



# SBI CARDS & PAYMENT SERVICES LTD

## IPO

PRICE BAND : ₹ 750–₹ 755

*OUR RECOMMENDATION*

**“SUBSCRIBE”**

# **THE OFFER**

**Issue Open : 02<sup>nd</sup> March 2020 to 05<sup>th</sup> March 2020**

»»» **Issue Type:** Book Built Issue IPO

»»» **Total Issue Size:** ₹ 10,354.77 cr

**Fresh issue:** 6,622,517 Equity Shares @ 10 aggregating up to ₹ 500 cr

**Offer for sale:** 130,526,798 Equity Shares @ 10 aggregating up to ₹9854.77

»»» **Face Value:** ₹ 10 Per Equity Share

»»» **Issue Price:** ₹ 750 - ₹ 755 Per Equity Share

»»» **Employee Discount:** ₹ 75 Per Equity Share

»»» **Market Lot:** 19 Shares

»»» **Minimum Order Quantity:** 19 Shares

»»» **Listing At:** NSE & BSE



# **CAPITAL STRUCTURE**

**The share capital of Company, is set forth below:-**

(Amount in ₹ except share data)

**Authorized Share Capital :-**

1,500,000,000 Equity Shares @10 Aggregate value ₹ 15,000,000,000

**Issued, subscribed and paid up capital before the Offer :-**

932,334,278 Equity Shares @10 Aggregate value ₹ 9,323,342,780

**Fresh Issue:-**

6,622,517 Equity Shares @ 10 aggregating up to ₹ 500 cr

# **OBJECT OF THE OFFER**

**The objects of the Offer are:**

- To utilize the Net Proceeds from the Issue towards augmenting capital base to meet future capital requirements.
- To achieve the benefit of listing the equity shares on the Stock Exchanges.
- Means of Finance



# **COMPANY OVERVIEW**

Incorporated in 1998, SBI Cards and Payment Services Limited is a subsidiary of SBI, India's largest commercial bank in terms of deposits, advances and the number of branches. SBI currently holds (along with its nominees) 689,927,363 Equity Shares, constituting to 74.00 % of the pre-Offer issued, subscribed and paid-up Equity Share capital of the Company. **Post the stake sale, SBI will hold a 63.55 % stake in the company and is expected to strengthen its Tier I ratio by 37 bps.**

**SBI Cards is the second-largest credit card issuer in India (behind leader HDFC bank) with credit card base and credit card spends capturing 18.1% and 17.9% market share in the respective categories, as of November 2019.** With remarkable growth & profitability, the total credit card spends & credit cards outstanding grew at a CAGR of 34.5% & 54.2% (March 2017 to March 2019).

**It has 18 co-branded partnerships, the highest in the industry compared to other players, followed by ICICI Bank at 12 and RBL Bank at 8.** Also, as SBI Card is supported by strong brand, provides access to SBI's extensive branch network (21,961 branches) across India, which enables to market its cards to SBI's vast customer base comprising 445.5 million customers as of December 2019.

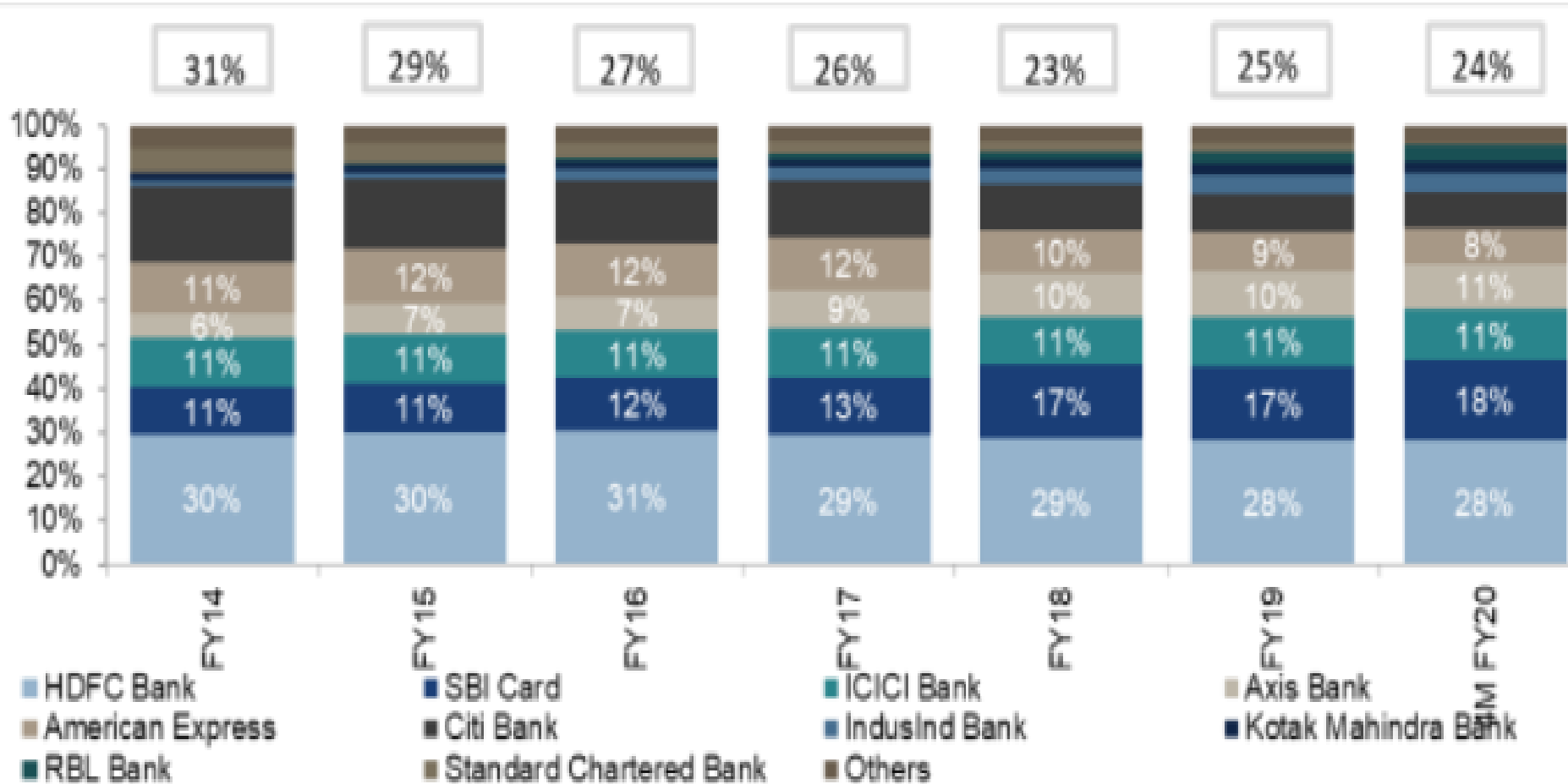
- ▶▶ Partnership with SBI in particular has the potential to become a significant source of new customer acquisitions in the future.
- ▶▶ SBI Cards has partnered with leading brands across industries including Air India, Apollo Hospitals, BPCL, Etihad Guest, Fbb, IRCTC, OLA Money and Yatra, amongst others.
- ▶▶ **Launched 6 new products in nine months ended December 31, 2019, as compared to 4 new products in fiscal 2019 and 6-7 new products in fiscals 2018 and 2017, respectively.**

# COMPETITIVE SCENARIO IN CREDIT CARD INDUSTRY

## **Concentrated market – top 4 players account for two-third of credit card spends :**

There are a total of 74 players offering credit cards in India, with the top three private banks (HDFC Bank, Axis Bank and ICICI Bank) and SBI Card, as the leading pure-play credit card issuer, dominating the credit card business with a total of approximately 72.0% market share by number of outstanding credit cards as of March 2019 and approximately 66.0% market share by credit card spends in FY 2019. According to CRISIL, top players, such as HDFC, SBI Card, ICICI and Axis Bank, are expected to continue to account for approximately 70.0% market share of overall credit card outstanding as of FY 2020.

# Breakdown of market share in terms of total credit card spends





**SBI Card has the highest market share in terms of incremental cards in force across different periods:**

SBI Card has the highest market share in terms of incremental cards in force across different time periods with 45.0% market share in the last one month (1M), 27.0% in the past six months (6M) and approximately 23.0% in the past 12 months (12M), 24 months (24M) and 36 months (36M) from July 2019. SBI Card has been able to continuously gain market share in terms of incremental cards in force in the industry over the years. This is followed by ICICI Bank which grew at a similar pace to that of SBI Card.

# PEER COMPARISON

**Below table summarizes and compares the operating parameters of key players in the credit card industry.**

	FY14	FY15	FY16	FY17	FY18	FY19	Market share as of FY19	CAGR growth
Number of credit cards in force (in million)								
HDFC Bank	5.1	6.0	7.3	8.5	10.7	12.5	27%	19%
SBI Card	2.9	3.2	3.6	4.6	6.3	8.3	18%	24%
ICICI Bank	3.2	3.3	3.7	4.3	5.0	6.6	14%	16%
Axis Bank	1.4	1.7	2.4	3.3	4.5	6.0	13%	34%
Citi Bank	2.4	2.4	2.4	2.5	2.7	2.7	6%	2%
Number of transactions (in million)								
HDFC Bank	161	198	253	333	405	486	27%	25%
SBI Card	65	78	110	155	212	280	16%	34%
ICICI Bank	72	91	109	150	189	241	14%	27%
Axis Bank	27	41	59	88	128	168	9%	44%
Citi Bank	96	112	131	173	219	239	13%	20%



# **STRATEGIES AHEAD**

- Stimulate growth in credit card transaction volumes
- Expand customer acquisition capabilities to grow cardholder base
- Tap into new cardholder segments by broadening portfolio of credit card products
- Continue to optimize risk management processes
- Continue leveraging technology across operations
- Enhance cardholder experience

# **STRENGTHS**

- Supported by a strong brand and pre-eminent Promoter
- Second largest credit card issuer in India with deep industry expertise and a demonstrated track record of growth and profitability
- Diversified customer acquisition capabilities
- Diversified portfolio of credit card offerings
- Leading player in open market customer acquisitions using physical and digital channels in India.
- Modern and scalable technology infrastructure
- Has the highest market share in terms of incremental cards in force across different periods

# **FINANCIAL HIGHLIGHTS**

*Diversified revenue model whereby it generate both non-interest income as well as interest income on credit card receivables. The share of revenue from operations derived from non-interest income has steadily increased over past three fiscal years, from 43.6% in FY 2017 to 48.9% in FY 2019.*

- Total income increased from ₹3471.03 Cr. in FY 2017 to ₹7286.83 Cr. in FY 2019 at a CAGR of 44.9% and revenues from operations have increased from ₹3346.20 Cr in FY 2017 to ₹ 6999.11 Cr. in FY 2019 at a CAGR of 44.6%.
- Net profit increased from ₹372.86 Cr. in FY 2017 to ₹ 862.72 Cr. in FY 2019 at a CAGR of 52.1%.
- Average EPS in last 3 years is ₹7.97 and in FY2019 at ₹ 9.43. For 9 months ended Dec-2019, EPS stood at ₹12.45.

# FINANCIAL HIGHLIGHTS

- Company has been maintaining an ROE of over 25% , stood at 30% in FY19, 32.40 % in FY18 and 28.60% in FY 17
- NII increased nearly 25% Y-o-Y to ₹2558.50 crores in FY 19 compared to ₹1359.72 crores and ₹2048.46 crores in FY 17 & FY 18 respectively
- Total assets stood at ₹25993.46 crore as at December 2019 and ₹20239.63 as on March 2019.
- Net worth of the company jumped 147 % to ₹ 3,581.72 crore in FY19 over ₹1,448.81 crore in FY17.
- Pre-provision operating profit increased 9.74 % to ₹ 2,720.70 crore for the nine-month ended December 2019 as against ₹ 2,479.30 crore and ₹ 17,194 crore in FY19 and FY18, respectively.

# **FINANCIAL HIGHLIGHTS**

- ROAE has remained stable at 28.5% in FY 2017 and 28.4% in FY 2019, while ROAA increased from 4.0% in FY 2017 to 4.8% in FY2019.
- Interest on revolving credit card balances and monthly installment balances comprised 51.7% and 51.0% of total revenue from operations in the nine months ended December 31, 2018 and 2019 , respectively, as compared to 51.1% in FY2019, 53.2% in FY2018 and 56.4% in FY 2017.
- As of December 31, 2019, and March 31, 2019, cash and bank balances were ₹5,07.77 Cr. and ₹ 7,76.77 Cr., respectively. As of December 31, 2019, and March 31, 2019, undrawn borrowing facilities totaled at ₹21,97.75 Cr and ₹3682.63 Cr., respectively.
- Gross NPA during the first nine months of FY20 was at 2.47 % while net NPA was at 0.83 %.



# RESULTS SNAPSHOT

	Nine months ended December 31,		% change
	2018	2019	
(₹ in millions, except percentages)			
<b>Revenue from Operations</b>			
Interest Income.....	26,263.29	34,930.73	33.0%
Income from fees and services .....	21,586.21	30,192.68	39.9%
Service Charges.....	814.22	824.57	1.3%
Business development incentive income .....	1,429.58	2,403.68	68.1%
Insurance commission income .....	64.16	79.93	24.6%
Net gain on fair value changes .....	681.78	(1.04)	(100.2%)
<b>Total Revenue from operations .....</b>	<b>50,839.24</b>	<b>68,430.55</b>	<b>34.6%</b>
<b>Other Income.....</b>	<b>1,947.52</b>	<b>3,971.01</b>	<b>103.9%</b>
<b>Total Income .....</b>	<b>52,786.76</b>	<b>72,401.56</b>	<b>37.2%</b>
<b>Expenses</b>			
Finance costs.....	7,425.65	9,663.66	30.1%
Employee benefits expenses.....	2,879.66	3,344.46	16.1%
Depreciation, amortization and impairment .....	581.05	740.38	27.4%
Operating and other expenses.....	24,431.51	31,412.05	28.6%
CSR expenses.....	33.60	33.68	0.2%
Impairment losses & bad debts.....	7,960.16	11,020.60	38.4%
<b>Total expenses.....</b>	<b>43,311.63</b>	<b>56,214.83</b>	<b>29.8%</b>
<b>Profit before tax.....</b>	<b>9,475.13</b>	<b>16,186.73</b>	<b>70.8%</b>
<b>Tax expense</b>			
Current tax charge / (credit) .....	3,386.93	4,242.47	25.3%
Current tax charge / (credit) - prior periods.....	61.16	38.05	-37.8%
Deferred tax charge / (credit) .....	(118.11)	294.14	-349.0%
<b>Total Tax Expenses .....</b>	<b>3,329.98</b>	<b>4,574.66</b>	<b>37.4%</b>
<b>Profit after tax for the period.....</b>	<b>6,145.15</b>	<b>11,612.07</b>	<b>89.0%</b>

# RESULTS SNAPSHOT

	Year ended March 31,		% change
	2018	2019	
(₹ in millions, except percentages)			
<b>Revenue from Operations</b>			
Interest Income.....	27,599.80	35,757.12	29.6%
Income from fees and services .....	21,772.67	30,720.37	41.1%
Service Charges.....	796.13	1,258.59	58.1%
Business development incentive income .	1,628.40	2,166.73	33.1%
Insurance commission income .....	72.75	87.26	19.9%
Net gain on fair value changes .....	0.00	1.04	-
<b>Total Revenue from operations.....</b>	<b>51,869.75</b>	<b>69,991.11</b>	<b>34.9%</b>
Other Income.....	1,832.17	2,877.24	57.0%
<b>Total Income .....</b>	<b>53,701.92</b>	<b>72,868.35</b>	<b>35.7%</b>
<b>Expenses</b>			
Finance costs.....	7,115.12	10,172.11	43.0%
Employee benefits expenses.....	1,930.88	3,904.03	102.2%
Depreciation, amortization and impairment .....	244.93	811.01	231.1%
Operating and other expenses.....	27,119.22	33,045.92	21.9%
CSR expenses.....	97.75	141.85	45.1%
Impairment losses & bad debts.....	8,000.58	11,477.42	43.5%
<b>Total expenses.....</b>	<b>44,508.48</b>	<b>59,552.34</b>	<b>33.8%</b>
<b>Profit before tax.....</b>	<b>9,193.44</b>	<b>13,316.01</b>	<b>44.8%</b>
<b>Tax expense</b>			
Current tax charge / (credit) .....	2,854.91	5,403.12	89.3%
Current tax charge / (credit) - prior years	(192.06)	71.49	-137.2%
Deferred tax charge / (credit) .....	519.17	(785.82)	N.M.
<b>Total Tax Expenses .....</b>	<b>3,182.02</b>	<b>4,688.79</b>	<b>47.4%</b>
<b>Profit after tax for the year .....</b>	<b>6,011.42</b>	<b>8,627.22</b>	<b>43.5%</b>

# RISK FACTORS

- Face competition in the credit card market from other credit card issuers and payment solutions providers
- Face huge competition from banks, NBFCs, and payment banks.
- Any loss/reduction in level of support from promoter (SBI) and 100 % unsecured lending with no collateral could have adversely impact on company
- Dependency on third-party payment networks to operate credit card business.
- Growth depends on ability to retain existing co-brand partners and attract new co-brand partners.

# VALUATION

Second-largest credit card issuer in India (nearly 18 % market share), healthy financial ratios and fundamentals, SBI's strong parentage, niche business, and first listing in particular industry, provides ample scope for growth momentum.

*Even, credit cards business has a good prospective in future as younger people prefer to use them for consumption needs. Also, company is well positioned to take advantage of rising trend of digital payments in future.*

***On the upper price band of ₹ 755, with estimated EPS at ₹16.6 for FY 20, the stock is currently available at a P/E ratio of 45.48x.***

***Given, top 4 players including SBI dominating more than 70% market share (FY19) and extreme growth outlook, SBI Cards commands high P/E and will get advantage for the same. Thus, could give premium valuations.***

***Therefore, we recommend to SUBSCRIBE the IPO for listing gains as well as for long term perspective.***

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