

Asset Quality Concerns Continue to Haunt!

Est. Vs. Actual for Q3FY24: NII –**BEAT**; PPOP – **BEAT**; PAT – **MISS**

Changes in Estimates post Q3FY24

FY24E/FY25E: NII 0.4%/-3.9%; PPOP -1.3%/-5.4%; PAT -10.3%/-16.1%

Recommendation Rationale

- **NIM Pressures to be visible in the near term**– SBIC has seen an increase in CoF owing to tighter liquidity conditions and higher risk weight for the unsecured loans of banks. Resultantly, SBIC has seen a 25-30bps increase in CoF, the full impact of which will be visible in Q4FY24. Thus, margins will remain under pressure. The management has also highlighted that it intends to pass on the increased CoF as much as possible to minimize the impact on NIMs. The impact of increased CoF is likely to spill-over to Q1FY25E, post which margins are expected to stabilize.
- **Asset Quality concern continue to haunt**– The asset quality stress in the unsecured lending segment has been visible throughout the industry and is not a SBIC specific phenomena. In order to tackle this stress, SBIC hastaken multiple actions over the last few quarters covering underwriting portfolio and collections which include (a) reduction in limits, (b) restrictions on cross selling and (c) spend-trigger based early blocking. The management has indicated that asset quality stress would be visible over the next couple of quarters especially from the vintage portfolio, thereby keeping credit costs elevated at current levels (Q3FY24 credit costs at ~7.5%). On the brighter side, the management has indicated the new sourced book continues to exhibit lower delinquencies. As the asset quality concerns begin to ease, the management expects credit costs to settle at ~5.8-6.2%.
- **Regulatory impact seen across industry** – Even as asset quality concerns continue to crop up in the credit card segment across the industry, the management remains confident of sustenance of growth momentum in terms of both card issuances and spends. The management has highlighted that the current pace of card additions would continue for the next couple of quarters, post which it will take a call on accelerating the pace of growth.

Sector Outlook: Cautious

Company Outlook: Business growth momentum is likely to continue supported by healthy card issuances and spends, however we remain watchful of any deceleration in pace in the near term. However, near-term headwinds on asset quality/credit costs and margins will continue to be visible thereby weighing on profitability. The recent regulations on increased risk-weight have resulted in ~400bps impact on Tier I capital, despite which SBIC remains well-capitalised and does not look at shoring up Tier I Capital immediately.

Current Valuation: 22x Sep'25E EPS **Earlier Valuation:** 23x FY25E EPS

Current TP: Rs 810/share **Earlier TP:** Rs 850/share

Recommendation: We continue to maintain our **HOLD** recommendation on the stock.

Financial Performance:

- **Healthy Business Metrics:** SBIC's new card issuances reported a slight slowdown, with gross card addition at ~11 Lk cards vs 16.3/11.4 Lk customers. Thus, CIF growth was slower at 16/3% YoY/QoQ. Resultantly, the company lost market share in terms of CIF by ~70/30bps YoY/QoQ. However, driven by the festive season, spends growth continued to remain robust at 41/22% YoY/QoQ. Thus, SBIC gained market share in terms of spends by ~40bps QoQ.
- **Financial Performance:** Receivables grew by 26/8% YoY/QoQ, while the receivables mix remained largely stable with the share of interest-earning assets at 62%, flat QoQ. NIMs stood at 11.3%, flat QoQ as increase in yields offset the rise in CoF. NII grew by 21/7% YoY/QoQ. Fee income growth was robust at 37/16% YoY/QoQ. Credit costs (7.5% vs 5.6/6.7% YoY/QoQ) continued to remain elevated, denting earnings. PAT grew by 8% YoY and de-grew by 9% QoQ. GNPA/NNPA climbed up 21/7bps QoQ and stood at 2.6/1.0%.

Outlook:

While business growth has been healthy and is likely to hold-up well, SBIC continues to face headwinds in terms of NIMs and asset quality. Margin pressures are likely to be visible in early FY25E, largely driven by regulatory shocks. In contrast to the newly sourced portfolio, the vintage portfolio continues to show signs of stress and will continue to keep credit costs elevated in the near-term. We revise our Earnings estimates downwards by 10%/16% over FY24-25E to reflect the pressure on NIMs and elevated credit costs. We expect SBIC to deliver RoA/RoE of 4.5-5%/22-25% over FY25-26E.

Valuation & Recommendation:

The stock currently trades at 21x Sep'25E EPS. **We maintain our HOLD rating on the stock considering the multiple headwinds for SBIC.** We value SBIC at 22x FY25E EPS and arrive at a target price of Rs 810/share, implying an upside of 7% from the CMP.

Key Financials (Standalone)

(Rs Cr)	Q3FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	1,387	+6.9	+21.2	1,359	+2.1
PPOP	1,621	+4.5	+33.1	1,590	+1.9
Net Profit	549	-8.9	+7.8	601	-8.6
NNPA (%)	1.0	+7 bps	+16 bps	0.9	+11 bps
RoA (%)	4.1	-76 bps	-67 bps	-	-

Source: Company, Axis Research

(CMP as of 25 Jan, 2024)

CMP (Rs)	760
Upside /Downside (%)	7%
High/Low (Rs)	932/691
Market cap (Cr)	72,243
Avg. daily vol. (6m) Shrs.	12,71,638
No. of shares (Cr)	95.0

Shareholding (%)

	Jun-23	Sep-23	Dec-23
Promoter	69.0	68.9	68.8
FII's	9.5	9.1	9.4
MFs / UTI	11.8	11.7	10.7
Others	9.7	10.3	11.1

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
NII	5,415	6,622	8,057
PPOP	6,483	7,738	9,834
Net Profit	2,451	2,942	4,015
EPS (Rs)	25.9	31.1	42.4
P/E (x)	29.4	24.5	17.9
P/ABV (x)	6.3	5.2	4.2
RoA (%)	4.7	4.5	5.1
NNPA (%)	1.0	1.1	1.2

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
NII	0.4	-3.9
Fee Income	-1.9	-1.9
PPOP	-1.3	-5.4
PAT	-10.3	-16.1

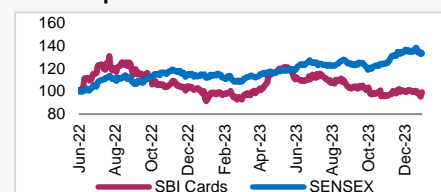
ESG disclosure Score**

Environmental Disclosure	18.2
Social Disclosure Score	38.4
Governance Disclosure Score	78.6
Total ESG Disclosure Score	45.1
Sector Average	38.9

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Key Risks to our Estimates and TP

- The key risk to our estimates remains a slowdown in overall spends and new customer sourcing momentum would impact the revenue generation capability of the company.
- Another key risk area for SBIC is an unfavourable receivable mix with a skew towards non-interest-yielding loans (transactors) which will continue to put pressure on margins.
- An unfavourable decision on MDR could affect our earnings estimates.

Change in Estimates

	Revised Estimates			Old Estimates			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
NII	5,415	6,622	8,055	5,393	6,892	-	0.4	-3.9	-
Fee Income	8,631	10,734	13,969	8,799	10,939	-	-1.9	-1.9	-
PBP	6,483	7,738	9,833	6,567	8,184	-	-1.3	-5.4	-
Provisions	3,194	3,805	4,464	2,914	3,494	-	9.6	8.9	-
PAT	2,451	2,942	4,015	2,732	3,507	-	-10.3	-16.1	-

Source: Axis Securities

Results Review

(Rs Cr)	Q3FY24	Q3FY23	% YoY	Q2FY24	% QoQ	9MFY24	9MFY23	% YoY
CIF	1.9	1.6	16.4	1.8	3.4	1.9	1.6	16.4
Spends (Rs. Cr)	96,860	68,835	40.7	79,164	22.4	2,49,937	1,90,812	31.0
Avg. Spend per card	2,12,879	1,79,211	18.8	1,79,697	18.5	1,88,576	1,73,405	8.7
Market share - CIF	18.9%	19.6%	-68 bps	19.2%	-30 bps	18.9%	19.6%	-70 bps
Market share - Spends	18.3%	18.6%	-27 bps	17.9%	40 bps	18.3%	18.6%	-30 bps
Interest Income	2,082	1,609	29.4	1,902	9.5	5,788	4,481	29.2
Interest Expense	695	464	49.8	605	15.0	1,871	1,140	64.1
Net Interest Income	1,387	1,145	21.2	1,297	6.9	3,917	3,340	17.3
Fee Income	2,293	1,670	37.3	1,974	16.2	6,165	4,818	27.9
Other Income	366	378	-3.0	346	6.0	7,221	5,892	22.6
Total Income	4,046	3,192	26.8	3,616	11.9	11,138	9,232	20.6
Operating Expenses	2,426	1,975	22.8	2,066	17.4	6,451	5,472	17.9
Staff Cost	144	142	1.6	148	-2.3	437	410	6.8
Cost-Income Ratio (%)	59.9	61.9	-191 bps	57.1	283 bps	57.8	59.2	-138 bps
Pre provision profit	1,621	1,217	33.1	1,551	4.5	4,686	3,760	24.6
Provisions	883	533	65.6	742	19.1	2,343	1,529	53.2
PBT	738	684	7.8	809	-8.9	2,343	2,231	5.0
Taxes	189	175	7.8	206	-8.7	598	569	5.1
PAT	549	509	7.8	603	-8.9	1,745	1,662	5.0
<u>Asset Quality</u>								
Gross NPA (%)	2.6%	2.2%	42 bps	2.4%	21 bps	2.6%	2.2%	42 bps
Net NPA (%)	1.0%	0.8%	16 bps	0.9%	7 bps	1.0%	0.8%	16 bps
PCR (%)	64.1%	64.0%		64.1%		64.1%	64.0%	
<u>Spread Analysis (%)</u>								
Yields	17.2%	16.4%	80 bps	16.8%	40 bps	17.0%	16.6%	33 bps
CoF	7.6%	6.3%	130 bps	7.1%	50 bps	7.3%	5.6%	167 bps
NIM	11.3%	11.6%	-30 bps	11.3%	0 bps	11.4%	12.4%	-100 bps

Source: Company, Axis Securities

Financials (Standalone)

Operational Parameters

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Cards-in-Force (CIF)	1.68	1.91	2.20	2.52
Change	21%	14%	15%	15%
Total Spends	2,62,498	3,42,985	4,32,031	5,35,555
Change	41%	31%	26%	24%
Avg. Spend per Card	1,71,778	1,91,319	2,10,497	2,26,901

Source: Company, Axis Securities

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net Interest Income	4,505	5,415	6,622	8,055
Fee Income	6,604	8,631	10,734	13,969
Non-Interest Income	1,529	1,488	1,562	1,622
Total Income	12,638	15,534	18,918	23,646
Operating Expenses	7,448	9,050	11,179	13,814
Pre-Provision Profits	5,190	6,483	7,738	9,833
Provisions	2,159	3,194	3,805	4,464
PBT	3,031	3,290	3,934	5,369
Tax	772	839	992	1,353
Profit After Tax	2,258	2,451	2,942	4,015

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Equity Share Capital	946	947	947	947
Reserves & Surplus	8,884	10,968	13,470	16,884
Net Worth	9,830	11,915	14,416	17,831
Borrowings	31,531	41,230	50,449	60,329
Other Liabilities	4,184	5,962	7,197	8,672
Total Liabilities	45,546	59,107	72,063	86,832
Cash & Bank balances	1,354	2,644	3,584	4,319
Investments	2,140	2,954	3,602	4,340
Loans	39,361	50,490	61,268	73,826
Fixed Assets & Others	2,690	3,019	3,608	4,348
Total Assets	45,546	59,107	72,063	86,832

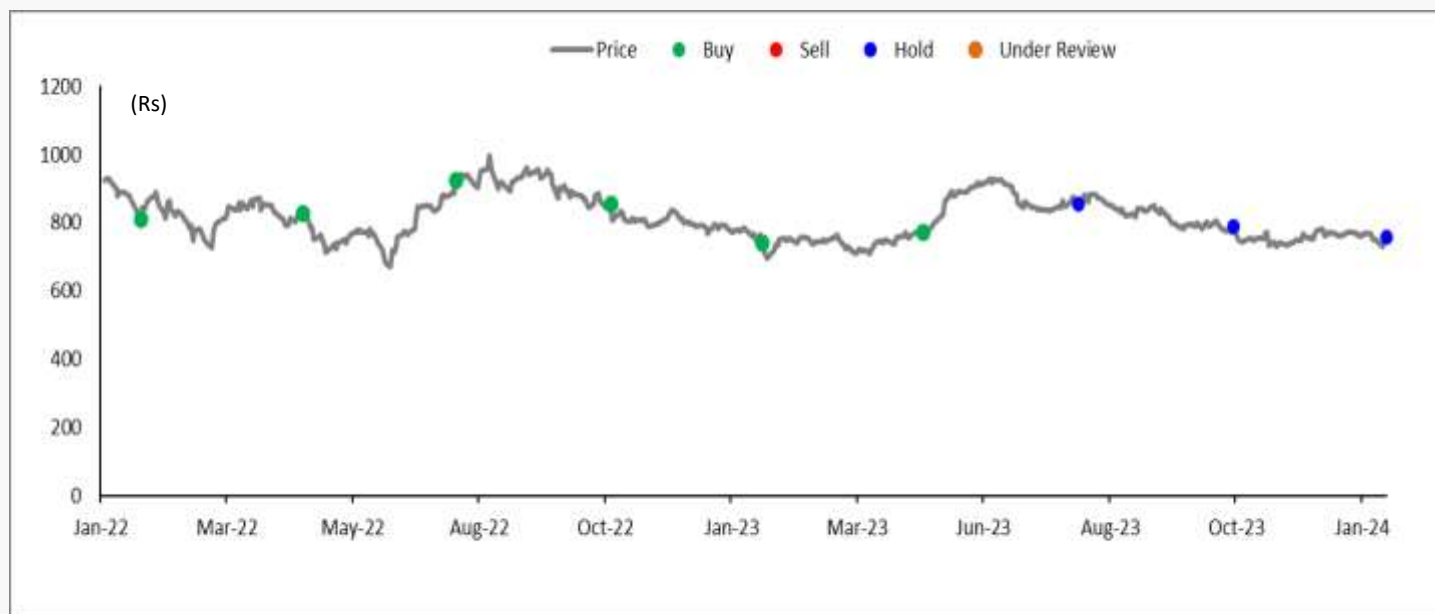
Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY23	FY24E	FY25E	FY26E
ASSET QUALITY				
GNPA	956	1,305	1,540	1,812
NNPA	354	504	704	929
GNPA Ratio (%)	2.4%	2.5%	2.4%	2.4%
NNPA Ratio (%)	0.9%	1.0%	1.1%	1.2%
PCR (%)	64%	62%	55%	49%
PROFITABILITY RATIOS				
Net Interest Margin (%)	12.1	11.3	11.1	11.1
RoE (%)	25.7	22.5	22.3	24.9
RoA (%)	5.6	4.7	4.5	5.1
Cost to Income (%)	58.9	58.3	59.1	58.4
CAR (%)	22.5	21.4	21.1	21.0
Tier 1 (%)	20.0	19.1	19.0	19.2
VALUATION RATIOS				
EPS	23.9	25.9	31.1	42.4
<i>Change</i>	39%	8%	20%	36%
Price-Earnings (x)	31.8	29.4	24.5	17.9
BVPS	103.9	125.9	152.3	188.3
<i>Change</i>	26%	21%	21%	24%
Price-BV (x)	7.3	6.0	5.0	4.0
Adj. BVPS	100.2	120.5	144.8	178.5
<i>Change</i>	26%	20%	20%	23%
Price-ABV (x)	7.6	6.3	5.2	4.3
Dividend Per Share	3.0	3.9	4.7	6.3
Dividend Yield (%)	0.4%	0.5%	0.6%	0.8%

Source: Company, Axis Securities

SBI Cards Price Chart and Recommendation History



Date	Reco	TP	Research
25-Jan-22	BUY	1,105	Result Update
02-May-22	BUY	1,050	Result Update
29-Jul-22	BUY	1,125	Result Update
28-Oct-22	BUY	1,075	Result Update
25-Jan-23	BUY	855	Result Update
02-May-23	BUY	900	Result Update
31-Jul-23	HOLD	900	Result Update
30-Oct-23	HOLD	850	Result Update
29-Jan-24	HOLD	810	Result Update

Source: Axis Securities

About the Analyst



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