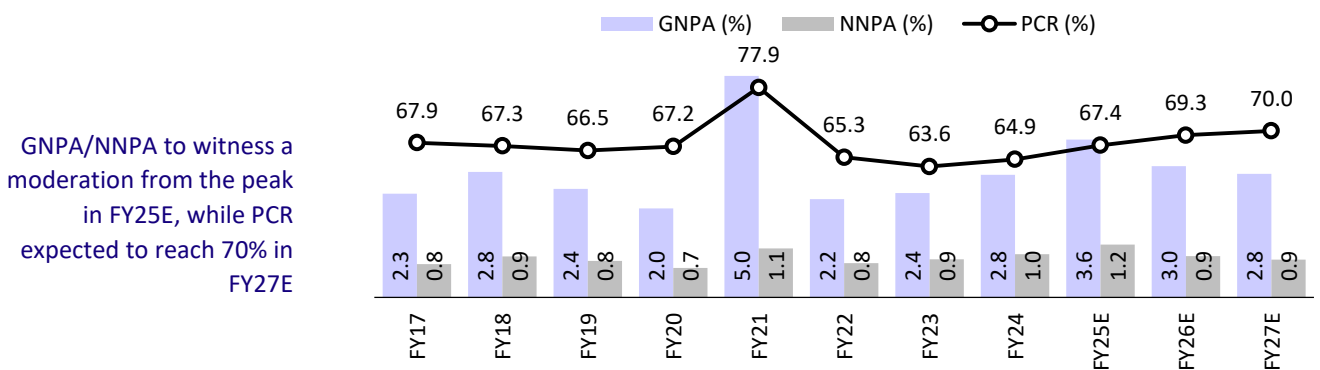
We note that 91-day T-Bill and Cost of Borrowing have 90% correlation.

**Exhibit 10: Estimate NIMs to recover to 11.9% by FY27E**



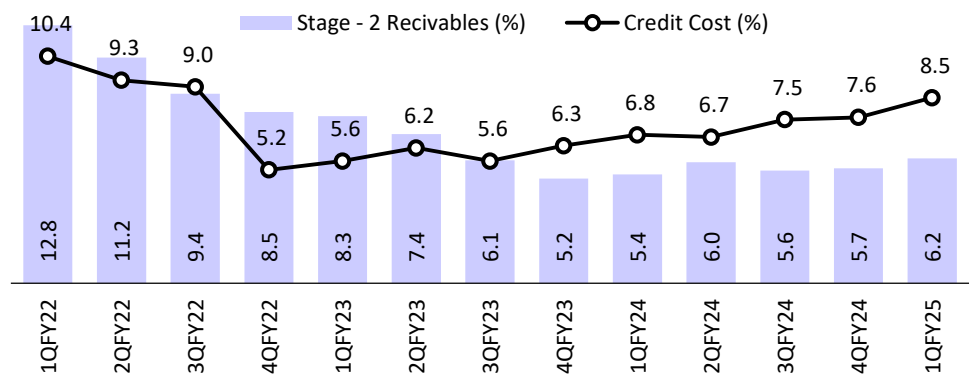
Source: MOFSL, Company

**Exhibit 11: Estimate GNPA to stay high in near term and recover thereafter in FY26-27E**



Source: MOFSL, Company

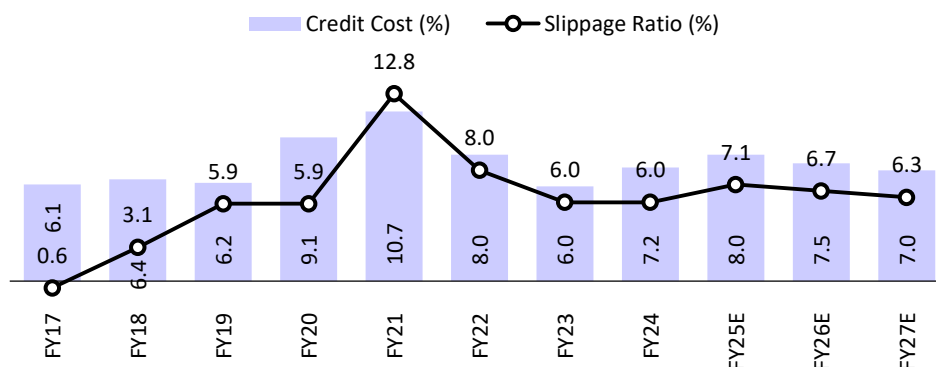
**Exhibit 12: Stage-2 receivables and credit cost showing upward trends**



Source: MOFSL, Company

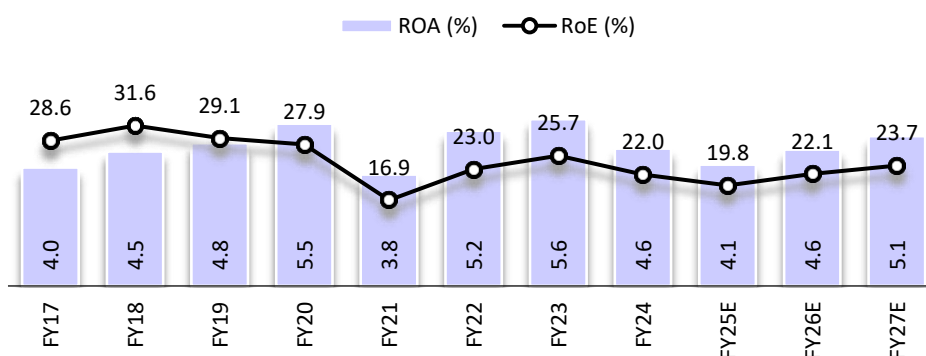
**Exhibit 13: Gross credit cost expected to decline over FY26-27E after a spike in FY25E**

Estimate credit cost to moderate to 7.5%/7% over FY26/FY27.



Source: MOFSL, Company

**Exhibit 14: Estimate FY27E RoA/RoE at 5.1%/23.7%**



Source: MOFSL, Company

**Exhibit 15: Comparison of SBICARD with select other high-valuation high-RoE companies**

FY26 Estimates Comparison	SBIC	BAF	CFIC
Loan CAGR (FY24-26E) (%)	19.0	28.0	26.6
PAT CAGR (FY24-26E) (%)	21.1	24.1	34.5
Yields (%)	17.3	16.7	14.7
CoF (%)	7.3	7.8	8.1
NIMs (%)	11.6	9.9	7.1
RoA (%)	4.6	4.2	2.7
RoE (%)	22.1	21.8	22.1
Credit Cost (%)			
GNPA (%)	3.0	1.2	2.12
NNPA (%)	0.9	0.5	1.13
PCR (%)	69.3	60.0	48.0
P/BV (X)	4.3	4.2	4.3
P/E (X)	21.2	21.1	22.0

Source: MOFSL, Company

## Valuation and view

SBICARD is the second-largest player in the card industry with an 18.5% share in CIF and 15.9% share in total industry spends. However, its market share in spends has declined over the past few years, mainly due to the moderation in corporate spends. Growth in retail spend has remained healthy.

- With potential rate cuts on the horizon and the recent moderation in the 91-day T-bill rate, SBICARD is poised to benefit from a reduction in CoF.
- The stock has seen significant de-rating over the years and now trades at 4.3x FY26E BV and 21x FY26E EPS, which is close to a few other NBFCs that are generating the similar RoA.
- We anticipate near-term credit cost to stay elevated; however, the moderation in CoF and a gradual improvement in asset quality should boost earnings growth to 35%/33% over FY26E/FY27E vs. avg. earnings growth of ~8% over FY23-25E.
- We remain watchful on near-term delinquencies and the broader stress in unsecured segments as indicated by many other lenders. **Maintain NEUTRAL with a revised TP of INR850 (23x FY26E EPS).**

### Exhibit 16: DuPont Analysis – We estimate RoA to improve to 5.1% by FY27E

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	21.3	18.8	15.6	15.1	14.9	14.9	15.0	14.9
Interest Expense	5.7	4.0	3.3	4.1	5.0	5.1	5.0	4.7
<b>Net Interest Income</b>	<b>15.6</b>	<b>14.8</b>	<b>12.3</b>	<b>11.0</b>	<b>9.9</b>	<b>9.8</b>	<b>10.0</b>	<b>10.3</b>
Fee Income	17.5	14.9	17.0	16.5	15.7	13.3	13.1	13.0
Trading and others	4.1	3.4	4.1	4.1	3.0	2.3	2.2	2.2
<b>Non Interest income</b>	<b>21.6</b>	<b>18.3</b>	<b>21.0</b>	<b>20.5</b>	<b>18.8</b>	<b>15.6</b>	<b>15.3</b>	<b>15.2</b>
<b>Total Income</b>	<b>37.2</b>	<b>33.1</b>	<b>33.3</b>	<b>31.5</b>	<b>28.7</b>	<b>25.4</b>	<b>25.3</b>	<b>25.4</b>
<b>Operating Expenses</b>	<b>21.0</b>	<b>18.0</b>	<b>19.0</b>	<b>18.6</b>	<b>16.1</b>	<b>12.9</b>	<b>12.7</b>	<b>12.6</b>
-Employee cost	2.1	1.9	1.5	1.4	1.1	1.0	0.9	0.9
-Others	19.0	16.1	17.4	17.2	15.0	11.9	11.8	11.7
<b>Operating Profits</b>	<b>16.1</b>	<b>15.1</b>	<b>14.4</b>	<b>12.9</b>	<b>12.6</b>	<b>12.5</b>	<b>12.6</b>	<b>12.8</b>
<b>Provisions</b>	<b>8.5</b>	<b>10.1</b>	<b>7.3</b>	<b>5.4</b>	<b>6.3</b>	<b>7.0</b>	<b>6.5</b>	<b>6.0</b>
<b>PBT</b>	<b>7.6</b>	<b>5.1</b>	<b>7.0</b>	<b>7.6</b>	<b>6.2</b>	<b>5.5</b>	<b>6.2</b>	<b>6.8</b>
Tax	2.1	1.3	1.8	1.9	1.6	1.4	1.6	1.7
<b>RoA</b>	<b>5.5</b>	<b>3.8</b>	<b>5.2</b>	<b>5.6</b>	<b>4.6</b>	<b>4.1</b>	<b>4.6</b>	<b>5.1</b>
Leverage (x)	5.1	4.5	4.4	4.6	4.7	4.8	4.8	4.7
<b>RoE</b>	<b>27.9</b>	<b>16.9</b>	<b>23.0</b>	<b>25.7</b>	<b>22.0</b>	<b>19.8</b>	<b>22.1</b>	<b>23.7</b>



## Financials and valuations

### Income statement

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	48.4	49.3	48.2	60.5	77.4	95.5	115.1	138.8
Interest Expense	13.0	10.4	10.3	16.5	26.0	32.9	38.3	43.3
<b>Net Interest Income</b>	<b>35.4</b>	<b>38.8</b>	<b>37.9</b>	<b>44.0</b>	<b>51.5</b>	<b>62.6</b>	<b>76.9</b>	<b>95.5</b>
-growth (%)	38.0	9.7	-2.3	16.0	17.0	21.6	22.8	24.2
Non Interest Income	49.1	47.9	64.8	82.4	97.4	99.5	117.3	141.0
<b>Total Income</b>	<b>84.5</b>	<b>86.7</b>	<b>102.7</b>	<b>126.4</b>	<b>148.9</b>	<b>162.1</b>	<b>194.2</b>	<b>236.5</b>
-growth (%)	34.6	2.6	18.5	23.0	17.8	8.9	19.8	21.8
Operating Expenses	47.8	47.1	58.5	74.5	83.7	82.4	97.2	117.2
<b>Pre Provision Profits</b>	<b>36.7</b>	<b>39.6</b>	<b>44.3</b>	<b>51.9</b>	<b>65.2</b>	<b>79.7</b>	<b>97.0</b>	<b>119.3</b>
-growth (%)	47.8	8.0	11.8	17.2	25.6	22.3	21.7	22.9
Provisions (excl tax)	19.4	26.4	22.6	21.6	32.9	44.5	49.6	56.2
<b>PBT</b>	<b>17.3</b>	<b>13.2</b>	<b>21.7</b>	<b>30.3</b>	<b>32.3</b>	<b>35.2</b>	<b>47.4</b>	<b>63.1</b>
Tax	4.8	3.4	5.6	7.7	8.2	9.0	12.1	16.1
- Tax Rate (%)	28.0	25.6	25.6	25.5	25.5	25.5	25.5	25.5
<b>PAT</b>	<b>12.4</b>	<b>9.8</b>	<b>16.2</b>	<b>22.6</b>	<b>24.1</b>	<b>26.2</b>	<b>35.3</b>	<b>47.0</b>
-growth (%)	43.9	-20.9	64.2	39.7	6.6	8.9	34.8	33.1
<b>Total Comprehensive Income</b>	<b>12.4</b>	<b>10.0</b>	<b>16.3</b>	<b>22.6</b>	<b>24.1</b>	<b>26.2</b>	<b>35.3</b>	<b>47.0</b>
-growth (%)	44.1	-19.7	63.1	38.7	6.7	8.9	34.8	33.1

### Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Reserves & Surplus	44.02	53.62	68.10	88.84	111.33	134.69	166.69	210.37
<b>Net Worth</b>	<b>44.0</b>	<b>53.6</b>	<b>68.1</b>	<b>88.8</b>	<b>111.3</b>	<b>134.7</b>	<b>166.7</b>	<b>210.4</b>
Borrowings	175.7	178.9	229.8	311.1	398.9	477.8	573.4	693.8
-growth (%)	29.7	1.8	28.4	35.4	28.2	19.8	20.0	21.0
Other Liabilities & Prov.	23.9	28.2	39.1	46.1	62.0	74.4	89.2	107.1
<b>Total Liabilities</b>	<b>243.7</b>	<b>260.7</b>	<b>337.1</b>	<b>446.0</b>	<b>572.2</b>	<b>686.9</b>	<b>829.3</b>	<b>1,011.3</b>
Current Assets	6.8	7.2	11.1	13.5	27.3	33.3	41.0	50.4
<b>Investments</b>	<b>0.0</b>	<b>9.6</b>	<b>13.0</b>	<b>21.4</b>	<b>35.2</b>	<b>42.9</b>	<b>51.5</b>	<b>61.8</b>
-growth (%)	0.0	65,347.3	35.5	64.9	64.5	22.0	20.0	20.0
<b>Loans</b>	<b>228.1</b>	<b>234.6</b>	<b>301.9</b>	<b>393.6</b>	<b>490.8</b>	<b>584.0</b>	<b>700.8</b>	<b>848.0</b>
-growth (%)	27.4	2.8	28.7	30.4	24.7	19.0	20.0	21.0
Fixed Assets	3.3	3.2	4.5	5.7	5.6	6.0	6.3	6.7
Other Assets	14.8	15.6	16.0	21.2	22.8	30.1	39.2	53.8
<b>Total Assets</b>	<b>253.1</b>	<b>270.1</b>	<b>346.5</b>	<b>455.5</b>	<b>581.7</b>	<b>696.4</b>	<b>838.8</b>	<b>1,020.8</b>

### Asset Quality

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
GNPA (INR b)	4.8	12.5	6.9	9.6	14.0	21.3	21.2	24.1
NNPA (INR b)	1.6	2.8	2.4	3.5	4.9	6.9	6.5	7.2
GNPA Ratio	2.0	5.0	2.2	2.4	2.8	3.6	3.0	2.8
NNPA Ratio	0.7	1.1	0.8	0.9	1.0	1.2	0.9	0.9
Slippage Ratio	5.9	12.8	8.0	6.0	6.0	7.1	6.7	6.3
Credit Cost	9.1	10.7	8.0	6.0	7.2	8.0	7.5	7.0
PCR (Excl Tech. write off)	67.2	77.9	65.3	63.6	64.9	67.4	69.3	70.0

E: MOFSL Estimates

## Financials and valuations

### Business Metrics

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total No of Cards (Nos in Mn)	10.5	11.8	13.8	16.8	18.9	22.3	26.3	31.8
Total spends (INR b)	1,309.2	1,224.2	1,863.5	2,625.0	3,295.9	3,658.4	4,317.0	5,180.3
Spends per card (INR k)	124.1	103.5	135.4	156.2	174.4	164.0	164.0	162.7
Loans per card (INR)	22	20	22	23	26	26	27	27
Fee income earned per card	3,772	3,305	3,796	3,931	4,320	3,807	3,807	3,783
	<b>27</b>	<b>-6</b>	<b>52</b>	<b>41</b>	<b>26</b>	<b>11</b>		

### Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Yield &amp; Cost Ratios (%)</b>								
Avg. Yield on loans	22.7	20.0	17.1	16.8	16.9	17.2	17.3	17.3
Avg. Cost of Borrowings	8.4	5.9	5.0	6.1	7.3	7.5	7.3	6.8
<b>Interest Spread</b>	<b>14.3</b>	<b>14.1</b>	<b>12.1</b>	<b>10.7</b>	<b>9.6</b>	<b>9.7</b>	<b>10.0</b>	<b>10.5</b>
<b>Net Interest Margin</b>	<b>16.6</b>	<b>15.8</b>	<b>13.5</b>	<b>12.2</b>	<b>11.2</b>	<b>11.2</b>	<b>11.6</b>	<b>11.9</b>

### Capitalisation Ratios (%)

CAR	22.4	24.8	23.8	23.1	20.5	19.9	20.2	20.2
Tier I	17.7	20.9	21.0	20.4	16.5	16.6	17.0	17.5
Tier II	4.7	3.9	2.8	2.7	4.0	3.3	3.2	2.7

### Business ratios (%)

Cost/Assets	21.0	18.0	19.0	18.6	16.1	12.9	12.7	12.6
Cost/Total Income	56.6	54.3	56.9	58.9	56.2	50.8	50.0	49.6
Int. Expense/Int.Income	26.9	21.2	21.3	27.2	33.5	34.4	33.2	31.2
Other income/Total Income	58.1	55.2	63.1	65.2	65.4	61.4	60.4	59.6
Empl. Cost/Total Expense	9.8	10.4	8.1	7.5	6.8	7.5	7.1	6.9

### Valuation

RoE	27.9	16.9	23.0	25.7	22.0	19.8	22.1	23.7
RoA	5.5	3.8	5.2	5.6	4.6	4.1	4.6	5.1
RoRWA	5.9	4.1	5.8	6.2	4.6	3.7	4.1	4.5
Book Value (INR)	57	67	82	104	127	152	185	231
-growth (%)	32.7	17.8	22.7	26.4	22.3	19.3	22.2	24.8
<b>Price-BV (x)</b>	<b>13.7</b>	<b>11.7</b>	<b>9.5</b>	<b>7.5</b>	<b>6.1</b>	<b>5.2</b>	<b>4.3</b>	<b>3.4</b>
Adjusted BV (INR)	56	65	80	101	123	147	180	226
<b>Price-ABV (x)</b>	<b>14.0</b>	<b>12.0</b>	<b>9.7</b>	<b>7.7</b>	<b>6.3</b>	<b>5.3</b>	<b>4.3</b>	<b>3.5</b>
EPS (INR)	14.0	10.5	17.2	23.9	25.4	27.6	37.2	49.4
-growth (%)	31.4	-25.3	63.8	39.3	6.2	8.6	34.8	33.1
<b>Price-Earnings (x)</b>	<b>55.7</b>	<b>74.5</b>	<b>45.5</b>	<b>32.7</b>	<b>30.8</b>	<b>28.3</b>	<b>21.0</b>	<b>15.8</b>

E: MOFSL Estimates

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