

Retail Equity Research

SBI Cards & Payment Services Ltd.

NBFC (Non-Deposit taking)

BSE CODE: 543066

NSE CODE: SBICARD

Bloomberg CODE: SBICARD:IN

SENSEX: 49,766

BUY

12M Investment period Rating as per Large cap
CMP Rs. 989 TARGET Rs. 1,125 RETURN 14% ↑
(Closing: 29-04-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Outlook promising from strong parentage

SBI Cards & Payment Services (SBI Cards) is the leading issuer of credit cards in India. Company offers wide range of value-added payment products and services. SBI cards operates in more than 130 cities in India.

- Net interest income declined 18.3% YoY in Q4FY21, due to NIM contraction, impacted by lower interest income yield (-507bps YoY)
- Pre-provision profit dropped 7.6% YoY to Rs. 878cr, while PAT jumped 110.0% YoY to Rs. 175cr, benefitted by lower provisioning. Overall cost to income ratio was 57.8%.
- Company added 791,000 new accounts with 12% growth in cards, 11% in spends and 4% growth in receivables.
- Rapid growth in digital payments and large customer base from parent may drive growth in credit cards over long-term. Given undervaluation at current prices, we reiterate our BUY rating on the stock with roll-forward target price of Rs. 1,125 based on 10x FY23E BVPS.

Bottom-line improves due to effective cost reductions

For Q4FY21, Interest income reached Rs. 1,072cr (-20.5% YoY) as the yield sharply dropped to 17.1% (-507bps YoY). On the other hand, interest expense declined 27.1% YoY to Rs. 244cr, benefitting from reduced cost of funds of 5.5% (-198bps YoY). Due to overall negative impact, NIM margin reached 13.2% (-346bps YoY). Due to fixed nature of annual credit card fees, Income earned from membership continued to grow to Rs. 1,114 (16.1% YoY). By reducing discretionary spends, the Cost to Income ratio has been brought back to 57.8% (+146bps YoY), as against 59.1% for Q3FY21. Further aided by lower provisioning (-23.3% YoY), PAT climbed to Rs. 175cr (110.0% YoY).

Growth momentum maintained in market share

In Q4FY21, 791,000 new accounts have been opened and cards-in-force reached 11,822 (2.9% QoQ). As of Feb21, market share improved to 19.0% (vs 18.3% in March 20). Much of the new customer acquisitions came from internal sourcing channels as the % share of Open market channels reduced to 45.6% (vs 48.1% in Q3FY21). From credit consumption stand-point, spends per card reduced to Rs. 123k (-8.2% QoQ) and the overall spends to Rs. 35,943cr (-4.9% QoQ). Lower receivables of Rs. 25,114 (-2.5% QoQ) attributed to continued reduction in revolver credit. GNPA and NNPA was 4.99% (298bps YoY) and 1.15% (48bps YoY) respectively due to increased write off of loans.

Key highlights

- Online retail spend rose to 51.9% in FY21 vs. 44.2% in FY20.
- 30-day spend active rate was down to 49.2% (as against 50.6% in Q3FY21) indicating moderation in credit consumption over short-term.
- Regarding Asset Liability Management, Rs. 6,124cr of sanctioned bank lines remains unutilized and available for draw down as of Mar '21.

Outlook & Valuation

Rapid growth in digital payments and large customer base from its parent may drive growth in credit cards over long-term. Credit consumption is expected to remain low during the crisis. However the company is well positioned to capitalize on the opportunities once the market recovers. Given undervaluation at current prices, we reiterate our BUY rating on the stock with roll-forward target price of Rs. 1,125 based on 10x FY23E BVPS.

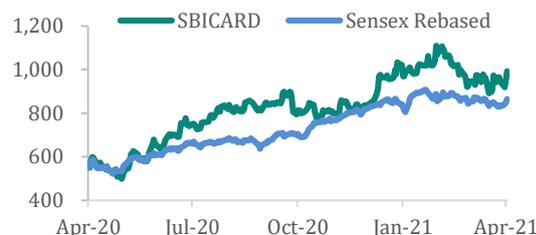
Company Data

Market Cap (cr)	Rs. 93,422
Outstanding Shares (cr)	94.1
Free Float	15.0%
Dividend Yield	0.0%
52 week high	Rs. 1,149
52 week low	Rs. 495
6m average volume (cr)	0.5
Beta	1.2
Face value	Rs. 10

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	69.5	69.4	69.4
FII's	5.9	5.8	8.6
MFs/Insti	3.2	3.9	6.0
Public	4.6	4.2	3.7
Others	16.8	16.7	12.3
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	2.5%	22.8%	80.4%
Absolute Sensex	6.1%	24.6%	54.9%
Relative Return*	-3.6%	-1.7%	25.5%

*over or under performance to benchmark index



Consolidated (Rs. cr)	FY21A	FY22E	FY23E
Net Interest Income	3,884	4,327	5,071
Growth (%)	9.7	11.4	17.2
NIM (%)	15.9	15.3	15.7
Pre-Provision Profit	3,962	4,738	5,167
Net Profit	985	1,856	2,425
Growth (%)	(20.9)	88.5	30.7
Adj. EPS	10.5	19.7	25.8
Growth (%)	(20.8)	88.5	30.7
BVPS	67.0	86.7	112.5
P/E	94.9	50.3	38.5
P/B	14.8	11.5	8.8
P/ABV	14.8	11.5	8.8
ROE (%)	16.9	25.7	25.9
ROA (%)	3.8	6.3	7.3

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY2021	FY2020	YoY Growth %
Interest Income	1,072	1,348	(20.5)	1,168	(8.2)	4,928	4,841	1.8
Interest Expense	244	334	(27.1)	261	(6.6)	1,043	1,301	(19.8)
Net Interest Income (NII)	828	1,014	(18.3)	907	(8.7)	3,884	3,540	9.7
Non-Interest Income	1,396	1,161	20.2	1,372	1.8	4,786	4,910	(2.5)
Total Net Income	2,224	2,175	2.3	2,279	(2.4)	8,670	8,451	2.6
Total Income	2,468	2,510	(1.7)	2,540	(2.8)	9,714	9,752	(0.4)
Operating Expenses	1,347	1,225	9.9	1,348	(0.1)	4,708	4,781	(1.5)
Total Expenditure	1,590	1,559	2.0	1,609	(1.1)	5,751	6,082	(5.4)
Pre-Provision profit	878	950	(7.6)	931	(5.7)	3,962	3,670	8.0
Provisions	643	838	(23.3)	648	(0.8)	2,639	1,940	36.0
Profit Before Tax	234	112	109.1	283	(17.1)	1,324	1,730	(23.5)
Tax	59	29	106.6	73	(19.4)	339	485	(30.0)
Net Profit	175	84	110.0	210	(16.3)	985	1,245	(20.9)
EPS - Diluted (Rs.)	1.9	0.8	143.4	2.2	(16.3)	10.4	13.2	(21.4)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Interest Income (NII)	4,851	n.m.	4,327	5,071	(10.8)	n.m.
Net Interest Margin (%)	17.5	n.m.	15.3	15.7	(219.9)	n.m.
Pre-Provision Profit	4,692	n.m.	4,738	5,167	1.0	n.m.
Net Profit	1,810	n.m.	1,856	2,425	2.5	n.m.
EPS (Rs.)	19.2	n.m.	19.7	25.8	2.8	n.m.

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Interest Income	3,576	4,841	4,928	5,621	6,425
Interest Expense	1,009	1,301	1,043	1,294	1,354
Net Int. Income	2,566	3,540	3,884	4,327	5,071
% Change	25.0	38.0	9.7	11.4	17.2
Non-Int. Income	3,711	4,910	4,786	5,034	5,306
Net Income	6,278	8,451	8,670	9,361	10,377
Total Income	7,287	9,752	9,714	10,655	11,732
Operating Exp.	3,915	4,781	4,708	4,624	5,210
Total Exp.	4,925	6,082	5,751	5,918	6,565
Pre-Prov. Profit	2,362	3,670	3,962	4,738	5,167
Provisions	1,027	1,940	2,639	2,243	1,906
PBT	1,335	1,730	1,324	2,495	3,261
Tax	470	485	339	639	836
Tax Rate (%)	35.2	28.0	25.6	25.6	25.6
Net Profit	865	1,245	985	1,856	2,425
% Change	43.3	43.9	(20.9)	88.5	30.7
No. of Shares (cr)	82	94	94	94	94
Adj. EPS (Rs.)	10.6	13.2	10.5	19.7	25.8
% Change	37.2	25.2	(20.8)	88.5	30.7
DPS (Rs.)	0.0	1.0	0.0	0.0	0.0

BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash & Balances	777	677	718	761	807
Investments	2	1	958	958	958
Advances	17,909	22,812	23,459	28,151	30,966
Fixed Assets	890	994	922	869	829
Other Assets	569	822	956	976	995
Total Assets	20,146	25,307	27,013	31,714	34,555
Capital	837	939	941	941	941
Reserves & Surplus	2,751	4,402	5,362	7,217	9,642
Deposits	0	0	0	0	0
Borrowings	8,273	10,475	10,837	11,379	11,948
Other Liabilities	8,285	9,491	9,874	12,178	12,025
Total Liabilities	20,146	25,307	27,013	31,714	34,555
BVPS (Rs.)	43.8	56.7	67.0	86.7	112.5
Adj. BVPS (Rs.)	43.8	56.7	67.0	86.7	112.5
% Change	45.7	29.5	18.2	29.4	29.7

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Spreads (%)					
NIM	15.5	16.8	15.9	15.3	15.7
Yield on funds	21.5	23.0	20.7	21.2	21.2
Cost of Borrowing	8.1	8.4	5.9	7.0	7.0
Interest Spread	13.4	14.6	14.8	14.2	14.2
Capital Adequacy (%)					
CAR	20.1	22.4	24.8	25.3	0.0
Tier I	14.9	17.7	20.9	21.2	0.0
Tier II	5.3	4.7	3.9	4.1	0.0
Asset Quality (%)					
GNPA	2.4	2.0	5.0	4.9	0.0
NNPA	0.8	0.7	1.2	1.1	0.0
Return Ratios (%)					
RoE	29.1	27.9	16.9	25.7	25.9
RoA	4.8	5.5	3.8	6.3	7.3
Valuations (x)					
P/E (x)	n.m.	46.8	94.9	50.3	38.5
P/BV (x)	n.m.	10.9	14.8	11.5	8.8
Div. Yield	n.m.	0.2	0.0	0.0	0.0

Recommendation Summary



Dates	Rating	Target
24-Jul-20	BUY	851
26-Oct-20	BUY	913
29-Apr-21	BUY	1,125

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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