3 December 2024

MOTILAL OSWAL
FINANCIAL SERVICES

the
Corner Office
Interaction with the CEO

Spends outlook steady; AQ pain to continue in the near term

Estimate earnings to gain traction in FY26

We interacted with the top management team of SBI Cards (SBICARD) represented by Mr. Girish Budhiraja, Chief Sales & Marketing Officer; Ms. Rashmi Mohanty, Chief Financial Officer; Mr. Shantanu Srivastava, Chief Risk Officer; and Mr. Lokesh Pareek, Head IR to discuss the outlook of the credit card industry and the key business metrics of SBICARD. Key insights from the discussion are summarized below:

SBI Cards and Payments

Mr. Girish Budhiraja,
Chief Sales and marketing officer
Mr. Girish Budhiraja is a seasoned business leader in sales and marketing. He currently serves as Chief Sales and Marketing Officer at SBI Card, where he drives revenue growth and product innovation. With prior leadership roles at American Express and GE Money, he brings deep expertise in consumer behavior and digital payment trends. An alumnus of IIM Bangalore and IIT (ISM) Dhanbad, he holds a PGDM and B.Tech.

Retail spends to grow at steady 20-22%; O/s cards to grow at 15-16%

SBICARD has solidified its position as the second-largest credit card player, maintaining an 18.5% market share in CIF and a 15.7% share in total industry spends as of Sept'24. CIF growth has moderated to 10% YoY (O/s Cards: 19.6m), reflecting a moderation in sourcing volumes for the industry as a result of lenders tightening their underwriting criteria and undertaking strategic initiatives to navigate through the challenging period for the industry.

Retail spend growth remains healthy at 24% YoY. However, the sharp fall in corporate spends (~7% of total spends) has dragged total spends growth to 3% YoY during 2QFY25 at INR818.9b. Management guided for steady growth in retail spends at 20-22% CAGR over the next few years, underscoring resilience in consumer discretionary and non-discretionary categories. This is supported by strong demand in Tier-2 and Tier-3 cities and robust pick-up in Rupay cards/UPI spends. The festive season, which began in late September, is anticipated to further boost spending momentum across retail categories. We estimate a 16% CAGR in total spends over FY24-27, led by continued traction in retail spends. Corporate spends are expected to recover gradually with a recovery in travel and entertainment spends.

Margins nearing bottom; potential turn in rate cycle remains a positive catalyst

Margins remain under pressure due to systemic factors and heightened festive season spending, which inflated card receivables without commensurate growth in interest income. This resulted in a sharp 30bp QoQ contraction in NIMs during 2QFY25 to 10.6%, after standing stable in 1QFY25. The EMI+revolver mix also declined 200bp QoQ to 60%, and management anticipates a mild recovery in this segment, which is expected to translate into a slight expansion in margins. CoF has remained stable at 7.4%, aided by softening treasury bill rates. Management anticipates a downward trend in CoF as the interest rate environment improves, with repo rate cuts expected from Feb'25 or afterward. Consequently, margins are projected to recover over 2HFY25, with additional support from asset mix optimization. We estimate a 22% CAGR in NII over FY24-27.

Structural shift toward digital transactions with flywheel effect from RuPay Card expansion

Digital transactions remain a significant growth driver with online spends accounting for 60% of retail spending. This trend aligns with changing consumer preferences and the rapid digitization of payment infrastructure. RuPay credit cards, supported by UPI integration, are witnessing substantial adoption, particularly in underpenetrated Tier-2 and Tier-3 cities, where traditional POS infrastructure is limited. RuPay card spending at UPI terminals grew 40% QoQ during 2QFY25, with prominent spending categories including groceries, utilities, and consumer durables. SBICARD's

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proactive approach to leveraging the RuPay-India stack positions it well to benefit from higher usage in regions with lower digital adoption, thereby creating new growth opportunities.

Sourcing mix to tilt back with banca channel at 50-55%

SBICARD's sourcing mix for new accounts during 2QFY25 deviated from the targeted mix, with 62% coming from open-market channels and 38% from SBI's banca network. While the open market will continue to remain an important distribution channel, the company simultaneously focuses on reviving the mix of its banca channel, with the goal of bringing its share back to 50-55% from the current 38%. This would help the company source more ETB customers, thus enabling healthy asset quality. The company is leveraging partnerships such as its co-branded travel card with Singapore Airlines to penetrate niche, high-value customer segments. In Tier-2 and Tier-3 markets, the company has capitalized on the lack of traditional infrastructure by driving digital and RuPay card adoption. These regions accounted for a significant portion of incremental growth, further enhancing SBICARD's geographical diversity. As a result, the lender expects the card sourcing growth to continue at 15-16% over the medium term with the aim of maintaining its market share in the industry.

Opex to increase as corporate activity and card sourcing rate pick up

Operating expenses remain elevated due to the festive season, with Cost-to-Income ratio of 53.4% in 2QFY25. The management suggested opex ratios to sustain closer to current levels over the near term as it continues to invest in the business to make it more resilient and maintain market share. Technology investments in areas such as digital underwriting, fraud detection, and customer engagement are likely to yield operational efficiencies and sustain customer acquisition growth. Over the medium term, C/I ratio may increase as corporate activity gains pace and card sourcing run-rate picks up. We currently estimate the C/I ratio at ~52% (benefitting from expanding margins) over FY26-27.

Asset quality stress lingers; credit costs to remain elevated in the near term

SBICARD's credit costs rose to 9% in 2QFY25, reflecting elevated stress in unsecured lending segments, which encompass Credit Cards, Personal Loan, and MFI segments. This increase is attributed to higher household leverage and economic uncertainties impacting repayment capacities. Management remains optimistic about credit costs eventually peaking in coming quarters and starting to moderate thereafter. Strengthened underwriting practices, portfolio monitoring, and proactive collection efforts have contributed to an improvement in early delinquency rates for new acquisitions. Additionally, high-quality sourcing through SBI's banca channel ensures lower delinquency rates compared to open-market channels. SBICARD reported a slight deterioration in asset quality, with GNPA increasing to 3.27% from 3.06% in 1QFY25. The company has witnessed an increase in the mix of open market channel, which has also resulted in higher stress. However, proactive portfolio actions, including targeted reduction of exposure in riskier segments, are yielding results. We expect better recoveries to flow in over the medium term, which, along with a gradual moderation in fresh delinquency, should help ease provisioning pressure. We, thus, factor in a credit cost of 7.8% in FY26 vs. 8.5% in FY25.

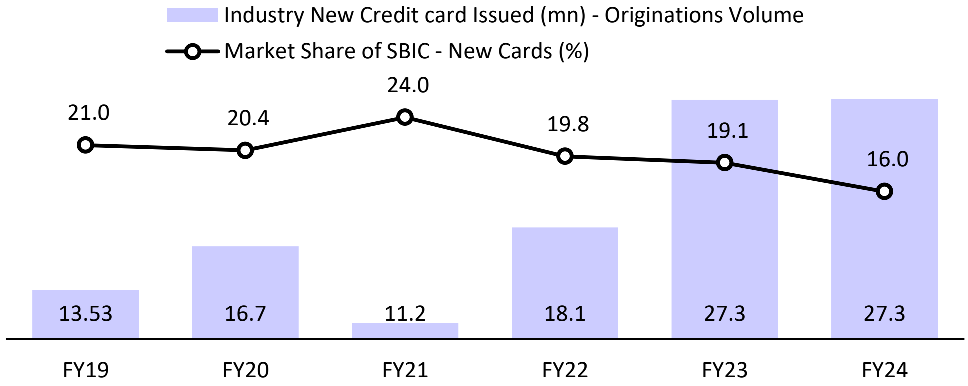
Valuation and view: Maintain neutral with a TP of INR750

SBICARD is the second-largest player in the card industry with an 18.5% share in CIF and a 15.7% share in total industry spends. However, the market share in spends has declined over the recent period, mainly due to the moderation in corporate spends, while growth in retail spends has remained healthy. SBICARD is well-positioned to capture growth in India's expanding credit card market, driven by rising consumer spending, digital adoption, and new business opportunities such as credit on UPI. Notwithstanding near-term headwinds, we expect earnings to gain traction from FY26, supported by expansions in margins, asset quality, and continued growth in spends. We, thus, estimate earnings growth to recover to ~30% CAGR over FY25-27, even as we estimate 15% YoY decline in earnings in FY25. We, thus, estimate RoA/RoE to recover to 4.1%/19.7% by FY27. We maintain a Neutral rating with a TP of INR750 (premised on a 22x Sep'26E EPS).

STORY IN CHARTS

SBICARD's market share in new cards declined to 16% in FY24 from 24% in FY21 amid rising stress across the industry.

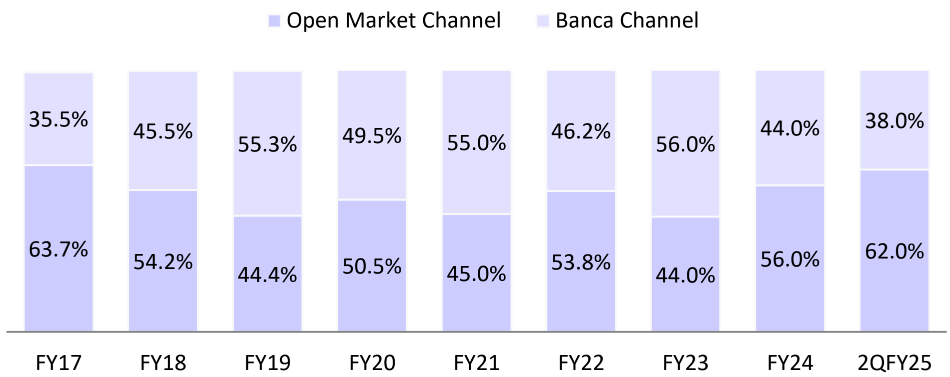
Exhibit 1: Growth in new card issuance moderated across the industry while SBICARD's share in new cards declined sharply in FY24



Source: MOFSL, CRIF Highmark

Sourcing mix has tilted toward the open market channel, which has led to a further increase in the delinquency rate.

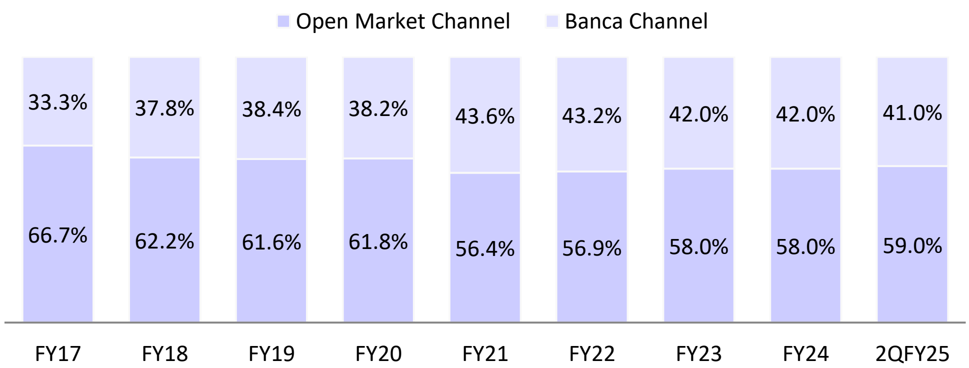
Exhibit 2: New card sourcing: Mix of open market channel has increased to 62%



Source: MOFSL, Company

Open market channel accounts for 59% of the total CIF.

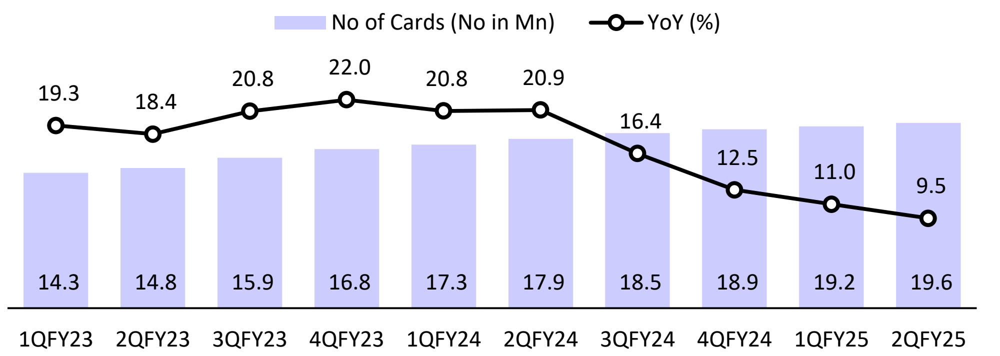
Exhibit 3: CIF: Open market channel accounts for ~59% of outstanding cards



Source: MOFSL, Company

Card growth has moderated amid the rise in stress levels.

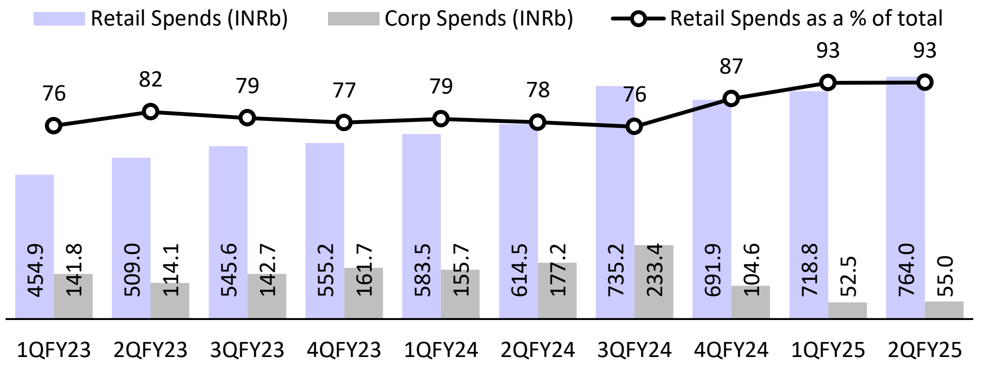
Exhibit 4: Growth in o/s card base has declined to 9.5% YoY



Source: MOFSL, Company

Sharp moderation in corporate spends has increased the mix of Retail spends to 93%.

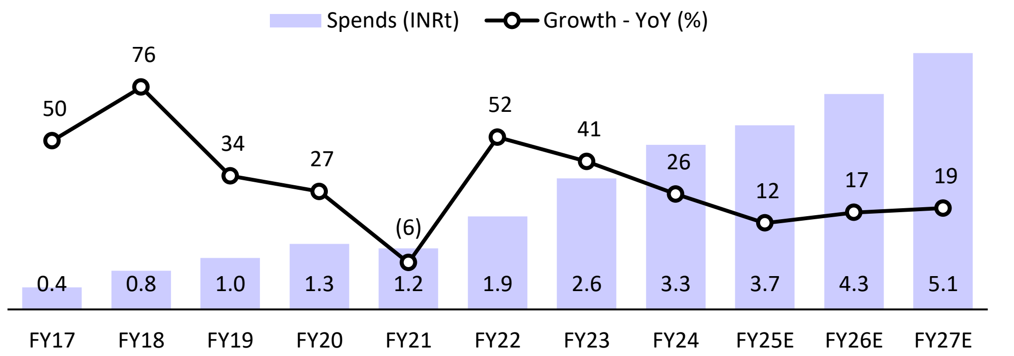
Exhibit 5: Share of Retail spends increased sharply to 93%



Source: MOFSL, Company

Spends are expected to clock 16% CAGR at INR5.1t over FY24-27.

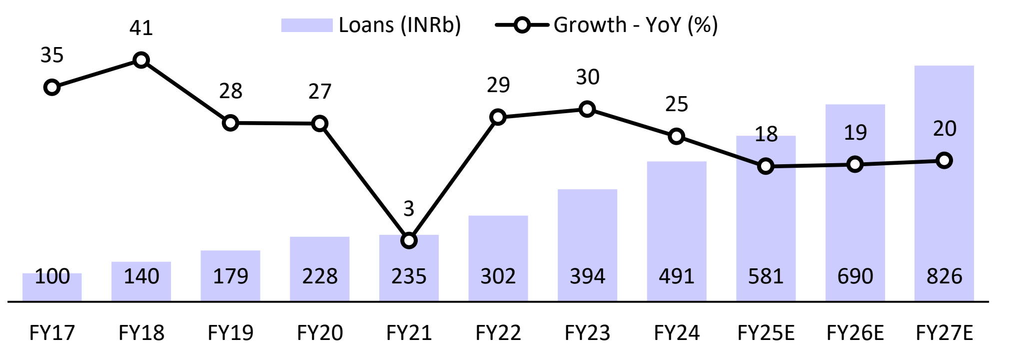
Exhibit 6: Estimate spend growth to bottom out at 12% YoY in FY25 and recover thereafter



Source: MOFSL, Company

Loan growth is expected to sustain at 19% CAGR at INR826b over FY24-27.

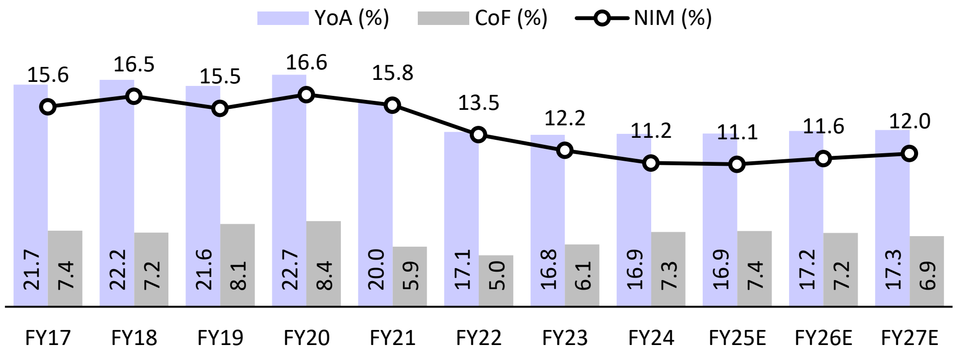
Exhibit 7: Estimate loan growth to sustain at ~19% CAGR over FY24-27



Source: MOFSL, Company

Exhibit 8: Estimate NIMs to recover to 12% by FY27

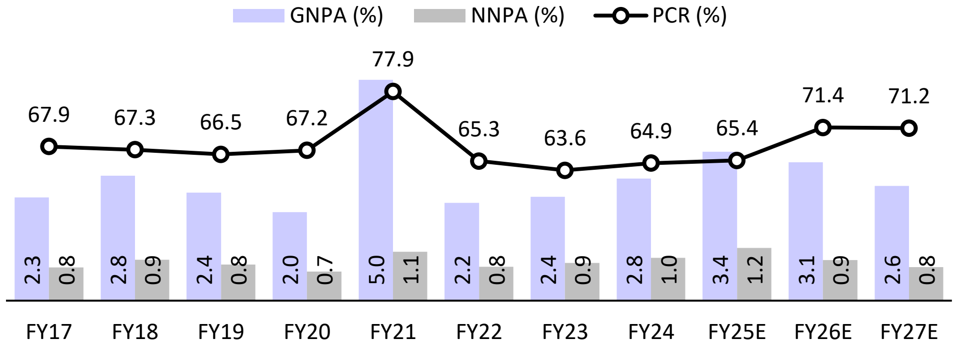
Decline in CoF to drive expansion in margins over FY26-27.



Source: MOFSL, Company

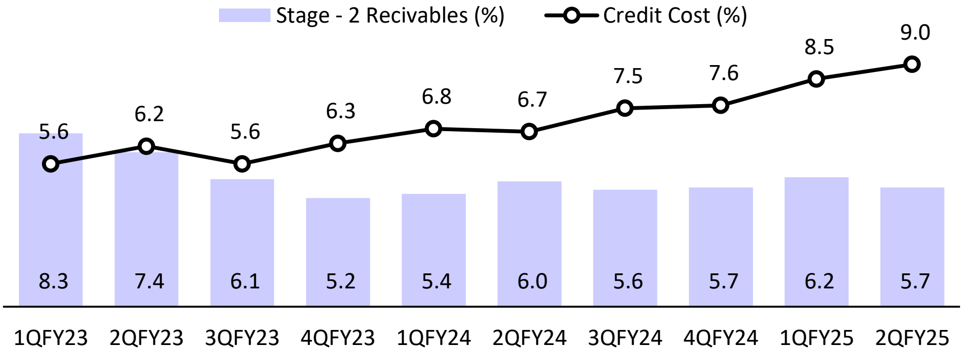
Exhibit 9: Estimate GNPA to stay elevated in the near term and recover over FY26-27

GNPA/NNPA is expected to witness moderation from the peak in FY25, while PCR is expected to reach 71% in FY27.



Source: MOFSL, Company

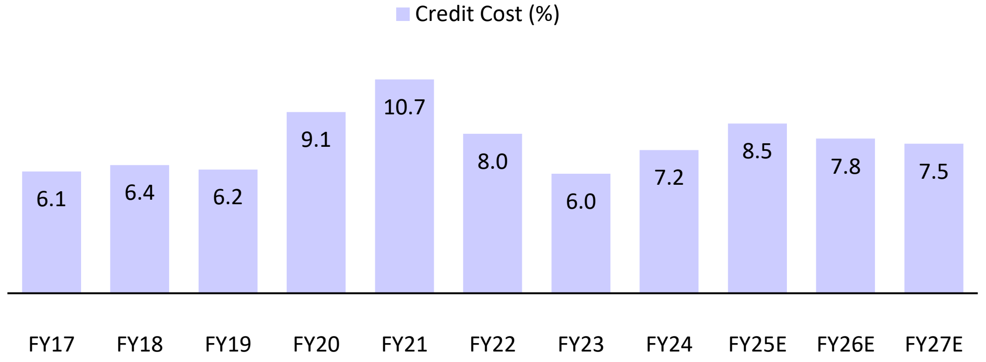
Exhibit 10: Stage-2 receivables and credit cost showing upward trends



Source: MOFSL, Company

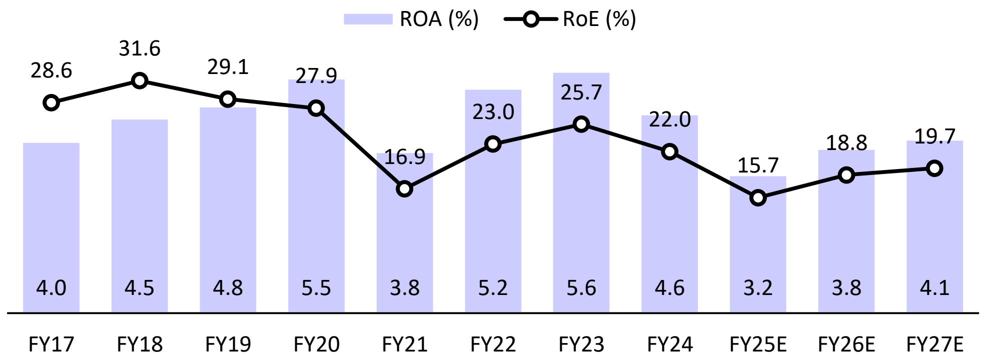
Credit cost is estimated to moderate to 7.8%/7.5% over FY26/FY27.

Exhibit 11: Gross credit cost expected to decline over FY26-27 after a spike in FY25



Source: MOFSL, Company

Exhibit 12: Estimate FY27 RoA/RoE at 4.1%/19.7%



Source: MOFSL, Company

Exhibit 13: DuPont analysis

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	15.6	15.1	14.9	14.9	15.2	15.4
Interest Expense	3.3	4.1	5.0	5.1	4.9	4.7
Net Interest Income	**12.3**	**11.0**	**9.9**	**9.8**	**10.3**	**10.7**
Fee Income	17.0	16.5	15.7	12.8	12.6	12.5
Trading and others	4.1	4.1	3.0	2.2	2.2	2.2
Non Interest income	**21.0**	**20.5**	**18.8**	**15.1**	**14.8**	**14.7**
Total Income	**33.3**	**31.5**	**28.7**	**24.8**	**25.0**	**25.4**
Operating Expenses	**19.0**	**18.6**	**16.1**	**13.0**	**13.0**	**13.3**
-Employee cost	1.5	1.4	1.1	1.0	0.9	0.9
-Others	17.4	17.2	15.0	12.1	12.1	12.3
Operating Profits	**14.4**	**12.9**	**12.6**	**11.8**	**12.0**	**12.1**
Provisions	**7.3**	**5.4**	**6.3**	**7.5**	**6.8**	**6.7**
PBT	**7.0**	**7.6**	**6.2**	**4.3**	**5.1**	**5.4**
Tax	1.8	1.9	1.6	1.1	1.3	1.4
RoA	**5.2**	**5.6**	**4.6**	**3.2**	**3.8**	**4.1**
Leverage (x)	4.4	4.6	4.7	4.9	4.9	4.9
RoE	**23.0**	**25.7**	**22.0**	**15.7**	**18.8**	**19.7**

Exhibit 14: One year forward P/E (x)

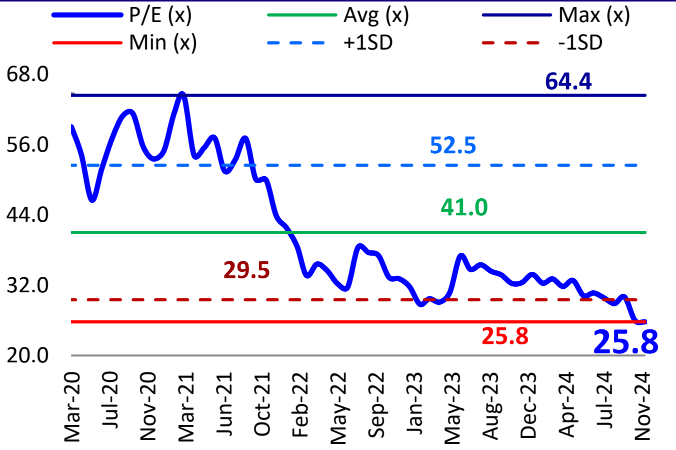
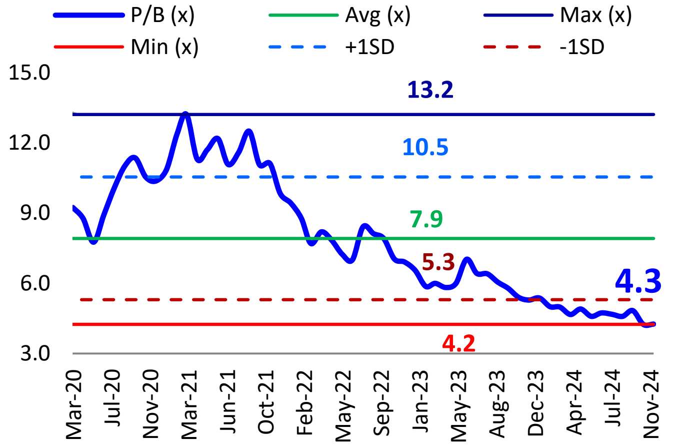


Exhibit 15: One year forward P/B (x)



Financials and valuations

Income Statement

(INR b)

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	48.2	60.5	77.4	94.0	113.3	135.9
Interest Expense	10.3	16.5	26.0	32.1	36.9	41.7
Net Interest Income	**37.9**	**44.0**	**51.5**	**61.9**	**76.4**	**94.1**
-growth (%)	-2.3	16.0	17.0	20.1	23.5	23.2
Non Interest Income	64.8	82.4	97.4	95.2	110.2	129.9
Total Income	**102.7**	**126.4**	**148.9**	**157.1**	**186.6**	**224.0**
-growth (%)	18.5	23.0	17.8	5.5	18.8	20.0
Operating Expenses	58.5	74.5	83.7	82.5	97.2	117.0
Pre Provision Profits	**44.3**	**51.9**	**65.2**	**74.6**	**89.4**	**106.9**
-growth (%)	11.8	17.2	25.6	14.4	19.9	19.6
Provisions (excl tax)	22.6	21.6	32.9	47.2	51.0	58.9
PBT	**21.7**	**30.3**	**32.3**	**27.4**	**38.4**	**48.0**
Tax	5.6	7.7	8.2	7.0	9.8	12.2
- Tax Rate (%)	25.6	25.5	25.5	25.5	25.5	25.5
PAT	**16.2**	**22.6**	**24.1**	**20.4**	**28.6**	**35.8**
-growth (%)	64.2	39.7	6.6	-15.2	40.1	25.1
Total Comprehensive Income	**16.3**	**22.6**	**24.1**	**20.4**	**28.6**	**35.8**
-growth (%)	63.1	38.7	6.7	-15.2	40.1	25.1

Balance Sheet

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	0.01	0.01	0.01	0.01	0.01	0.01
Reserves & Surplus	68.10	88.84	111.33	129.55	155.67	188.60
Net Worth	**68.1**	**88.8**	**111.3**	**129.6**	**155.7**	**188.6**
Borrowings	229.8	311.1	398.9	469.9	554.5	655.4
-growth (%)	28.4	35.4	28.2	17.8	18.0	18.2
Other Liabilities & Prov.	39.1	46.1	62.0	74.4	87.7	104.4
Total Liabilities	**337.1**	**446.0**	**572.2**	**673.8**	**797.9**	**948.4**
Current Assets	11.1	13.5	27.3	33.3	41.0	50.4
Investments	**13.0**	**21.4**	**35.2**	**42.9**	**51.5**	**61.8**
-growth (%)	35.5	64.9	64.5	22.0	20.0	20.0
Loans	**301.9**	**393.6**	**490.8**	**581.1**	**690.3**	**825.6**
-growth (%)	28.7	30.4	24.7	18.4	18.8	19.6
Fixed Assets	4.5	5.7	5.6	6.0	6.5	7.2
Other Assets	16.0	21.2	22.8	20.0	18.1	12.9
Total Assets	**346.5**	**455.5**	**581.7**	**683.3**	**807.4**	**957.9**

Asset Quality

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
GNPA (INR b)	6.9	9.6	14.0	20.0	22.1	21.8
NNPA (INR b)	2.4	3.5	4.9	6.9	6.3	6.3
GNPA Ratio	2.2	2.4	2.8	3.4	3.1	2.6
NNPA Ratio	0.8	0.9	1.0	1.2	0.9	0.8
Slippage Ratio	8.0	6.0	6.0	7.4	6.7	6.3
Credit Cost	8.0	6.0	7.2	8.5	7.8	7.5
PCR (Excl Tech. write off)	65.3	63.6	64.9	65.4	71.4	71.2

E: MOFSL Estimates

Financials and valuations

Business Metrics

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total No of Cards (Nos in Mn)	13.8	16.8	18.9	21.2	24.3	28.5
Total spends (INR b)	1,863.5	2,625.0	3,295.9	3,691.4	4,318.9	5,139.5
Spends per card (INR k)	135.4	156.2	174.4	174.4	177.4	180.5
Loans per card (INR)	22	23	26	27	28	29
Fee income earned per card	3,796	3,931	4,320	3,832	3,844	3,865

Ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Yield & Cost Ratios (%)						
Avg. Yield on loans	17.1	16.8	16.9	16.9	17.2	17.3
Avg. Cost of Borrowings	5.0	6.1	7.3	7.4	7.2	6.9
Interest Spread	**12.1**	**10.7**	**9.6**	**9.5**	**10.0**	**10.4**
Net Interest Margin	**13.5**	**12.2**	**11.2**	**11.1**	**11.6**	**12.0**
Capitalisation Ratios (%)						
CAR	23.8	23.1	20.5	21.3	20.8	20.2
Tier I	21.0	20.4	16.5	16.0	16.1	16.0
CET 1		20.4	16.5	16.6	17.0	17.5
Tier II	2.8	2.7	4.0	5.3	4.7	4.2
Business ratios (%)						
Cost/Assets	19.0	18.6	16.1	13.0	13.0	13.3
Cost/Total Income	56.9	58.9	56.2	52.5	52.1	52.3
Int. Expense/Int.Income	21.3	27.2	33.5	34.2	32.6	30.7
Other income/Total Income	63.1	65.2	65.4	60.6	59.1	58.0
Empl. Cost/Total Expense	8.1	7.5	6.8	7.5	7.1	6.9

Valuation

	FY22	FY23	FY24	FY25E	FY26E	FY27E
RoE	23.0	25.7	22.0	15.7	18.8	19.7
RoA	5.2	5.6	4.6	3.2	3.8	4.1
RoRWA	5.8	6.2	4.6	2.9	3.4	3.5
Book Value (INR)	82	104	127	146	174	208
-growth (%)	22.7	26.4	22.3	15.1	18.8	19.9
Price-BV (x)	**8.6**	**6.8**	**5.5**	**4.8**	**4.0**	**3.4**
Adjusted BV (INR)	80	101	123	141	169	204
Price-ABV (x)	**8.7**	**6.9**	**5.7**	**5.0**	**4.2**	**3.5**
EPS (INR)	17.2	23.9	25.4	21.5	30.1	37.6
-growth (%)	63.8	39.3	6.2	-15.5	40.1	25.1
Price-Earnings (x)	**41.0**	**29.4**	**27.7**	**32.8**	**23.4**	**18.7**

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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