

SBI CARDS AND PAYMENT SERVICES LIMITED

Immense growth potential with healthy return ratios

SBI Cards & Payment Services Limited (SBI Cards), a subsidiary of Sate Bank of India (SBI), is a non-deposit taking NBFC and one among the two credit card issuers registered as an NBFC and will become the only listed company in India in this space. SBI Cards is the 2nd largest credit card issuer in India, with 18.1% market share in terms of the number of credit cards outstanding as of November 30, 2019. SBI Cards offers various types of credit cards considering the need of retail clients (viz. Lifestyle Cards, Rewards, Shopping, Travel and Fuel). It also offers corporate cards and is the largest co-brand credit card issuer in India. It also issue card in partnership with smaller or regional banks.

Immense growth potential given low penetration and large untapped SBI customers: SBI Cards has grown its outstanding cards at healthy CAGR of 28% over FY2015-19 while the industry grew at 23% over the same time. Furthermore, we expect SBI Cards to continue to register healthy CAGR over FY2020-24 owing to (a) Significantly underpenetrated Indian credit card market; number of credit cards per 100 people is 3, whereas in developed/developing countries it is >30. (b) As on Q3FY2020, credit card to debit card ratio was 3.7% for SBI Cards (vs. peers viz. HDFC Bank – 45%, Axis Bank – 28% and ICICI Bank – 18%), which clearly indicates huge scope for mining SBI Bank customers. (c) Total credit card outstanding loan as % of banking sector loan is just 1.22%, and retail loan is 27%, indicating enough space to increase credit card loan book. (d) Credit card spend as % of GDP for India is 3%, while that for other countries is >10%. All the above factors clearly show that there is a huge room for credit card industry to grow. We believe, with strong parentage and healthy capital adequacy, SBI Cards should be able to growth at healthy CAGR and gain market share.

Healthy return ratios; stable asset quality despite strong advances growth: SBI Cards has reported average ROE/ROA of 29%/4.3% over last 3 years. C/I has declined from 63% in FY2017 to 60.5% in FY2019 and further reduced to 56.6% for 9MFY2020. Spend base fees contributes 26% of total income and increase in card spending will improve spend base fees, which will increase operating leverage, aiding further reduction in C/I. Advances grew at CAGR of 34% over FY2017-19, however asset quality remained stable in the range of 2.3–2.4%.

Outlook & Valuation: At the upper end of the price band, SBI Cards is valued at 45.5x of 9MFY2020 annualised earnings. Although the valuations are a bit on the higher side, we are positive on the future outlook of the company given favorable industry scenario, large untapped SBI Bank customers and strong financial track record. **We recommend a Subscribe to the issue.**

Key Financials

Y/E March (₹ cr)	FY17	FY18	FY19	9MFY20
NII	1,360	2,048	2,559	2,527
YoY Growth (%)		51	25	
PAT	373	601	863	1,161
YoY Growth (%)		61	44	
EPS	4	6	9	17
Book Value	16	25	38	51
P/E	189	117	82	45
P/BV	49	30	20	15
ROE (%)	26	32	29	38

Source: Company, RHP, Angel Research; Note: Valuation ratios based at upper end of the price band. 9MFY2020 EPS is annualised.

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Issue Open: March 02, 2020

Issue Close: March 05, 2020

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹ 932.3cr

Fresh issue: ₹500cr

Offer for sale: ₹9,855cr

Post Eq. Paid up Capital: ₹939cr

Issue size (amount): *₹10,290cr - **10,355 cr

Price Band: ₹750-755

Lot Size: 19 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹70,422cr - **₹70,891cr

Promoters holding Pre-Issue: 74%

Promoters holding Post-Issue: 69.51%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	69.5%
Others	30.5%

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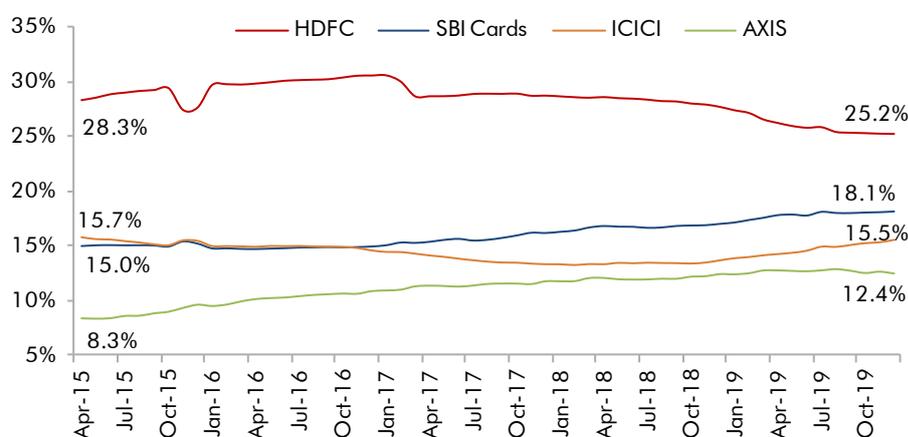
Comp Background:

SBI Cards is the credit card marketing and issuing arm of India's largest bank, SBI. The company was established in 1998 and since then it is offering various credit card services matching the needs of different economic classes of the country. It was incorporated as a joint venture between State Bank of India and GE Capital Mauritius Overseas Investment. On December 15, 2017, GE Capital Mauritius Overseas Investments sold its entire stake (40%) in the company to State Bank of India (14%) and CA Rover Holdings (26%).

CA Rover Holdings: CA Rover Holdings, an affiliate of the Carlyle Group, currently owns 26% of the total outstanding equity share capital. Carlyle Group is a global investment firm having deep industry expertise with over \$222 billion of assets under management as of March 31, 2019.

SBI Cards is the 2nd largest credit card issuer in India, with a 17.6% and 18.1% market share of the Indian credit card market in terms of the number of credit cards outstanding as of March 31, 2019 and November 30, 2019, respectively, and a 17.1% and 17.9% market share of the Indian credit card market in terms of total credit card spends in fiscal 2019 and in the 8 months ended November 30, 2019, respectively, according to RBI.

Exhibit 1: % of Cards in Force



Source: Company, RBI

How does SBI Cards earn revenue and other income?

The revenue that SBI Cards derives from its credit card products consists primarily of interest on its credit card receivables and non-interest income primarily comprising of fee-based income such as interchange fees (i.e. fees received from credit card payment networks such as MasterCard, Visa and RuPay), late fees, annual credit card membership fees and other fees.

A typical credit card transaction begins when a cardholder purchases goods or services from a merchant using its credit card. After the transaction is authorized by the credit card issuer through the payment network, the credit card issuer pays the purchase amount to the payment network net of interchange fees. The payment

network, in turn, then pays the purchase amount to the acquirer. Finally, the acquirer pays the purchase amount to the merchant net of acquirer fees.

SBI Cards earns interest income on “revolver” receivables, “transactor” receivables and “term loan” receivables. Revolver receivables are characterized by balances, which are carried over from one month to the next and, consequently, accrue interest charges. Transactor receivables are characterized by balances, which are paid in full every month by the due date and, consequently, do not accrue any interest charges. Term loan receivables are comprised of equated monthly installment balances.

Other income comprises of income from fees and services, services charges, business development incentive income, insurance commission income.

Income from fees and services: Income from fees and services primarily relates to the various types of credit card fees and charges that it generates from its operations.

- **Subscription-based fees:** Subscription-based fees primarily consist of credit card membership fees and annual credit card fees that it charges its cardholders.
- **Spend-based income:** Spend-based income primarily consists of the interchange fees that it earns as consideration for the transactions carried out by its cardholders using its credit cards.
- **Instance-based fees:** Instance-based fees primarily consists of a wide range of fees that it charges its cardholders, including late fees, reward redemption fees, cash withdrawal fees, over-limit fees, payment dishonor fees, processing and statement retrieval charges, among others.

Service charges: Service charges primarily comprise of commission from selling of third party products (like card protection plans).

Insurance commission income: Insurance commission income is comprised of commissions or incentives that it earns as a corporate insurance agent in selling its partners’ insurance products to its cardholders.

Exhibit 2: Revenue from operations mix – FY19

Particular	%
Net Interest Income	40.8
Other Income	10.2
Other Income-Misc	4.6
Service Charges	2.0
Business development incentive income	3.5
Insurance commission income	0.1
Net gain on fair value changes	0.0
Income from fees and services	49.0
Subscription-based fees	6.9
Spends-based fees	26.2
Instance-based fees	15.8

Source: RHP

Exhibit 3: Income from fees and services mix – FY19

Particular	%
Income from fees and services	100
Subscription-based fees	14.8
Spends-based fees	51.0
Instance-based fees	34.2

Source: RHP

Key Management Personnel:

Mr. Hardayal Prasad is the Managing Director and CEO of SBI Cards and Payment Services. He holds a Masters degree in Chemistry from Agra College and is a certified associate of Indian Institute of Bankers. He has handled several assignments for SBI in various locations in India and abroad. He has been a part of SBI since 1983 and has 36 years of experience in the banking industry.

Mr. Richhpal Singh, COO of the company, is a bachelor in arts from Maharshi Dayanand University, Rohtak. He was associated with the erstwhile SBIBPMSL (previously known as GE Capital Business Process Management Services Private Limited) since December, 2017. Previously, he was associated with Jio Payments Bank Limited and SBI.

Ms. Aparna Kuppuswamy, Chief Risk Officer of the company is a Masters in Finance and Control from the University of Delhi. She was associated with GE Money Financial Services for one year and was then transferred to SBI Cards in April, 2009. Previously, she was associated with American Express Financial Advisors, Bank of America and ABN AMRO Bank.

Mr. Girish Budhiraja is the Chief Product and Marketing Officer. He holds a Bachelor's degree in Technology in Mining Engineering from Indian School of Mines and a post-graduate diploma in management from IIM, Bangalore. He is working with SBI since November, 2012. Previously, he was associated with American Express Bank Limited, and ICI India Limited.

Issue details

SBI Cards IPO is raising ₹500cr (0.66cr shares) through fresh issue and ₹9,855cr (13.05cr shares) through offer for sale (OFS). The Promoter, State Bank of India (SBI) and CA Rover Holding are collectively selling 13.05cr shares through OFS. Post Issue, SBI's stake will decline from 74% to 69.5% and CA Rover's stake will decline from 26% to 16%. AT upper price band of IPO, SBI and CA Rover Holding will garner ₹2,816cr and ₹7,039cr, respectively.

In this IPO, there is reservation kept for employee of SBI Cards and SBI, along with this they will also get ₹75/- discount. Total 1.49cr share are reserved for employees and shareholders, of this 0.19cr for employee and remaining 1.31cr share for shareholder of SBI Cards and SBI.

Exhibit 4: Pre and post IPO shareholding pattern

Particular	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	68,99,27,363	74.0	65,26,33,992	69.51
Investor/Public	24,24,06,915	26.0	28,63,22,803	30.49
Total	93,23,34,278	100.0	93,89,56,795	100.00

Source: RHP Note : Calculated on upper price band

Objects of the offer

- The net proceeds of the Fresh Issue are proposed to be utilized for augmenting capital base and general corporate purposes.
- To achieve the benefits of listing the Equity Shares on the Exchanges and to carry out offer for sale of equity shares.

Risk

- Any changes by Indian regulator (RBI) on interchanges fees (spend based fess) would impact SBI Cards' financials and return ratio. As interchanges contribute 44% of other income and 26% of total income.
- Presently, RBI does not allow NBFCs to offer their own credit cards. If in foreseeable future, RBI allows NBFCs to issue credit cards, it will pose the risk of competition for SBI Cards.
- Prolonged slowdown in economy would impact asset quality adversely, consequently provision costs would go up.

Income Statement

Y/E March (₹ cr)	FY17	FY18	FY19	9MFY20
NII	1,360	2,048	2,559	2,527
- YoY Growth (%)		51	25	
Other Income	1,583	2,610	3,711	3,747
- YoY Growth (%)		65	42	
Operating Income	2,943	4,659	6,270	6,274
- YoY Growth (%)		58	35	
Operating Expenses	1,839	2,939	3,790	3,553
- YoY Growth (%)		60	29	
Pre - Provision Profit	1,104	1,719	2,479	2,721
- YoY Growth (%)		56	44	
Prov. & Cont.	532	800	1,148	1,102
- YoY Growth (%)		50	43	
Profit Before Tax	572	919	1,332	1,619
- YoY Growth (%)		61	45	
Prov. for Taxation	199	318	469	457
- as a % of PBT	35	35	35	28
PAT	373	601	863	1,161
- YoY Growth (%)		61	44	35

Balance Sheet

Y/E March (₹ cr)	FY17	FY18	FY19	9MFY20
Share Capital	785	785	837.2	932.3
Reserve & Surplus	664	1,568	2,745	3,819
Net Worth	1,449	2,353	3,582	4,751
Total Borrowings	8,557	12,061	14,718	19,421
- Growth (%)		41	22	
Other Liabilities	759	1,272	1,940	1,821
Total Liabilities	10,765	15,686	20,240	25,993
Cash and Cash equivalents	175	312	734	453
Investments	111	275	75	86
Total Loans & Advances	9,983	14,046	17,909	23,933
- Growth (%)		41	28	
Fixed Assets	2	121	142	164
Other Assets	495	933	1,380	1,358
Total Assets	10,765	15,686	20,240	25,993
- Growth (%)		46	29	

Key Ratio

Y/E March	FY17	FY18	FY19	9MFY20
Profitability ratios (%)				
NIMs	13.5	16.8	15.8	-
RoA	3.5	4.5	4.8	6.9
RoE	25.7	31.6	29.1	37.9
C/I	62.5	63.1	60.5	56.6
Capital adequacy ratios (CAR)				
Tier I CAR	11.3	12.4	14.7	15.4
Tier II CAR	4.4	5.9	5.3	3.8
Total CAR	15.7	18.3	20.0	19.2
Asset Quality (%)				
Stage 1 & Stage 2 (₹ cr)	10,064	14,157	18,073	24,164
Stage 3 (₹ cr)	241	412	453	612
Provision				
Stage 1 & Stage 2 (₹ cr)	159	247	316	433
Stage 3 (₹ cr)	164	278	301	410
Provision %				
Stage 1 & Stage 2	1.58	1.74	1.75	1.79
Stage 3	67.9	67.3	66.5	67.0
Gross NPAs %	2.3	2.8	2.4	2.5
Net NPAs %	0.8	1.0	0.8	0.8
Credit Cost	5.3	5.7	6.4	6.1
Per Share Data (₹)				
EPS	4.0	6.4	9.3	16.6
BVPS	15.5	25.2	38.4	51.0
Valuation Ratios				
PER (x)	188.8	117.1	81.6	45.5
P/BVPS (x)	48.6	29.9	19.7	14.8
DuPont Analysis				
Interest Income	17.5	20.9	19.9	20.7
Interest Expenses	4.9	5.4	5.7	5.7
NII	12.6	15.5	14.2	14.9
Provision	4.9	6.0	6.4	6.5
Adj NII	7.7	9.4	7.9	8.4
Other Inc.	14.7	19.7	20.7	22.2
Total Income	22.4	29.2	28.5	30.6
Opex	17.1	22.2	21.1	21.0
PBT	5.3	7.0	7.4	9.6
Taxes	1.8	2.4	2.6	2.7
RoA	3.5	4.5	4.8	6.9
Leverage	7.4	7.0	6.1	5.5
RoE	25.7	31.6	29.1	37.9

Valuation done at upper price band, 9MFY20 valuation done on annualized number.

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