SBI Cards and Payment Services Ltd

Price Band ₹ 750-755

SUBSCRIBE

February 27, 2020

SBI Cards (SBIC), a subsidiary of State Bank of India, is the second largest credit card issuer with 93.2 lakh outstanding credit cards and ~ ₹ 98486 crore in terms of total credit card spends as on December 2019, entailing into a market share of 18.1% and 17.9% respectively. Diversified customer acquisition network and large product suite (largest number of co-branding partnership) enables better customer engagement across multiple channels. SBIC has maintained a strong earnings trajectory with revenue growth at 44.6% CAGR to ~₹ 6999 crore in 2017 and net profit trajectory at 52.1% CAGR to ~₹ 862.7 crore in 2019 with sustainable RoA >4% and RoE~28%.

Growth in credit card to sustain; SBIC to remain beneficiary

Increased acceptance of digital payments and focus of government and growing e-commerce trend are the factors to keep credit card spend momentum on strong traction. According to Crisil Research, credit card spends have registered a robust growth registering a CAGR of 32% in FY15-19 to ₹ 6.1 lakh crore as of FY19, and is expected to grow at a healthy rate of ~20% CAGR to reach ₹ 15.2 lakh crore as of FY24E.

Well diversified customer acquisition network backed by strong reach of parent (SBI) and large sales force (32,677) provides access to a large prospective customer base. Highest number of co-brand tie-ups augurs well in customer acquisition as well enhance customer experience. Accordingly, SBIC has witnessed robust growth in volume of transaction at 34% CAGR in FY14-19 to ~28 crore and 44% CAGR in overall spends to ~₹ 1.03 lakh crore. Focus on increasing customer base with roll out of products in tier II and III cities, emphasize on corporate card business, tapping vast customer pool of parent (SBI) is to lead to higher customer base. Technology upgradation and improved partner tie-up and reward offers to induce and increase transaction volume, thereby supporting growth in business and profitability.

Key risk and concerns

- Inability to manage credit risk could be potential risk
- Regulatory cap on MDR charges to remain key concern
- Regulatory cap to limit interest rates could impact financials
- "SBI" Brand is not owned

Priced at P/E of 46x (post issue) 9MFY20 on upper band

SBIC offers investment opportunity in unique business model with strong profitability. Sustainability of higher business growth and strong return ratios (sustained RoA >4% & RoE~28%) justifies premium valuation for the business. Therefore, we recommend a SUBSCRIBE recommendation on the stock. At higher end of the price band of ₹ 755, the stock is available at a P/E of ~46x (annualised on post issue basis) and P/BV of ~13.5x (post issue).

Particulars	
Issue Details	
Issue Opens	2-Mar-20
Issue Closes	5-Mar-20
Issue Size (₹ crore)	10275-10340
Fresh Issue	₹ 500 crore
Price Band (₹)	750-755
No. of shares on offer (crore)	13.71
QIB (%)	50
Retail (%)	35
Minimum lot size (no of shares)	19
Employee discount of ₹ 75 per share	
1.3 crore shares reserved for SBI shareholders	

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoter Group	100.0	85.4
Public/Other	0.0	14.6

Objects of issue

a) To utilise the proceeds for augmenting capital base to meet future capital requirements b)To offload promoter stake consisting of 13.05 crore shares worth ~₹ 9841 crore	₹ 500 crore

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IPO Review

ICICI Securities – Retail Equity Research

Key Financial Summary

₹crore	FY17	FY18	FY19	9M FY20	CAGR (FY17-19)
NII	1359.7	2048.5	2558.5	2526.7	37.2%
PAT	372.9	601.1	862.7	1161.2	52.1%
EPS (₹)	4.75	7.4	9.43	12.45	
ABV (₹)	17.5	28.3	41.0	48.8	
RoA (%)	4.0	4.5	4.8	6.7	
RoE (%)	28.5	31.0	28.4	36.5	
PE (x)*	158.9	102.0	80.1	45.5	
P/BV*	40.9	25.2	17.6	13.5	
P/ABV*	43.2	26.7	18.4	14.0	

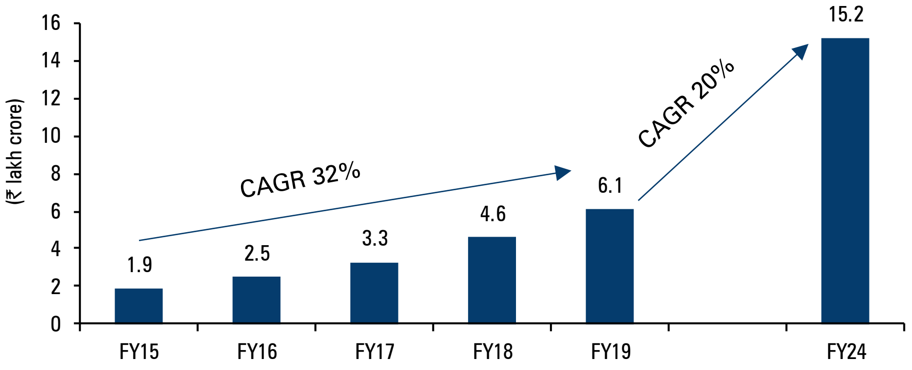
Industry Overview

The Indian credit card industry comprises of 74 players wherein top five players hold ~75% of market share with HDFC Bank being the market leader at 27% share followed by SBI Cards with a market share of 18.1% (in terms of number of outstanding cards). In terms of incremental cards issued, SBI Cards remains the frontrunner among the peers.

The Indian credit card market remains severely under penetrated as the card penetration is a meagre 3% (per 100 population), which is among the lowest in the world compared to global standards while debit card penetration is 65%, thus involving a huge cross selling opportunity for credit card players.

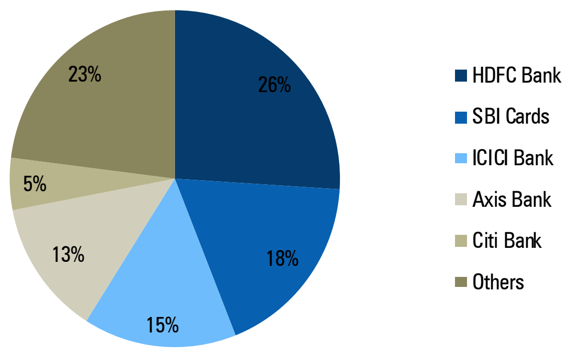
According to Crisil Research, credit card spends have registered a robust growth registering a CAGR of 32% from FY15 to FY19 to reach ₹ 6.1 lakh crore as of FY19, and is expected to continue to grow at a healthy pace to reach ₹ 15.2 lakh crore in FY24E.

Exhibit 1: Credit card spends growth trajectory



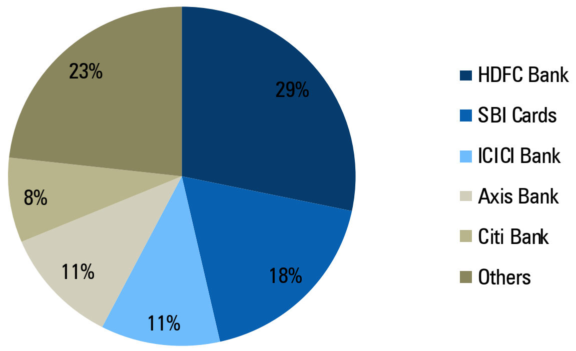
Source: RHP, ICICI Direct Research

Exhibit 2: Market share of number of outstanding cards



Source: RHP, ICICI Direct Research

Exhibit 3: ....spend per card



Source: RHP, ICICI Direct Research

Exhibit 4: Market share in terms of incremental cards issued

Share cards in force	1 month	3 months	6 months	12 months	24 months	36 months
HDFC Bank	30%	18%	12%	16%	20%	21%
SBI Cards	45%	24%	27%	24%	23%	22%
ICICI Bank	44%	29%	24%	21%	17%	15%
Axis Bank	19%	13%	16%	16%	15%	15%
Citi Bank	2%	1%	0%	1%	1%	1%
Kotak Mahindra Bank	-11%	1%	3%	4%	5%	5%
RBL Bank	-8%	7%	9%	9%	9%	4%
American Express	4%	3%	3%	3%	3%	3%
Standard Chartered Bank	-3%	0%	-1%	0%	1%	1%
Indusind Bank	4%	4%	3%	3%	3%	3%

Source: RHP, ICICI Direct Research

Credit cards volumes to witness continued growth ahead

A slew of factors ranging from the government's focus on digitisation, young population with faster technology adaptability, higher mobile penetration, rising e-commerce, etc, have led to a rise in digital payment and credit cards as an avenue. Improving payment infrastructure (PoS machines) has further supported the acceptance of card technology for payment. The Indian card industry comprises ~92.4 crore debit cards (~95% of issued cards at ~97.1 crore as of January 2019). Credit cards comprise the remaining 5% of issued cards at ~4.7 crore (5.25 crore as of September 2019). Credit cards witnessed faster growth at 32% CAGR in FY16-19, primarily led by demonetisation, which provided an impetus to non-cash payments. Total spend using credit cards was at ~₹ 6 lakh crore in FY19 with per card spend at ~₹ 1.3 lakh per annum. As per Crisil Research, credit card spend is expected to grow ~2.5x to ~₹ 15 lakh crore in FY24E.

Exhibit 5: Average ticket per transaction for various payment instruments

₹	E-wallets	UPI	PPIs	Debit card	Credit cards
Avg transaction amount	450	1700	630	1300	3400

Source: RBI, ICICI Direct Research

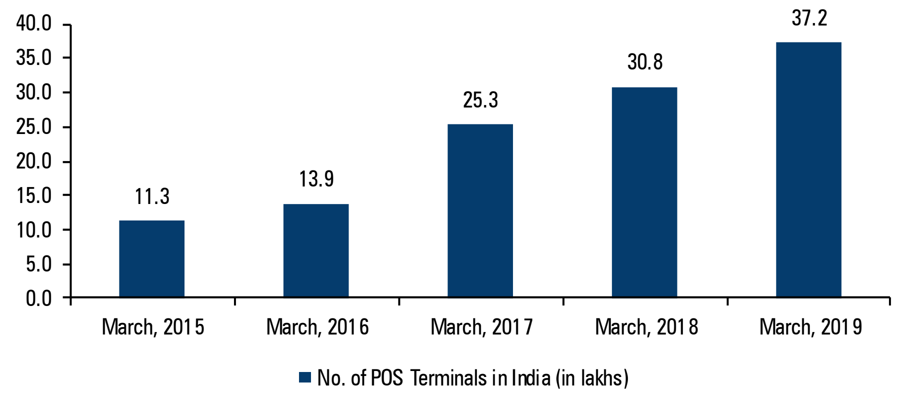
Exhibit 6: Credit card issuance & spends on the rise post demonetisation

			Credit cards			
Sep'19	Volume (Million)	Value (₹ Billion)	Cards (Million)	Transaction per card	Ticket size per transaction (₹)	Per card annual spend (₹)
2011-2012	320	966	17.8	18.0	3020	54339
2012-2013	397	1230	17.8	22.3	3100	69209
2013-2014	509	1540	19.6	26.0	3025	78765
2014-2015	615	1899	21.0	29.3	3087	90437
2015-2016	786	2407	25.0	31.4	3063	96264
2016-2017	1087	3284	30.0	36.2	3021	109460
2017-2018	1405	4590	37.0	38.0	3266	124045
2018-2019	1763	6033	47.0	37.5	3423	128372
2019-2020*	1041	3546	52.5	19.8	3407	67542
FY12-16 CAGR	25.2%	25.6%	8.9%	15.0%	0.4%	15.4%
FY16-19 CAGR	30.9%	35.8%	23.4%	6.1%	3.8%	10.1%

*Source: RBI, ICICI Direct Research *pertains to April-September 2019*

In a bid to move towards a cashless society, the Reserve Bank of India, in its payments vision document (May 2019), has set an objective to achieve ~44% share in point of sale (PoS)-based debit card transaction by FY21. Likewise, banks (both public, private sector banks) have been aggressively deploying swipe machines across the country making inroads in Tier II and III cities. Currently, there are ~37.5 lakh active PoS terminals deployed across India by banks as of FY19. Though banks were adding to the reach of PoS machines, demonetisation in November 2016 provided a fillip to the momentum. Of the overall active PoS, first 14 lakh machines were installed in 30 years while post demonetisation in the next three years, ~24 lakh machines were added. This is expected to grow to ~50 lakh ahead.

Exhibit 7: PoS strength at ~37.5 lakh; target to reach ~50 lakh



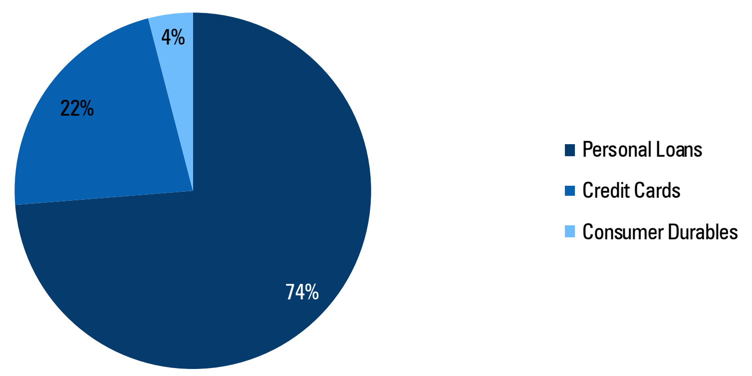
Source: RBI, ICICI Direct Research

According to Crisil research, the number of credit cards outstanding is expected to grow at 23% CAGR by 2024 mainly on the back of issuance of cards in smaller cities, soaring of organised retail penetration and growth in payments infrastructure. The credit card spends market is estimated to grow from ₹ 6.1 trillion in FY19 to ₹ 15.2 trillion in FY24E at a CAGR of ~20%. As per channel checks, ~40-50% customers are sourced through the open market channel, thus creating an incremental opportunity to capitalise on bancassurance thereby reducing operating cost and slippages.

Unsecured loans to gain momentum

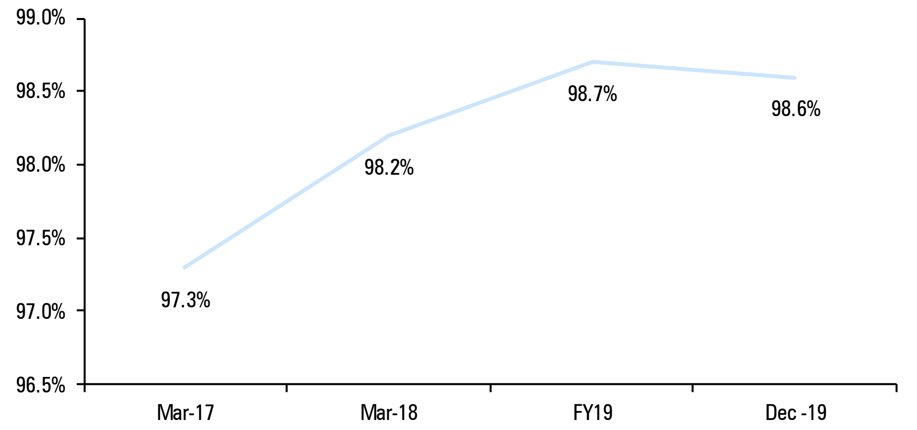
Credit cards, which account for ~22% of the unsecured loan market, are expected to report an upswing mainly due to a steady escalation in discretionary spending, improved payment infrastructure and robust growth of e-commerce industry. Also, ~25% of new card additions are estimated to be attributable to New to Card (NTC) customers. However, a surge in NTC customers, coupled with amplified credit card penetration in smaller cities, remains a risk in terms of increase in delinquency levels from the current industry levels of 1.5-1.8%.

Exhibit 8: Unsecured loan break-up



Source: RHP, ICICI Direct Research

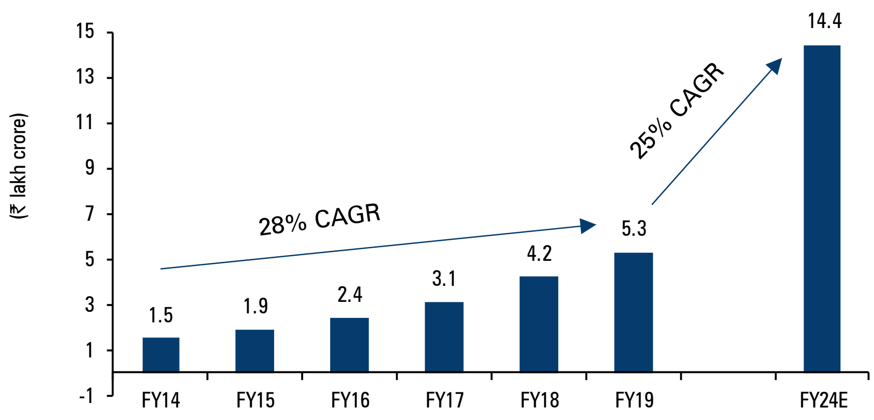
Exhibit 9: Unsecured portfolio of SBI Cards



Source: RHP, ICICI Direct Research

According to data published by RBI, the unsecured loan market is expected to grow from ₹ 1.5 trillion in FY14 to ₹ 14.4 trillion in FY24E, translating to a CAGR of 25%. The unsecured loan market has been the fastest growing category in retail credit registering 28% CAGR in FY14-19.

Exhibit 10: Unsecured loan trend to reflect uptick

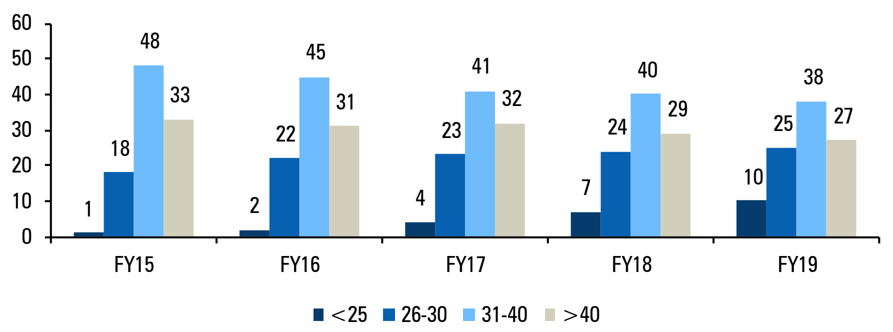


Source: RHP, ICICI Direct Research

Increased acceptance of credit cards by millennials

Card penetration among millennials (people below 30 years age) witnessed a surge over the last four years from 19% in FY17 to 35% to FY19, while the share of customers below 25 years age has increased 10x in the same period.

Exhibit 11: Breakdown of credit as per age group (%)



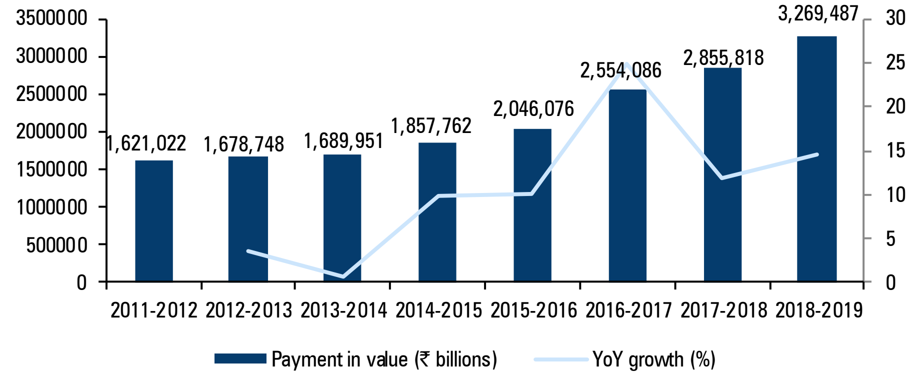
Source: RHP, ICICI Direct Research

Surge in e-commerce to provide impetus to card industry

India has been a cash economy for a long time but there has been rapid movement in the direction of digital or cashless mode of transactions. Non cash transactions have seen an increase at 14.1% CAGR to ₹ 32.7 lakh crore. Increase in cashless proportion presents three primary advantage for banks and other financial intermediaries: 1) provides opportunity to generate fee based income; 2) reduction in cost in lieu of handling cash; 3) higher customer engagement.

According to Crisil Research, value of digital payments in India is expected to more than double to ₹ 4055 trillion in FY24E from ₹ 1630 trillion in FY19, translating into a five-year CAGR of ~20%. Such growth in digital payments offers huge growth potential for cards industry.

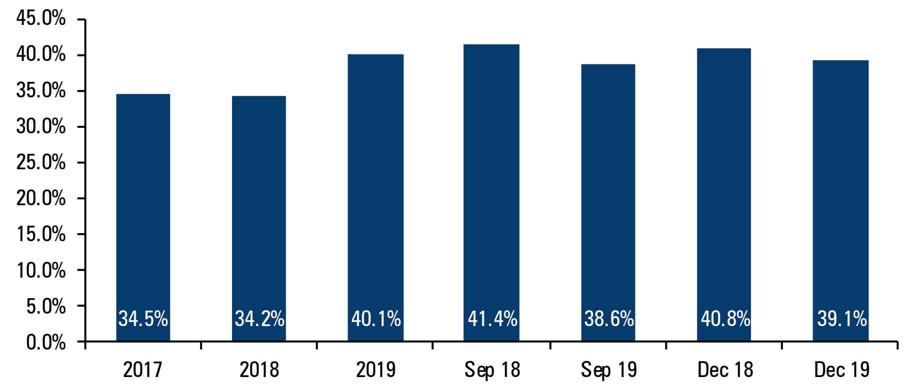
Exhibit 12: Non cash payment on the rise



Source: RBI, ICICI Direct Research

As per Crisil research, the e-commerce industry in India is estimated to be ~₹ 2.9 lakh crore in FY19. Out of this, ~30-35% of payments are being made using credit cards, which is at ~₹ 101675 crore. Going ahead, the ecommerce industry is expected to grow at 23-28% CAGR in FY19-24E to ₹ 9 lakh crore, which will provide further impetus to usage of credit cards.

Exhibit 13: SBIC online card spends as percentage of total card spends



Source: RHP, ICICI Direct Research

Company background

SBI Cards (SBIC) is primarily in the business of issuing credit cards. SBI Cards was incorporated in 15th May 1998 as joint venture between SBI and GE Capital Mauritius Overseas Investment. In December 2015, GE Capital sold its entire 40% stake to State Bank of India (14%) and CA Rover Holdings (26%). In April, 2018, SBI Business Process and Management Services, a company providing back end payment and processing services to SBI Cards got merged with SBI Cards.

Exhibit 14: SBI Cards gaining momentum in credit card market

SBI Cards Data	FY14	FY15	FY16	FY17	FY18	FY19	Market share on FY19	CAGR (FY14-19)
Number of Credit Cards in Force (in lakhs)	29	32	36	46	63	83	18%	23%
Number of Transactions (in crore)	6.5	7.8	11	15.5	21.2	28	16%	34%
Total Spend (in crore)	16492.8	21284.5	29332.4	43854.5	77023.2	103835.3	17%	44%
Average spend per transaction	2520	2726	2669	2835	3635	3713	-	8%
Average spend per card in force	60458	71457	86011	107737	140975	144813	-	19%
Average outstanding per card in force	15311	18125	20431	22490	23281	22398	-	8%
Premium Cards as a % of total outstanding cards				15.7	15.5	14.8		

Source: RHP, ICICI Direct Research

SBI Cards, a subsidiary of State Bank of India, is the second largest credit card issuer in the country in terms of number of credit cards outstanding and total credit card spends in the Indian credit card market. The company has 93.2 lakh outstanding credit cards and ~ ₹ 98486 crore in terms total credit card spends as on December 2019 entailing into a market share of 18.1% and 17.9% respectively.

SBI Cards has maintained a strong growth trajectory with revenues growing from ~₹ 3346 crore in 2017 to ~₹ 6999 crore in 2017 (44.6% CAGR) while net profit grew from ~₹ 372.9 crore in 2017 to ~₹ 862.7 crore in 2019 (52.1% CAGR).

SBIC's product offering includes four primary branded credit cards: Simply Save, SimplyClick, Prime and Elite with premium cards accounting for ~14.8% of the total credit card customer base as of FY19. (Premium cards comprise of those credit cards that have an annual fee of ₹ 1499 or above)

Exhibit 15: SBIC customer composition

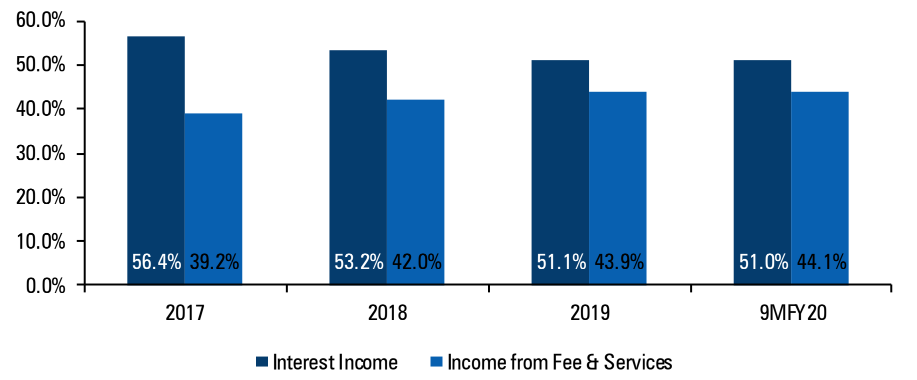
	2017	2018	2019	Dec 18	Dec 19
Total Accounts in Force (lakhs)	39.00	56.20	76.10	68.80	93.20
New to credit customers	17.5%	21.6%	24.5%	28.8%	16.2%
Salaried Holders	90.4%	89.0%	86.7%	87.6%	85.4%
Self Employed cardholders	9.6%	11.0%	13.3%	12.4%	14.6%
30-day active accounts	57.0%	57.0%	55.9%	56.4%	55.1%
90-day active accounts	69.0%	69.5%	67.8%	69.8%	68.6%

Source: RHP, ICICI Direct Research

Business Snapshot

SBI Cards derives its income from primarily two sources - interest income and fees (non-interest income). Interest Income is generated through revolver credits (wherein customer pay minimum amount due and roll-over or revolve their payment) and term loans (wherein customer convert outstanding payment into loans to be paid in EMI). SBI Card charges its annual percentage rate over its revolver credit to the tune ~36%-48% while term loans is at ~12-15%. Fee income comprises of subscription fees, instances fees and spend based fees/ interchange fees. Interchange fees forms a substantial part of fee income at ~51% followed by instance fees and subscription fees at 34.2% and 14.8% respectively (as on 31st December 2019).

Exhibit 16: SBIC revenue break-up



Source: RHP, ICICI Direct Research

Exhibit 17: Break-up of fee & services income (₹ crore)

	FY17	FY18	FY19	Dec 18	Dec 19
Subscription Bases Fees	210.76	325.52	435.25	310.17	445.71
Spend Based Fees	694.62	1173.82	1643.12	1131.48	1540.96
Instance Based Fees	406.21	679.93	993.67	716.98	1032.60

Source: RHP, ICICI Direct Research

As on December 2019, SBIC had 93.2 lakh customers with 59.3% of the outstanding customers being sourced through the open market channel. In terms of incremental customer sourcing, SBIC sources substantial portion of its customers through open market channels (highest in the industry). With SBIC having the highest number of co-branding partnerships, sourcing customers through co-brands has gained major traction in open market channel to 35.2% as on December 2019.

Exhibit 18: Incremental new customer acquisitions (SBIC)

	2017		2018		2019		Dec 18		Dec 19	
	%	lakh	%	lakh	%	lakh	%	lakh	%	lakh
Open Market Channel	63.9%	7.90	54.0%	13.70	44.0%	12.60	42.1%	7.90	51.6%	13.20
Retail	35.6%	4.40	27.6%	7.00	14.8%	4.20	14.4%	2.70	16.4%	4.20
Co-Brand	28.3%	3.50	26.4%	6.70	29.6%	8.40	27.7%	5.20	35.2%	9.00
Banca Channel	35.2%	4.40	45.5%	11.50	55.2%	15.70	57.4%	10.80	48.0%	12.30
Corporate Dist. Channel	0.9%	0.01	0.5%	0.10	0.4%	0.01	0.5%	0.10	0.4%	0.10
New cust additions (lakhs)		12.31		25.30		28.31		18.80		25.60

Source: RHP, ICICI Direct Research

Exhibit 19: Channel break-up of outstanding customer acquisitions

	2017	2018	2019	Dec 18	Dec 19
Open Market Channel	66.7%	62.2%	59.4%	57.9%	59.3%
Banca Channel	33.3%	37.8%	40.6%	42.1%	40.7%

Source: RHP, ICICI Direct Research

Investment Rationale

Aggressive growth with focus on transaction volumes

SBI Cards, is the second largest credit card issuer in the country in terms of number of credit cards outstanding and total credit card spends in the Indian credit card market. As on FY19, number of transactions stood at ~28 crore as against ~6.5 crore in FY14, registering a CAGR of 34%. Such continued growth in volumes has led to growth in top-line in previous fiscals.

Diversified customer acquisition network that allows to engage prospective customers across multiple platforms is a key strength and competitive advantage. Comprehensive and diverse portfolio of credit card products catering to individual as well as corporate is another factor for SBIC resulting in consistent robust business growth.

Exhibit 20: Robust growth in transaction volumes

SBI Cards Data	FY14	FY15	FY16	FY17	FY18	FY19	Market share on FY19	CAGR (FY14-19)
Number of Credit Cards in Force (in lakhs)	29	32	36	46	63	83	18%	23%
Number of Transactions (in crore)	6.5	7.8	11	15.5	21.2	28	16%	34%
Total Spend (in crore)	16492.8	21284.5	29332.4	43854.5	77023.2	103835.3	17%	44%
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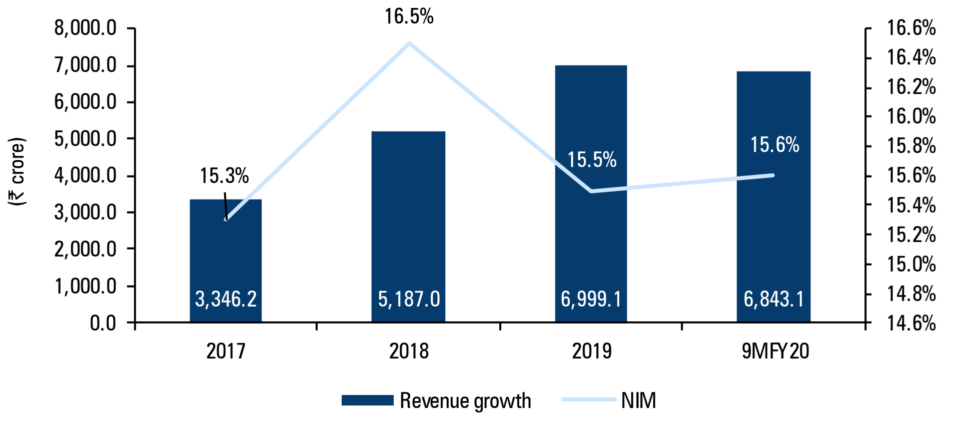
Average outstanding per card in force	15311	18125	20431	22490	23281	22398	-	8%

Source: Company, ICICI Direct Research

In a move to increase number of cards outstanding, SBIC has partnered with 18 co-brands. Co-brand partnerships have aided SBIC to source ~9 lakh incremental customers as on December 2019. SBIC's aggressive growth strategy to stimulate new card additions in order to drive transaction volumes has worked in favour of the company with revenues growing from ~₹ 3346 crore in 2017 to ~₹ 6999 crore in 2017 (44.6% CAGR), while NII grew from ~₹ 1360 crore in 2017 to ~₹ 2559 crore in 2019 registering a CAGR of 37.2%. Accordingly, SBIC credit off-take remained healthy with advances growing from ₹ 9982.8 crore in 2017 to ₹ 17908.7 crore in 2019.

Exhibit 21: SBIC consistent growth rate



Source: RHP, ICICI Direct Research

Strong parent company support

For SBIC, brand image, reputation and cardholder satisfaction remains critical factors in business growth and improving market position. Being subsidiary of SBI, which is a well trusted brand, SBIC benefits from the brand image of the parent.

SBI, is India's largest commercial bank in terms of deposits, advances and number of branches as of December 2019. Such strong promoter network provides SBIC access to extensive branch network of 22,007 branches across India and enables to cross-sell its credit cards to SBI's huge untapped customer base comprising ~44.5 crore customers as of December 31, 2019.

As on December 2019, ~40.7% of total cardholders was sourced through bancassurance channel. Thus, there is a huge opportunity to capitalise on parent company's network thereby reducing operating cost and slippages.

Finely honed customer acquisition strategy

As on December 2019, SBI Card had a presence in 145 Indian cities with a sales force of 32,677, which sourced prospective customers through multiple channels, including physical points of sale, telesales and online. In case a point of sale is not directly managed by it, SBIC works with its 11 non-bank co-brand partners and seven co-brand bank partners to widen its distribution network, communication channels and customer interactions to market its credit card products to its existing customers. According to Crisil Research, SBI Cards is the largest cobrand issuer with 18 co-brand partnerships with major co-brand partnerships in travel, fashion, fuel, healthcare and mobility industries.

Exhibit 22: Increasing contribution of co-branding to new customer additions

	2017		2018		2019		Dec 18		Dec 19	
	%	lakh	%	lakh	%	lakh	%	lakh	%	lakh
Open Market Channel	63.9%	7.90	54.0%	13.70	44.0%	12.60	42.1%	7.90	51.6%	13.20
Retail	35.6%	4.40	27.6%	7.00	14.8%	4.20	14.4%	2.70	16.4%	4.20
Co-Brand	28.3%	3.50	26.4%	6.70	29.6%	8.40	27.7%	5.20	35.2%	9.00
Banca Channel	35.2%	4.40	45.5%	11.50	55.2%	15.70	57.4%	10.80	48.0%	12.30
Corporate Dist. Channel	0.9%	0.01	0.5%	0.10	0.4%	0.01	0.5%	0.10	0.4%	0.10
New cust additions (lakhs)		12.31		25.30		28.31		18.80		25.60

Source: RHP, ICICI Direct Research

In a move to stimulate spending, SBIC also offers rewards points on its cards. On the back of a well-honed customer acquisition strategy, SBIC remains the leader in terms of incremental card issued.

Exhibit 23: SBIC to remain leader in terms of incremental cards issued

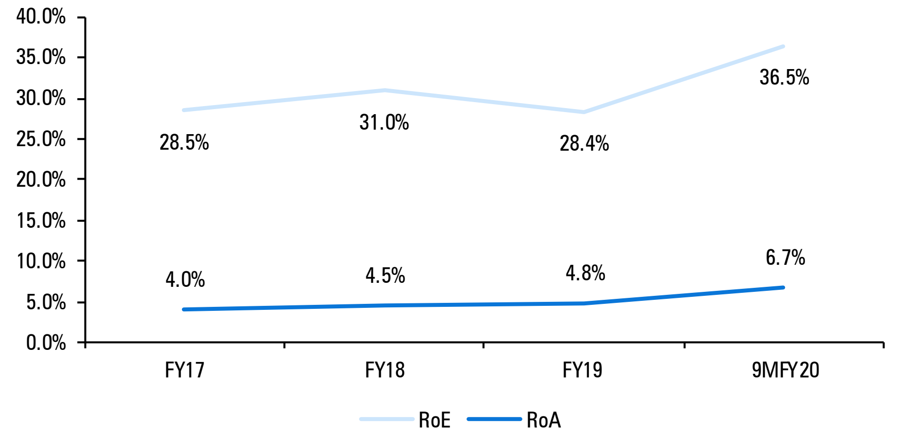
Share cards in force	1 month	3 months	6 months	12 months	24 months	36 months
HDFC Bank	30%	18%	12%	16%	20%	21%
SBI Cards	45%	24%	27%	24%	23%	22%
ICICI Bank	44%	29%	24%	21%	17%	15%
Axis Bank	19%	13%	16%	16%	15%	15%
Citi Bank	2%	1%	0%	1%	1%	1%
Kotak Mahindra Bank	-11%	1%	3%	4%	5%	5%
RBL Bank	-8%	7%	9%	9%	9%	4%
American Express	4%	3%	3%	3%	3%	3%
Standard Chartered Bank	-3%	0%	-1%	0%	1%	1%
Indusind Bank	4%	4%	3%	3%	3%	3%

Source: RHP, ICICI Direct Research

Resilient return ratios trajectory

Led by an aggressive growth strategy coupled with strong brand name has worked in favour of SBI Cards. Robust business growth and healthy risk adjusted margins coupled with focus on containing operating cost has led to SBIC reporting superior return ratios with 9mFY20 RoA and RoE at 6.7% and 36.5%, respectively. Sustainable RoA >4% and RoE~28%

Exhibit 24: Healthy business parameters led to superior return ratios



Source: RHP, ICICI Direct Research

Key risks and concerns

Inability to manage credit risk may be potential risk

A substantial part of loan book remains unsecured (98.6% as on December 2019). Thus, inability to manage credit risk would lead to a surge in NPAs from current 2.47% (industry delinquency at 1.5-1.8%). As on December 2019, 32.2% of incremental customers were sourced from Tier II, Tier III cities. SBIC's strategy of sourcing incremental customers from Tier II and Tier III cities remains a risk. Asset quality deterioration would lead to higher provisions, thus impacting the company's financials.

Regulatory cap on MDR charges to remain key concern

Regulators and legislative bodies in a number of countries are seeking to reduce credit card interchange fees through legislation, competition-related regulatory proceedings, central bank regulation or litigation. In India, payments made through debit cards are regulated by NPCI whereas there is no regulation on interchange fees charged for payments made through credit cards. As per the recent government notification, zero MDR would be levied on payments made through RuPay and UPI. As on December 2019, SBIC earned ₹ 1541 crore through spend based fee with a substantial portion attributable to interchange fees. This translates to interchange fees contributing to ~22.5% of total revenue for SBIC. Thus, cap on MDR would take a toll on the financials of the company.

Cap to limit interest rates may impact financials

Indian regulations do not currently impose any limit on the interest rate that a card company can charge its holders. SBIC charges an annual percentage rate over its revolving credit to the tune ~36-48% while interest on term loans is ~12-15%. As on December 2019, revolving card balance comprised ~51% of total revenue from operations. Thus, any regulatory cap on interest rates would require SBIC to restructure activities and incur additional expenses, which impact the financials of the company.

Retaining existing co-branding partners to remain overhang

SBIC is the second largest card issuer with 93.2 lakh outstanding credit cards (as on December 2019) with 18.1% market share in the credit card industry. Eighteen co-branding partnerships (11 non-bank co-band partners and seven co-brand bank partners) has aided SBIC to source 9 lakh incremental customers as on December 2019. Intense competition may lead co-branding partners not to renew their agreements with SBIC, thus leading to loss of new customers. SBI Cards has sourced ~35.2% of its incremental customers through co-brand partnership, any termination of co-branding agreements would impact business growth.

SBI brand is not owned; remain potential risk

SBIC leverages SBI brand to build its network and pays a royalty fee of 2% of profit or 0.2% of revenue to SBI. As of December 2019, ~40.7% of outstanding customers were sourced through the bancassurance channel. Inability/modification to continue licencing agreement may hamper future growth prospects . Furthermore, any damage to the SBI brand would have an impact on the performance of the business.

Fraudulent activity may harm brand image

SBIC is subject to risk of fraudulent activity associated with merchants, cardholders and other third parties handling cardholder information. With surge in credit card frauds and identity thefts, resources and cardholder authentication methods of the firm remains crucial and thus any increase in fraudulent and other illegal activities could lead to reputation damage, reducing card acceptance.

Financial Summary

Exhibit 25: Profit & Loss Statement (₹ crore)

₹ crore	FY17	FY18	FY19	9M FY20
Interest Income	1888.2	2760	3575.7	3493.1
Finance costs	528.4	711.5	1017.2	966.4
Net Interest Income	1359.8	2048.5	2558.5	2526.7
Income from fees and services	1311.6	2177.3	3072	3019.3
Business development incentive	88.3	162.8	216.7	82.5
Other Income	124.8	183.2	287.7	397.1
Total Income	**3471**	**5370.2**	**7286.8**	**7240.2**
Employee benefits expenses	95.3	193.1	390.4	334.4
Depreciation & Amortisation	4.8	24.5	81.1	74.0
Operating and other expenses	1731.9	2711.9	3304.6	3141.2
Impairment losses & bad debts	532	800.1	1147.7	1102.1
Total expenses	2899.4	4450.8	5955.2	5621.5
PBT	571.6	919.3	1331.6	1618.7
Tax expense	198.8	318.2	468.9	457.5
PAT	**372.9**	**601.1**	**862.7**	**1161.2**

Source: RHP, ICICI Direct Research

Exhibit 26: Balance Sheet (₹ crore)

₹ crore	FY17	FY18	FY19	9M FY20
Assets				
Cash & Bank Balance	282.9	472.7	776.8	452.8
Loans	9982.9	14045.5	17908.7	239331.2
Investment	0	0	1.5	1.5
Deferred tax assets (Net)	129.2	88	166.5	137.4
Fixed Assets	1.7	55.2	61.8	75.5
Intangible assets	0	65.7	80.4	88.4
Other non Financial assets	233.4	694.2	918.1	871.9
Total Assets	**10765**	**15686**	**20239.6**	**25993.5**
Liabilities & Equity				
Share capital	785	785	837.2	932.3
Reserves & Surplus	663.8	1568.1	2744.5	3819.0
Networth	**1448.8**	**2353.1**	**3581.7**	**4751.3**
Debt Securities	7509.8	2948.9	4079.3	6715.0
Borrowings	219.7	7465.9	8374.4	10616.2
Other financial liabilities	946.3	1818.7	2259.7	810.7
Current Tax liabilities (Net)	1.7	10.4	76.2	3.8
Provisions	495.2	392.4	628.4	1248.4
Other non financial liabilities	143.4	340	570.5	484.0
Total liabilities and equity	**10765**	**15686**	**20239.6**	**25993.5**

Source: RHP, ICICI Direct Research

Exhibit 27: Key Ratios

	FY17	FY18	FY19	9M FY20
No. of shares (crore)	78.5	78.5	83.72	93.2
NIM (%)	15.3	16.5	15.5	15.6
CoF (%)	7.4	7.2	8.1	8.0
YoA	21.3	22.2	21.6	21.5
BV (₹)	18.5	30.0	42.8	51.0
ABV (₹)	17.5	28.3	41.0	48.8
P/E (x)*	158.9	102.0	80.1	45.5
P/BV*	40.9	25.2	17.6	13.5
P/ABV*	43.2	26.7	18.4	14.0
GNPA (%)	2.34	2.83	2.44	2.5
NNPA (%)	0.76	0.94	0.83	0.8
RoA (%)	4	4.5	4.8	6.7
RoE (%)	28.5	31	28.4	36.5
EPS (₹)	4.75	7.4	9.43	12.5

** Multiple calculated on annualised basis including ₹ 500 crore capital raising*

Source: RHP, ICICI Direct Research

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