

SBI Cards, a NBFC – Systematically Important Non-Deposit Taking Company (NBFC-ND-SI) and subsidiary of SBI, having nearly 20 yrs of operating history is the second largest credit card company with market share of 17.9%. It is a JV between SBI (which holds 74% in the company) and Carlyle Group (26%). Business model of the company is unique as it is the only company in India having pure credit card business whereas for other banks, credit card business is done via bank only and there is no separate subsidiary for the same business. Hence, SBI Cards enjoys superior return ratios – ROE and ROA of 36.5% and 6.7% (9MFY20) on the total asset base of ₹246 bn.

#### About the business

SBI Cards is the second largest credit card issuer in India both in terms of credit card outstanding and amount of credit card spends (1032.6 bn in FY19). It had total outstanding card base of 9.83 mn as on Nov 2019. It has diversified portfolio of credit card offerings catering to individual and corporate clients and includes lifestyle, rewards, travel & fuel, shopping, banking partnership cards and corporate credit cards. It offers primary 4 SBI-branded credit cards namely – SimplySave, SimplyClick, Prime and Elite. It has pan India presence in 145 cities with 3190 open market physical point of sale in India. It has strong distribution network and tie-ups with 12 non-bank co-brand partners and 9 co-brand bank partners allowing it to cross-sell its credit cards to partners existing customer base. More importantly, it has access to SBI's extensive network of 21961 branches and vast customer base of 445.5 mn where the company can cross-sell its products. Management team which is highly experienced is headed by MD&CEO, Mr.Hardayal Prasad, who has 36 yrs of experience in financial services.

On the financial side, the NBFC has total asset size of Rs260 bn (Dec'2019) and ROE and ROA of 36.5% and 6.7% (9MFY20). Profitability of the company is growing by leaps and bounds – reported PAT has grown by 52% CAGR during FY17-19. Going forward, trend is likely to continue – PAT is estimated to grow by 57% CAGR over FY20-22e given favourable demographics, rise in digital payments, boom in e-commerce industry, SBI parentage and aggressive approach of the management

#### Recommend Subscribe to the issue with a target price of ₹1,220

Profitability of the NBFC is expected to remain strong – PAT to grow at 57% CAGR during FY20-22e with ROE/ROA >33%/7% in FY21e. At the upper price band, the company is trading at 7.9x FY21e and 5.6x FY22e ABV. Given key strengths of the company like - its unique business model which is a pure credit card play, high growth phase alongwith strong profitability matrix, favourable demographic dividend is likely to trade at higher multiples. We accord fair value of 1220, discounting its FY22e ABV by 9.5x, giving upside potential of 62% from the IPO Price.

Financials					
YE Mar	FY 18	FY 19	FY 20E	FY 21E	FY 22E
NII (₹ mn)	20,485	25,585	35,415	50,798	70,852
PAT (₹ mn)	5,973	8,582	16,593	26,665	40,941
yoy (%)	-	43.7	93.3	60.7	53.5
EPS (₹)	7.6	10.3	17.7	28.4	43.6
ABV (₹)	28.3	41.0	69.6	95.4	135.7
P/BV (x)	25.2	17.6	10.5	7.6	5.4
P/ABV (x)	26.7	18.4	10.8	7.9	5.6
ROA (%)	4.5	4.8	6.6	7.4	8.2
ROE (%)	31.4	28.9	32.0	33.2	36.5
Gross NPAs (%)	2.9	2.5	2.6	2.4	2.3
PCR (%)	67.3	66.5	65.0	65.0	65.0

Source : Company, LKP Research



Rating

SUBSCRIBE

Target Price (₹)

1,220

IPO Price Band (₹/share)	750 - 755
M. cap post issue (₹.mn)	7,08,912
Issue Opens	Mar 2, 2020
Issue closes	Mar 5, 2020

#### IPO Details

##### Key Data

No. of Shares to be issued (mn)	137.1
Issue Size (₹mn)	1,03,548
Fresh issue size (₹.mn)	5,000
Offer for sale size (₹mn)	98,548
Capital before pre-IPO placement (mn)	9,323
Pre-IPO Eq. Capital (mn)	9,323
Post-IPO Eq. Capital (mn)	9,390
Dilution (%)	4.8
FV (₹)	10.0

#### Share Reservation

(%)

QIB	50
Non-institutional	15
Retail	35
Minimum Lot Size	19 shares

#### Issue Managers

BRLMs	Kotak, Axis Capital, BoFA Securities, HSBC, Nomura, SBI Capital Markets
Registrar	Link Intime
Listing	BSE, NSE

#### Valuations

(x)

Pre-issue (Q3-FY20)	
P/BV, at upper price band	14.8
Post-issue (Q3-FY20)	
P/BV	13.5

## Investment Arguments

### Credit card industry spends to grow 2.5 times in the next 5 yrs

According to CRISIL Research, credit card spends have registered strong CAGR growth of 32% between FY15-19 to reach Rs6 trillion and it is expected to touch Rs15 trillion by FY24, which is nearly 2.5x from FY19 levels (i.e. CAGR of 20%). There are 47 mn credit cards in force which has grown by 20% CAGR over FY15-19 and it is likely to grow by 25% in FY20. Also, credit card dues are likely to grow by 23% during FY19-24e to touch Rs3313 bn i.e. 3x growth over the next 5 yrs. Factors like demographic advantage, issuances of cards in smaller cities, tapping new-to-credit (NTC) customers and strong investments in payment infrastructure will all aid credit-card penetration going forward.

### Demographic advantage

India is one of the fastest growing major economies in the world and its GDP is likely to grow by 7.3% over FY20-24e which would lead to better disposable income at the hands of the people. Aspiring and affluent households have helped spur domestic consumption and increased spends on financial services products, apparel, footwear, health and personal care. Going forward, consumers' discretionary spending is likely to increase further along with the rise in income levels. Currently, India has one of the largest young populations in the world, with an estimated median age of approximately 28 years as of CY2020 and working age population is 37% i.e. between 30 to 59 yrs of age. This demographic dividend will certainly result in higher demand for unsecured loans including credit cards.

### Sizeable gains from SBI parentage

SBI, being the largest PSU bank having a market share of nearly ¼ of the system, has wide distribution network of 21959 branches and customer base of 445.5 mn. This can be leveraged by SBI Cards in a sizeable way going forward by cross-selling its products to vast customer base of SBI. Currently, nearly ~50% of the revenues generated by the NBFC come from the network of SBI – there is sizeable room to increase this share further. Currently, NBFC pays royalty fees of 2% of its profits or 0.2% of the total income, whichever is higher for using SBI's trademark registered logos and SBI "wordmark".

### High growth phase with equally strong profitability

With all the favourable conditions like demographic advantage, lower credit card penetration, aggressive approach of the company, technological advancement, strong parentage is likely to result in high growth phase for the company. We estimate assets to grow by 42% CAGR over FY19-22e vs. 34% growth witnessed during FY17-19. Profitability of the NBFC is also expected to remain equally strong – PAT to grow at 57% CAGR during FY20-22e with ROE/ROA >33%/7% in FY21e.

### Modern and scalable technology infrastructure

Technology systems of the company leverages artificial intelligence and process automation technologies across several platforms to automate routine activities, such as fraud disputes, collections functions, auto debit reconciliations and customer service, among others, which have increased operating efficiencies. Since 2012, they made significant investments in technology infrastructure, having redesigned and digitized the majority of technology processes, risk management protocols and data analytics capabilities, among other initiatives. High investment in technology becomes one of the competitive strength of the company and represents significant barrier to entry for any potential new entrant to Indian credit card market.

### SUBSCRIBE

Profitability of the NBFC is expected to remain strong – PAT to grow at 57% CAGR during FY20-22e with ROE/ROA >33%/7% in FY21e. At the upper price band, the company is trading at 7.9x FY21e and 5.6x FY22e ABV. Given key strengths of the company like - its unique business model which is a pure credit card play, high growth phase alongwith strong profitability matrix, favourable demographic dividend, it is likely to trade at higher multiples. We accord fair value of 1220, discounting its FY22e ABV by 9.5x, giving upside potential of 62% from the IPO levels.

Profit & Loss Statement					
(₹ mn)	FY18	FY19	FY20e	FY21e	FY22e
NII	20,485	25,585	35,415	50,798	70,852
Growth (%)	50.7	24.9	38.4	43.4	39.5
Other Income	26,102	37,111	51,956	70,140	94,689
Total Income	46,587	62,696	87,371	1,20,938	1,65,541
Growth (%)	58.3	34.6	39.4	38.4	36.9
Operating Expenses	29,432	37,948	48,442	61,635	77,923
Operating Income	17,155	24,748	38,929	59,304	87,618
Growth (%)	-	44.3	57.3	52.3	47.7
Provisions and Contingencies	8,001	11,477	15,795	22,114	30,517
PBT	9,155	13,271	23,134	37,190	57,101
Growth (%)	-	45.0	74.3	60.8	53.5
Tax Expense	3,182	4,689	6,541	10,525	16,160
Profit for the year	5,973	8,582	16,593	26,665	40,941
Growth (%)	-	43.7	93.3	60.7	53.5

Balance Sheet					
(₹ mn)	FY18	FY19	FY20e	FY21e	FY22e
LIABILITIES					
Share Capital (@FV ₹10)	7,850	8,372	9,390	9,390	9,390
Reserves & Surplus	15,681	27,445	58,375	83,287	1,22,001
Shareholder Funds	23,531	35,817	67,765	92,676	1,31,391
Borrowings	1,20,577	1,46,082	2,02,405	2,83,367	3,82,546
Current Liabilities	5,324	7,746	11,619	16,290	22,072
Other Liabilities	7,429	12,751	19,254	27,341	36,910
TOTAL LIABILITIES	1,56,860	2,02,396	3,01,043	4,19,674	5,72,919
ASSETS					
Cash & Bank Balances	4,727	7,769	10,488	13,110	16,387
Investments	0	15	15	15	15
Loans & Advances	1,40,455	1,79,087	2,63,258	3,68,562	5,08,615
Other Assets	11,678	15,526	27,282	37,988	47,902
TOTAL ASSETS	1,56,860	2,02,396	3,01,043	4,19,674	5,72,919

Key Ratios					
	FY18	FY19	FY20e	FY21e	FY22e
Int. exp/Int. earned (%)	25.8	28.4	27.2	26.9	26.6
NII / Total Income (%)	44.0	40.8	40.5	42.0	42.8
Other income / Total Income (%)	56.0	59.2	59.5	58.0	57.2
Cost / Income	63.2	60.5	55.4	51.0	47.1
Net Interest Margin	16.5	15.4	15.4	15.5	15.6
Total provisions / Total loans	5.7	6.4	6.0	6.0	6.0
EPS (₹)	7.6	10.3	17.7	28.4	43.6
BV (₹)	30.0	42.8	72.2	98.7	139.9
Adjusted BV (₹)	28.3	41.0	69.6	95.4	135.7
Avg. ROE (%)	31.4	28.9	32.0	33.2	36.5
Avg. ROA (%)	4.5	4.8	6.6	7.4	8.2
Pre-tax ROA (%)	6.9	7.4	9.2	10.3	11.5
P/E (x)	99.2	73.7	42.7	26.6	17.3
P/BV (x)	25.2	17.6	10.5	7.6	5.4
P/ABV (x)	26.7	18.4	10.8	7.9	5.6

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