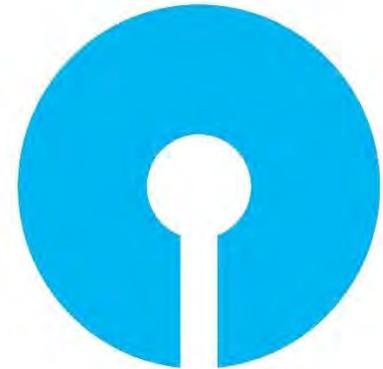


Date: 3/1/2020

**Review Report - SBI Cards and Payments Services Ltd - IPO Note**

# SBI Card

Make life simple



**Our View: “Subscribe”**

**IPO Financials and Key Detail:**

<b>Issue Open</b>	MARCH 2,2020 – MARCH 5,2020
<b>Issue Type</b>	Book Built Issue IPO
<b>Issue Size</b>	Fresh Issue: Rs.500 Cr. OFS: 130,526,798 Equity Shares
<b>Face Value</b>	Equity Shares of Rs. 10
<b>Issue Price</b>	Rs. 750 - Rs. 755 per Equity Share
<b>Listing At</b>	BSE, NSE
<b>Minimum Lot Size</b>	19 Equity Shares

## About the Company:

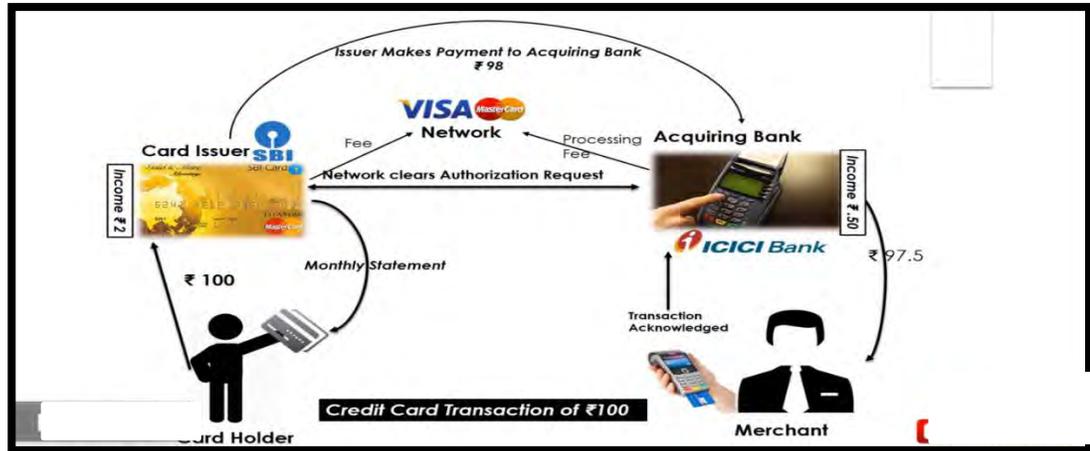
Company was incorporated as “SBI Cards and Payment Services Private Limited” on May 15, 1998 as a JV between SBI and GE Capital. In 2017, GE Capital’s ownership stake was acquired by SBI (74%) and CA Rover Holdings, an affiliate of Carlyle Group (26%). It is a Non-Banking Financial Company - Systemically Important Non-Deposit Taking Company (“NBFC-ND-SI”) registered with the RBI. The company is one of the India’s leading providers of credit cards. It offers a broad credit card portfolio of SBI Card branded portfolio and Co- branded portfolio which included four primary SBI Card branded credit cards: **Simply Save, Simply Click, Prime and Elite**, each catering to a varying set of cardholder needs. It is also the largest co-brand credit card issuer in India and have partnerships with several major players in the travel, fuel, fashion, healthcare and mobility industries, including **Air India, Apollo Hospitals, BPCL, Etihad Guest, Fbb, IRCTC, OLA Money and Yatra**, among others.

The company is the **SECOND LARGEST** credit card issuer in India after HDFC Bank with 18.1% market share of the Indian credit card market in terms of the number of credit cards outstanding and 17.9% market share of the Indian credit card market in terms of total credit card spends with 9.83 million credit cards outstanding as of November 30, 2019 and ₹1,032.65 billion in total of credit card spends in fiscal 2019.

It has a **diversified customer acquisition network** with a sales force of 32,677 outsourced sales personnel as of December 31, 2019 operating out of 145 Indian cities and which engages prospective customers through multiple channels, including physical points of sale in bank branches, retail stores, malls, fuel stations, railway stations, airports, corporate parks and offices. It is the leading player in open market customer acquisition with 3,190 open market points of sale and SBI’s extensive network of 21,961 branches across India.

## Business Model:

There are total three parties involved in a transaction i.e card issuing bank, acquiring bank (bank installing POS machine) and the payment network (VISA and Mastercard). The transaction begins with the purchase of goods and services using the credit card. When a cardholder swipes a card in POS machine at merchant place, the transaction will be authorized by the payment network and after that the payment is made by the card issuing bank net of interchange fees. After receiving the payment, the acquiring bank will pay to the merchant net of acquiring fees (MDR Charges). So, this interchange fees constitute more than 50% of the total fees income.



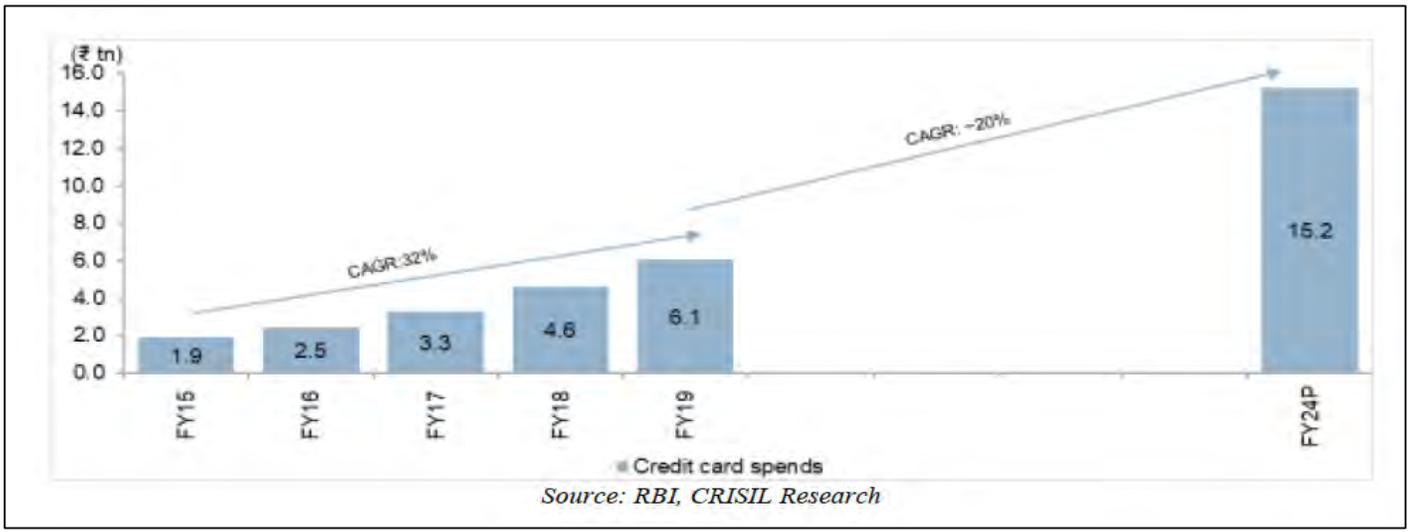
The revenue model of SBI Cards includes 50% fee income and 50% interest income. Fee incomes include interchange fees, subscription fees, cash withdrawal fees, late fees, overlimit fees, dishonor fees etc whereas interest income includes interest paid on receivables converted into EMI or taking loans on their credit cards. Also interest on rolling over of the balance amount of receivables after payment of minimum payment due.

### Industry Overview:

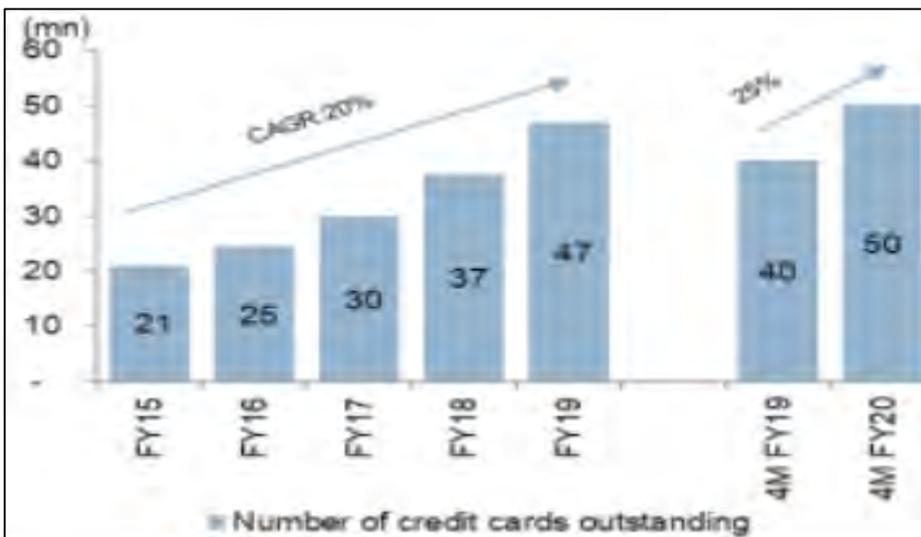
India's overall credit penetration in the economy measured by its domestic credit as proportion of GDP is 72%, one of the lowest as compared to China (218%) and Japan (282%). Where credit card penetration is only 3% in India as compared to 320% in US which means that only 3 persons are having credit card in India per 100 people. Unsecured loans constitute personal loans (73%), credit card (22%) and consumer durable loans (4%) is Rs 5.3 trillion market in FY2019 which has grown at a CAGR of 28% and is expected to grow at a CAGR of 22% for the next 5 years. So, it can be assumed that there is a huge headroom of growth for the credit card industry.

However, with the increasing E-commerce industry and the usage of digital transactions it is seen that usage of both debit and credit products are increasing. Also, with the increase in discretionary consumer spending and attitudinal shift in consumers towards taking debt which also leads to increase in the use of pre-approved credit card loans as compared to personal loans.

### INCREASING CREDIT CARD SPENDS



### NUMBER OF CREDIT CARDS OUTSTANDING



## Peer Comparison:

There are total 74 players offering credit cards in India where TOP 4 PLAYERS dominate the market constituting 72% of total cards outstanding (volume) and 66% of the total spends in FY19.

### Market Share:

#### No of credit cards outstanding

HDFC Bank – 27%  
SBI Card – 18%  
ICICI Bank – 14%  
Axis Bank – 13%

#### Total credit card spends

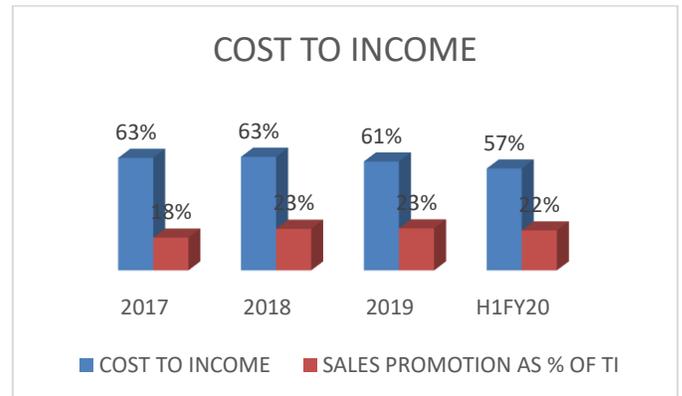
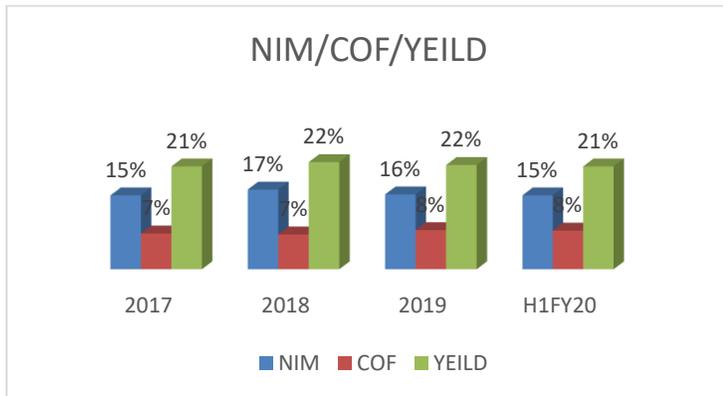
HDFC Bank – 28%  
SBI Card – 18%  
ICICI Bank- 11%  
Axis Bank – 11%

In industry, number of transactions has increased at a CAGR of 28% which is expected to grow at a CAGR of 20% and number of credit card outstanding has grown at a CAGR of 20% which is expected to grow at a CAGR of 25%. SBI Cards has grown at a **CAGR of 34.5%** in terms of credit cards outstanding (as compared to 25.6% CAGR for the overall industry) and **CAGR of 54.2%** in terms of total spends (as compared to 35.6% for the overall industry) over past 3 years. Number of transactions using SBI Card has also increased at a CAGR of 34% in past 5 years as compared to 25% in case of HDFC Bank. Axis Bank has shown the highest growth amongst all being 34% in case of total cards outstanding and 48% in case of total spends over past 5 years.

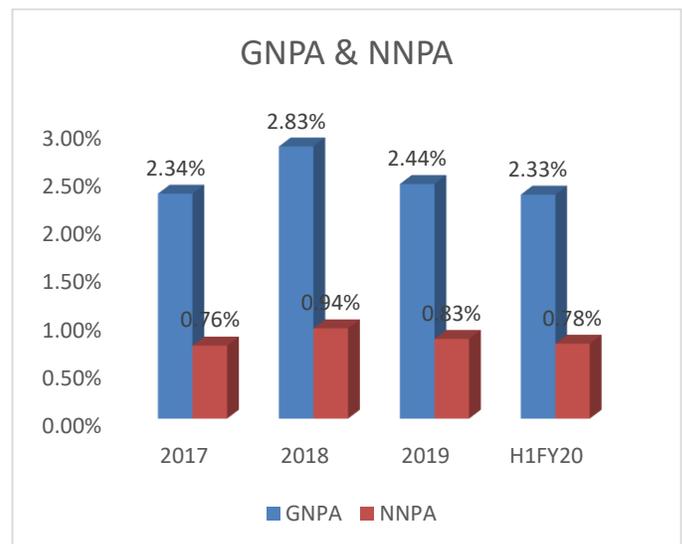
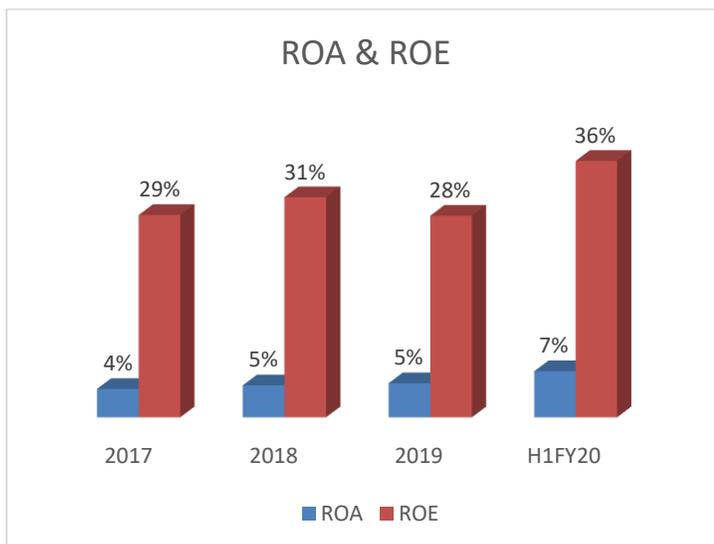
SBI Cards is also the leader in issuing Co-branded cards. It has issued total **18 co-branded cards** followed by ICICI Bank at 12 and RBL Bank at 8. Credit card spends from co-branded credit cards represented 24.7% of the total credit card spends. Co-branded partners acquire new customers through open-market sourcing channels and newly sourced co-brand accounts represented 35.2% of our total cardholder accounts sourced in the nine months ended December 31, 2019.

## Financial Snapshot:

### OPERATIONAL EFFICIENCY



### ASSET QUALITY:



## Balance Sheet

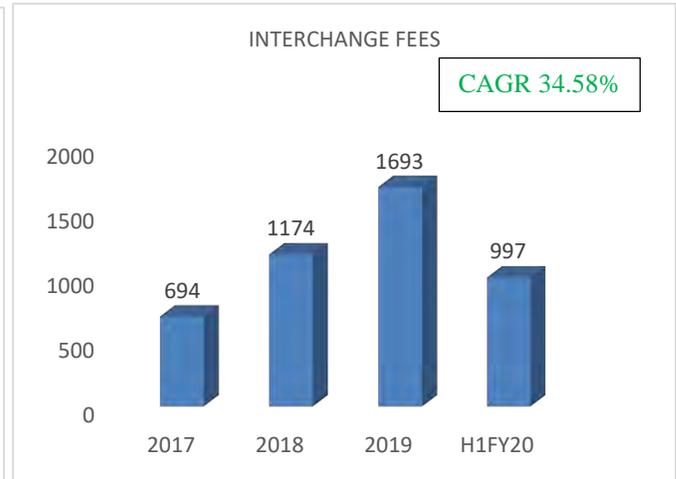
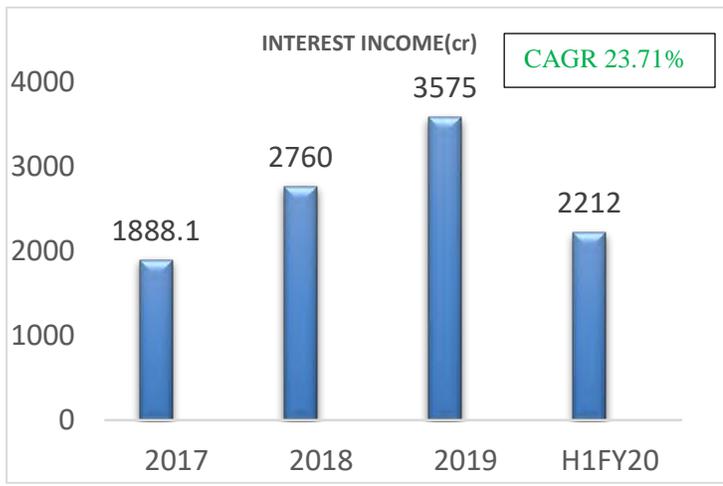
<u>Particulars</u>	<u>31.03.2017</u>	<u>31.03.2018</u>	<u>31.03.2019</u>	<u>H1FY20</u>
<b><u>Equity and Liabilities</u></b>				
Shareholder's Funds	1448	2353	3582	4310
<b>Non-current liabilities</b>	640	742	1275	1562
<b>Current liabilities</b>	<b>8676</b>	<b>12590</b>	<b>15383</b>	<b>18588</b>
Borrowings	219	7466	8375	9684
<b>Total liabilities</b>	<b>10765</b>	<b>15686</b>	<b>20240</b>	<b>24460</b>
<b>Fixed assets</b>	364	903	1227	1374
<b>Current assets</b>	10401	14783	19013	23086
Loans and advances	99831	14046	17909	22280
<b>Total assets</b>	<b>10765</b>	<b>15686</b>	<b>20240</b>	<b>24460</b>

## Profit & Loss Account

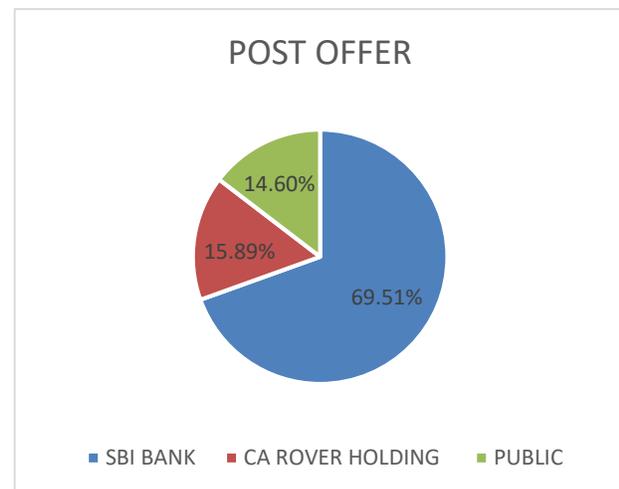
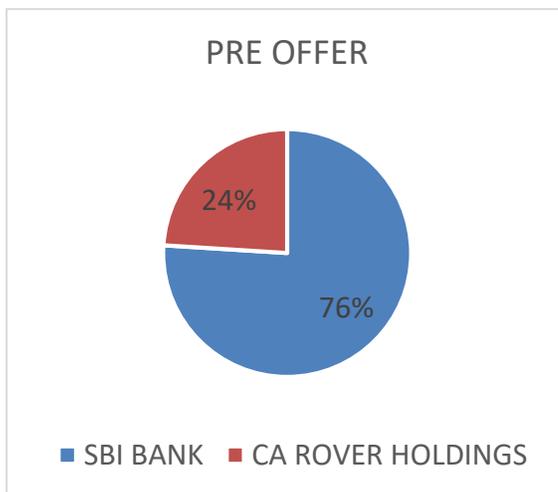
(Rs. in Crores)

<u>Particulars</u>	<u>31.03.2017</u>	<u>31.03.2018</u>	<u>31.03.2019</u>	<u>H1FY20</u>
<b>Revenue from operations</b>	3346	5187	7000	6843
<b>Expenses</b>				
Employee benefit expense	95	193	390	210
Impairment losses and bad debt	532	800	1148	726
<b>Total operating expense</b>	2366	3715	4857	2973
<b>EBITDA</b>	980	1472	2142	1391
<b>Depreciation and amortization</b>	5	24	81	48
<b>Other income</b>	125	183	288	313
<b>EBIT</b>	1100	1631	2349	1656
<b>Finance cost</b>	528	712	1017	621
<b>PBT</b>	250	919	1332	1035
<b>Tax</b>	199	318	469	309
<b>PAT</b>	51	601	863	726
<b>Re-adjusted EPS</b>	0.6	6.4	9.3	7.8

## INCREASING TREND IN INTEREST INCOME AND INTERCHANGE FEES



## Shareholding Pattern:



## Investment Rationale:

### 1. Supported by strong brand name and established promoter:

The company Promoter, SBI, is India's largest commercial bank in terms of deposits, advances and number of branches as of September 30, 2019, according to the RBI. Their relationship with SBI provides SBI Card with access to SBI's extensive branch network of 21,961 branches across India and enables them to market their credit cards to SBI's largely untapped customer base comprising 44.5 crore customers as of December 31, 2019. SBI Cards is the second largest player in the credit card industry with a strong and trusted brand name among people. It also has the benefit of obtaining short term funds at a lower rate from its parent.

### 2. Robust distribution network and customer acquisition:

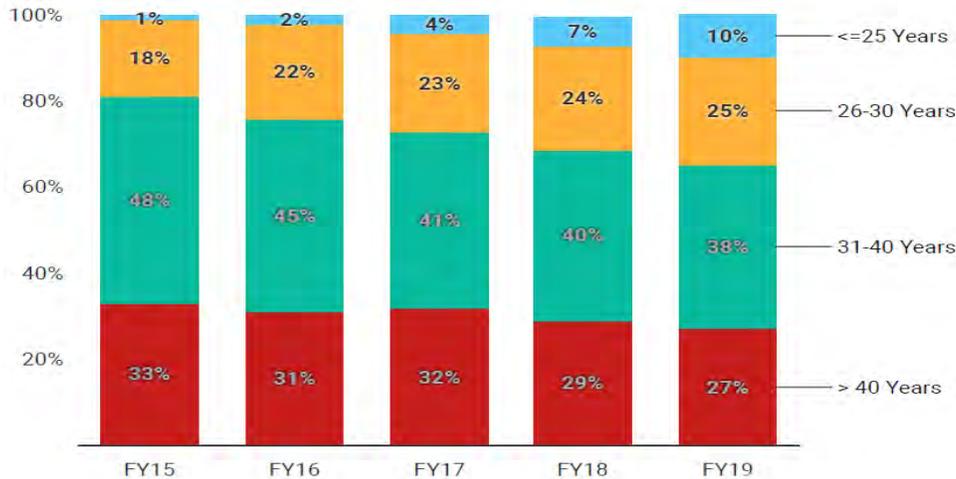
The company is the leader in acquiring customers through open market operations. So, it not only has the banca channel but also have a sales force of 32,677 outsourced sales personnel as of December 31, 2019 operating out of 145 Indian cities and which engages prospective customers through multiple channels. They have also integrated their digital customer acquisition platform with the SBI YONO interface, which enables them to market their products to SBI's customers through the SBI YONO mobile application Also, with the increasing use of technology and awareness of credit products among rural area SBI Cards will be the one in tapping the market.

### 3. Origination among Millennials and NTC Customers:

**New-to-Credit (NTC)** customers are those who get their bureau recorded for the first time. As there is lower penetration in smaller cities, number of NTC customers originations has increased at a CAGR of 20% to reach 3.0 million in fiscal 2018 in the last three years where SBI cards has opened huge proportion of NTC customers in the past three years.

	As of and for the year ended March 31,			As of and for the nine months ended December 31,	
	2017	2018	2019	2018	2019
<b>Accounts</b>					
Total accounts in force (millions) <sup>(1)</sup> .....	3.90	5.62	7.61	6.88	9.32
Total new-to-credit accounts (%) <sup>(2)</sup> .....	17.5%	21.6%	24.5%	28.8%	16.2%
Salaried cardholders (%) <sup>(3)</sup> .....	90.4%	89.0%	86.7%	87.6%	85.4%
Self-employed cardholders (%) <sup>(4)</sup> .....	9.6%	11.0%	13.3%	12.4%	14.6%
30-day active accounts (%) <sup>(5)</sup> .....	54.1%	57.0%	55.9%	56.4%	55.1%
90-day active accounts (%) <sup>(6)</sup> .....	69.0%	69.5%	67.8%	69.8%	68.6%
Total new accounts (millions) <sup>(7)</sup> .....	1.24	2.53	2.84	1.88	2.56

The proportion of credit card originations among millennials (persons below 30 years of age) has increased over the last four years from 19.0% in fiscal 2015 to 35.0% in fiscal 2019, and the share of customers below 25 years of age has increased ten-fold from fiscal 2015 to fiscal 2019. Also, with the attitudinal shift among millennials to take debt and increase in consumer discretionary spending, going forward the credit card penetration among millennials might increase manifold.



### Key Concerns:

- 1. Sustainability in growth:** This is the industry specific risk that there might be the removal of MDR charges (already in place for debit cards) and also the imposition of cap on interchange fees (already in place in foreign countries) which will hit the revenue of the company as 60-65% of the MDR charges are given to the card issuing bank. Also, with the increasing awareness among people, if there is increasing trend of timely payment among people then it will result in reducing interest income. So, it is a doubt that whether this growth will be sustainable or not due to this regulatory risk, asset quality risk and also its operational efficiency risk.
- 2. Disruption from Paytm, UPI and other emerging technologies:** There is a huge competition from Paytm, as recently Paytm Payments bank has launched its credit card named as Paytm First Card which will bring threat to already existing credit cards in the market. Paytm was introduced in 2010, in just 10 years it has 150 million “active” users and has 40mn outstanding debit cards in use. The pace at which it is growing is commendable which again brings a threat to the company. No doubt that these are just the platforms and not the credit issuing companies, they might increase the competition and not just disrupt it. So SBI cards has to continuously update its technology and increase its rewards as a percentage of its total spends in order to acquire and sustain its customers along with it to remain profitable.
- 3. Entry of NBFC in this industry:** Currently SBI cards and BOB are the only NBFCs who are permitted by RBI to issue credit cards while other issuers are the banks. So going forward if other NBFCs are allowed to issue credit cards on their own then it may lead to increase in competition to the company and hamper its profitability.

### Our View:

We recommend to **“SUBSCRIBE”** the IPO of SBI Cards and Payments Services Limited considering new industry with very low penetration along with its sound track record of operating performance.

**Report Prepared by:**

**Value Addition Team.**

**Concept Securities Private Limited.**

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