

# SBI Cards and Payment Services Ltd

**AXIS Securities**
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## Issue Highlights

- Incorporated in 1998, SBI Cards and Payment Services (SBIC) is the second-largest credit card issuer in India (next to HDFC Bank), with 18% market share of the Indian credit card market in terms of the number of credit cards outstanding and 17.9% market share in terms of total credit card spends as on September 2019.
- SBIC offers an extensive credit card portfolio to individual cardholders and corporate clients which includes lifestyle, rewards, travel and fuel, shopping, banking partnership cards and corporate cards covering all major cardholder segments in terms of income profiles and lifestyles.
- State Bank of India (SBI) owns 74% in the company and the rest is owned by CA Rover (controlled by Carlyle Group). Prior to December 2017, SBI had 60% stake with GE Capital owning remaining 40%. In December 2017, GE Capital completely exited from the company. Post this event, SBI increased its stake to 74% while CA Rover bought the remaining 26% stake.
- As a subsidiary of SBI, the company has access to SBI's extensive network of 22,007 branches across India. The partnership enables it to market its cards to a huge customer base of 43.6 cr customers. SBIC has partnered with several leading names across industries, including Air India, Apollo Hospitals, BPCL, Etihad Guest, Fbb, IRCTC, OLA Money and Yatra, amongst others
- SBIC has a diversified revenue model whereby the company generates both non-interest income (primarily comprised of fee-based income such as interchange fees, late fees and annual fees, among others) as well as interest income on credit card receivables. Share of non-interest income has steadily increased over the past three years, from 43.6% in FY17 to 48.9% in FY19.
- The company's total income increased at a CAGR of 44.9% and the revenues from operations have increased at a CAGR of 44.6% between FY2017 to 2019. The net profit grew at a CAGR of 52.1% during the period.

## Valuations

- The issue is priced at ~48x 1HFY20 EPS (annualised) of Rs 15.6 and ~16x BVPS. It does not have any listed peers on domestic stock exchanges.

## Objects of the issue

| Purpose  | Amt (Rs cr) |
|--|-------------|
| Offer for Sale   | 9790-9855   |
| Fresh Issue - Augmenting capital base to meet company's future capital requirements. | 500         |

## Financial summary

| Period | Net Income | PAT   | EPS  | BV   | ROA | ROE  |
|--------|------------|-------|------|------|-----|------|
| FY2017 | 2942.6     | 372.8 | 4.8  | 18.5 | 4.0 | 28.6 |
| FY2018 | 4658.7     | 601.1 | 7.4  | 29.8 | 4.5 | 31.6 |
| FY2019 | 6269.6     | 862.7 | 9.4  | 39.9 | 4.8 | 29.1 |
| 1HFY20 | 4055.9     | 725.9 | 15.6 | 47.0 | 6.5 | 36.8 |

Source: Company, Axis Sec, 1HFY20 Annualised EPS

## Issue highlights

**Issue size:** Rs 10290 Cr – 10355 Cr  
**Offer for sale:** Rs 9790 Cr – 9855 Cr  
**Fresh Issue:** Rs 500 Cr  
**No. of shares:** 13.719 Cr – 13.715 Cr  
**Face value:** Rs 10

## Issue summary

**Price:** Rs 750 – Rs 755  
**Bid lot:** 19 shares  
**Issue opens:** March 2, 2020  
**Issue closes:** March 5, 2020  
**Tentative Listing:** March 16, 2020  
**Lead managers:** Kotak, Axis Capital, BOFA, HSBC  
**Registrar:** Link Intime India

## Shareholding (%)

|                   | Pre-issue | Post-issue |
|-------------------|-----------|------------|
| Promoter-SBI      | 74.0      | ~70.0      |
| Investor-CA Rover | 26.0      | ~16.0      |
| Public            | 0.0       | ~14.0      |
| Total             | 100       | 100        |

|                             | Pre issue | Post issue #  |
|-----------------------------|-----------|---------------|
| Number of shares (In crore) | 93.23     | 93.896/93.900 |

# Lower price Band/ Upper Price Band

## Issue break-up

| Category          | No. of shares (in cr) # | % of issue |
|-------------------|-------------------------|------------|
| QIB               | 6.860 – 6.857           | 50         |
| Non-institutional | 2.058 – 2.057           | 15         |
| Retail            | 4.802 – 4.800           | 35         |

# Lower price Band - Upper Price Band

## BUSINESS OVERVIEW

SBIC is the second-largest credit card issuer in India, with 18% market share of the Indian credit card market in terms of the number of credit cards and 17.9% market share of the Indian credit card market in terms of total credit card spends as on September 2019.

The company offers an extensive credit card portfolio to individual cardholders and corporate clients which includes lifestyle, rewards, travel and fuel, shopping, banking partnership cards and corporate cards covering all major cardholder segments in terms of income profiles and lifestyles.

SBIC started operations in 1998, and since then SBI's parentage has helped to quickly establish a reputation of trust, reliability and transparency with cardholders. Its business has grown faster than the Indian credit card market over the past three years both in terms of numbers of credit cards outstanding and amounts of credit card spends. From FY17 to FY19, total credit card spends grew at a 54.2% CAGR (as compared to a 35.6% CAGR for the overall credit card industry) and the number of credit cards outstanding grew at a 34.5% CAGR (as compared to a 25.6% CAGR for the overall credit card industry).

SBIC has a sales force of 33,086 outsourced sales personnel operating out of 133 Indian cities 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, as well as through tele-sales, online channels, email, SMS marketing and mobile applications.

SBIC has a presence in 3,009 open market points of sale across India as of September 30, 2019. In addition, partnership with SBI provides with access to SBI's extensive network of 22,007 branches across India, which enables to market credit cards to SBI's vast customer base of 43.6cr customers as FY19.

Total income increased from Rs 3471 crs in FY17 to Rs 7286 crs in FY19 at a CAGR of 44.9%. Net profit increased from Rs 373 crs in FY17 to Rs 862 crs in FY19 at a CAGR of 52.1%. ROAA has increased from 4.0% in FY17 to 4.8% in FY19.

## STRENGTHS

### Second largest credit card issuer in India

SBIC is the second-largest credit card issuer in India both in terms of numbers of credit cards outstanding and amounts of credit card spends, with 94.6 lac credit cards outstanding as on September 2019. It is the largest pure-play credit card issuer in India with 20 years' operating history. From March 31 2017 to March 31, 2019, total credit card spends grew at a 54.2% CAGR (as compared to a 35.6% CAGR for the Indian credit card industry, according to the RBI) and the number of our credit cards outstanding grew at a 34.5% CAGR (as compared to a 25.6% CAGR for the Indian credit card industry, according to the RBI). During that same period, revenues from operations increased from Rs 3346.2cr in FY17 to Rs 6999.1cr in FY19 at a CAGR of 44.6%, while net profit increased from Rs 372.8cr in FY17 to 862.7cr in FY19 at a CAGR of 52.1%.

### Diversified customer acquisition capabilities

SBIC has a diversified customer acquisition network that allows engagement of prospective customers across multiple platforms, which is a key strength and competitive advantage. It is the leading player in open market customer acquisitions in India. SBIC deploys a sales force of 33,086 outsourced sales personnel operating out of 133 Indian cities and engages prospective customers through multiple channels, including physical points of sale, telesales and online. When a point of sale is not directly managed by the company, SBIC works with 11 non-bank co-brand partners and seven co-brand bank partners using their distribution network, communication channels and customer interactions to market credit card products to their existing customers. Collectively with co-brand partners, company is present in 3,009 open market physical points of sale in India. Out of the aforesaid outsourced sales personnel, 4,350 outsourced workforce is for tele-sales.

### Supported by a strong brand and pre-eminent Promoter

Brand, reputation and cardholder satisfaction are critical factors in developing the credit card business and improving market position. Substantially all of the credit cards carry the SBI Card brand, which is a highly trusted and recognizable brand in India. The SBI Card brand has been awarded Reader's Digest "Most Trusted Brand" in India award in the credit card category 11 times since 2008, and it won The Economic Times' "Best BFSI Brand" in India award in the credit cards category in 2019. According to a brand track survey

conducted by Kantar IMRB in 2019, the SBI Card brand had attained 100% total awareness and 34% top-of-mind awareness recall among consumers as of December 31, 2018, the highest among all credit card brands surveyed. Promoter, SBI, is India's largest commercial bank and relationship with SBI provides access to SBI's extensive branch network of 22,007 branches across India and enables to market credit cards to SBI's largely untapped customer base comprising 43.6 cr customers as of March 31, 2019.

### **Diversified portfolio of credit card offerings**

SBIC's credit card portfolio caters to individual cardholders and corporate clients, and includes lifestyle, rewards, travel and fuel, shopping, banking partnership cards and corporate credit cards. The company offers four primary SBI branded credit cards: SimplySave, SimplyClick, Prime and Elite, each catering to a varying set of cardholder needs. In addition, SBIC is also the largest co-brand credit card issuer in India according to the CRISIL Report, and offer a wide portfolio of co-brand credit cards in partnership with several major players in the travel, fuel, fashion, healthcare and mobility industries, including Air India, Apollo Hospitals, BPCL, Etihad Guest, Fbb, the IRCTC, OLA Money and Yatra, among others.

### **Advanced risk management and data analytics capabilities**

SBIC's advanced risk management infrastructure is robust and data-intensive, both in terms of frequency and volume of review, and is guided by data analytics capabilities. The company evaluates a large number of data points to generate credit decisions. The company possesses a large database of cardholder demographic and socio-economic data (such as cardholders' purchase patterns, behaviors and payment histories) derived from the numerous transactions carried out by millions of cardholders each year. This information covers existing and historical cardholder accounts across all portfolios and is a significant business asset, enabling in-depth analysis of cardholder propensities and modeling of future performance. The company analyzes this data together with data obtained from credit bureaus and other sources to, among other things, generate underwriting scorecards tailored to cardholder demographics, proactively mitigate risks, and reduce losses and delinquencies. To more effectively monitor and manage existing cardholders' accounts, SBIC analyzes not just their behavioral score but also several other related variables. The company also reviews all of cardholder accounts on a monthly basis to minimize inconsistencies in the information underpinning those variables.

## STRATEGIES

**To become market leader in India's highly underpenetrated credit card market:** SBIC operates in the Indian credit card market, which presents significant growth potential due to its favorable demographic changes and relatively low credit card penetration rate. Over the past five years, India has undergone major demographic changes that have significantly benefited its business. India, which had traditionally been a high savings economy, began to shift toward increased consumption levels, with household savings as a percentage of GDP falling significantly from 24.0% in fiscal 2012 to 17.0% in FY18, and its mode of savings began to shift away from physical assets toward financial assets. Despite these favorable demographic changes, India's credit card markets still remain largely underpenetrated. In calendar year 2017, the average number of credit cards outstanding per 100 persons in India was 2.2 as compared to 320.0 in the United States, 42.0 in China and 73.0X in Brazil, and credit cards spends as a percentage of GDP stood at 3.0% as compared to 17.0% in the United States, 25.0% in Hong Kong and 12.0% in Brazil. India still has one of the highest levels of youth demographics with a median age of 26.8 as of FY15

**Expand customer acquisition capabilities to grow cardholder base:** As part of this strategy, company aims to increase the number of open market physical points of sale that are operating across India. In particular, the company is focused on increasing presence in India's tier II and tier III cities where cardholder base has historically been underrepresented, but which have contributed an increasing proportion of new accounts in recent years. SBIC also remains committed to entering into new co-brand partnerships, including with leading organized retail chains, online aggregators and financial marketplaces, to tap into new cardholder segments by cross-selling into new co-brand partners' customer base. Partnership with SBI in particular has the potential to become a significant source of new customer acquisitions in the future.

**Tap into new cardholder segments by broadening portfolio of credit card products:** SBIC intends to tap into new cardholder segments by continuing to expand portfolio of credit card products to meet the needs of existing cardholders and prospective customers, particularly by offering new credit card products tailored for different income-based and lifestyle segments. Among the planned new credit card product categories, SBIC intends to tap into

the super-premium segment by offering new credit cards tailored for the needs of high-net-worth cardholders.

**Stimulate growth in credit card transaction volumes:** As part of efforts to increase volumes, SBIC plans to increasingly leverage data analytics platform to deliver more targeted and timely offers to its cardholders. The company is especially focused on rolling out such offers to cardholders located in India's tier II and tier III cities, which have contributed an increasing proportion of new accounts in recent years.

**Enhance cardholder experience:** SBIC is focused on continuing to invest in digital and mobile capabilities to enhance cardholder experience. It is committed toward expanding the use of contactless card in the near future. The company will also continue promoting the use of digital credit cards, which are delivered directly to cardholders' mobile phones and provide them with an additional convenience factor.

## RISK FACTORS

- Competition in the credit card market from other credit card issuers
- Dependence on parent company/third party payment networks
- Regulatory intervention on interchange fee/MDR
- Unsecured portfolio in slowing economy
- Competition from peers

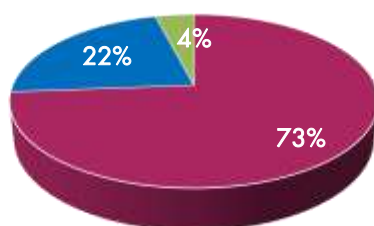
## INDUSTRY OVERVIEW

There are 74 credit card issuers in India, including the top-three Indian private banks (HDFC Bank, Axis Bank and ICICI Bank) and SBI Card – the leading pure-play credit card issuer. Credit card spends have registered robust growth, growing at a CAGR of 32.0% from FY15 to FY19, and growth is expected to continue to reach Rs. 15.0 trillion in total credit card spends for FY24. The Government’s vision of a cash-less society, digitalization, developments in e-commerce, and growth in POS infrastructure have encouraged the use of credit cards.

### Credit cards expected to grow at the fastest rate as part of the unsecured loans market

While personal loans form a major component of unsecured loans, credit cards outstanding is forecast to grow at the fastest pace of 23.0% CAGR over the next five years, driven by the rising issuance of cards in smaller cities, increasing organized retail penetration and growth in payments infrastructure.

### Unsecured loans Breakup



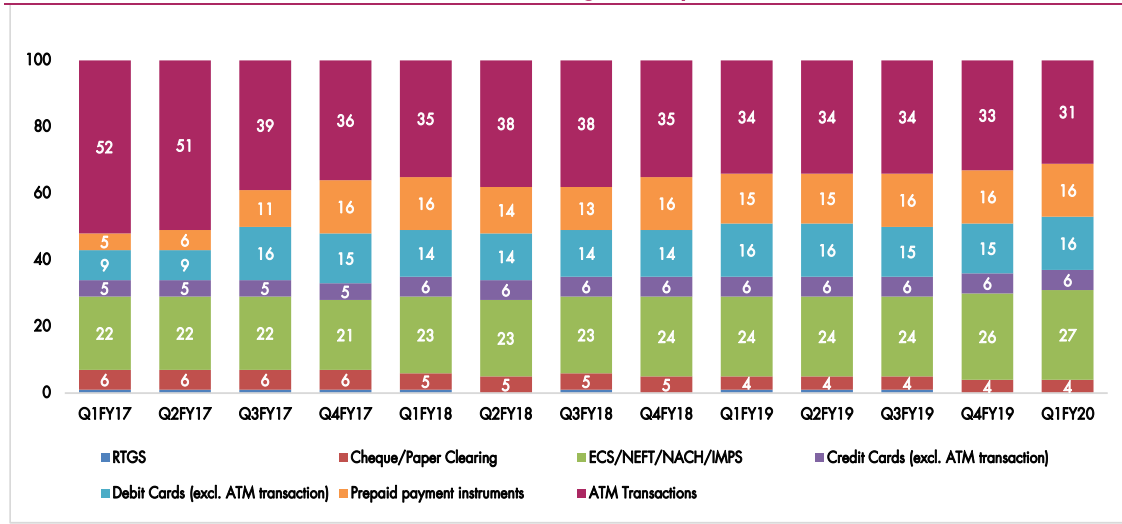
■ Personal loans ■ Credit Cards ■ Consumer Durables

Note: Data is for fiscal 2019. Source: CRISIL Research, Company

### Increasing share of digital channels in domestic payment transactions

The share of different channels in domestic money transfer has changed significantly over the past five years. Banks, for example, are witnessing a change in customer behavior, with fewer customers visiting bank branches for transactions. The figure below also depicts the significant increase in the use of credit cards, mobile banking and PPIs post demonetization in volume terms.

**Rise in use of credit cards/mobile banking/PPIs post demon in volume terms (%)**

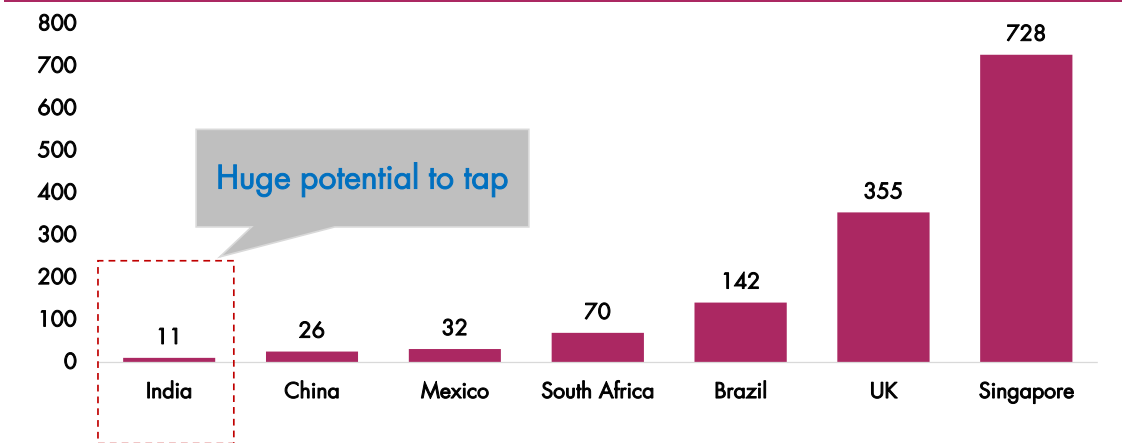


Source: RBI, CRISIL Research, Company

**Structural enablers for growth in the digital payments sector**

According to a NITI Aayog report (January 2017), per capita non-cash payment transactions (including digital payments) in India are among the lowest compared with similar countries, as depicted in the figure below.

**Non-cash payments transactions per capita per annum**



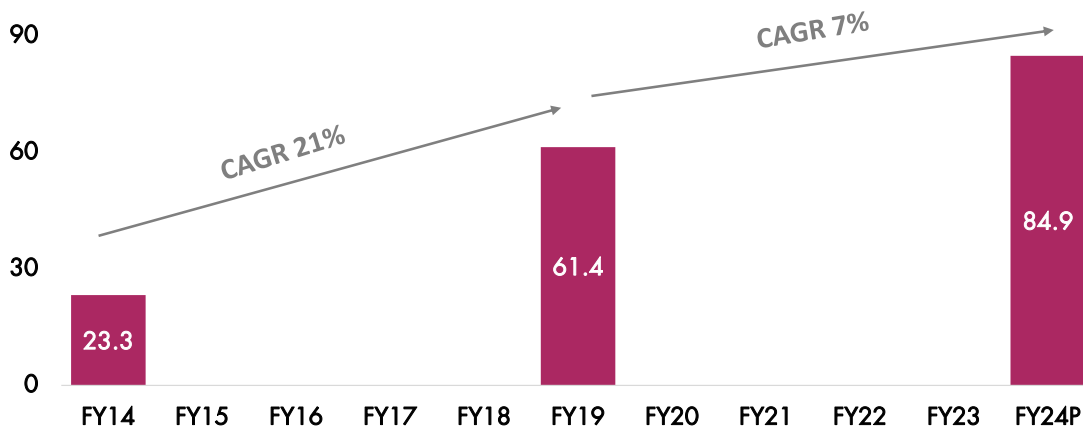
Source: NITI Aayog report (January 2017), Company



### Expansion of payment acceptance infrastructure

Higher mobile penetration, improved connectivity and faster data speed and cheapest data rates, supported by Aadhaar and bank account penetration have led India to shift from being a cash-dominated economy to a digital one. India has witnessed a drastic surge in internet users over the past few years with wireless data subscribers increasing from 23.3 cr in FY14 to 61.4 cr in FY19, registering a CAGR of 21%.

### Wireless data subscribers (Cr)

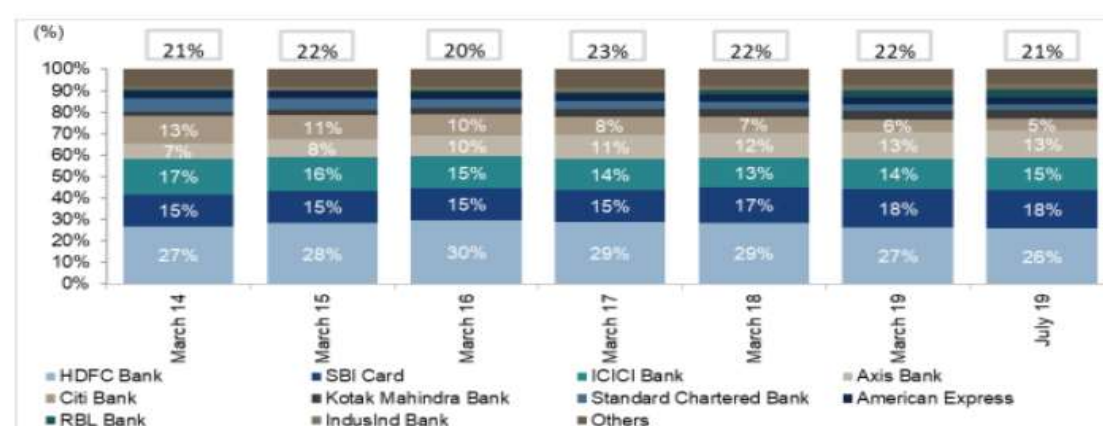


Note: E: Estimates, P: Projected, Source: TRAI, CRISIL Research, Company

## COMPETITIVE SCENARIO

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 businesses with a total of ~72% market share by number of outstanding credit cards as on March 2019 and ~66% market share by credit card spends in FY19.

### SBIC gradually increased market share



Note: Figures in box represents share of other players except top 5 players. Source: RBI, Company, CRISIL Research.

### Peer Key Parameters

|  | FY14  | FY15  | FY16  | FY17  | FY18  | FY19  | Market Share FY19 | CAGR growth |
|--|-------|-------|-------|-------|-------|-------|-------------------|-------------|
| <b>Number of credit cards in force (In cr)</b> |       |       |       |       |       |       |                   |             |
| HDFC Bank                                      | 0.51  | 0.6   | 0.73  | 0.85  | 1.07  | 1.25  | 27%               | 19%         |
| SBI Card                                       | 0.29  | 0.32  | 0.36  | 0.46  | 0.63  | 0.83  | 18%               | 24%         |
| ICICI Bank                                     | 0.32  | 0.33  | 0.37  | 0.43  | 0.5   | 0.66  | 14%               | 16%         |
| Axis Bank                                      | 0.14  | 0.17  | 0.24  | 0.33  | 0.45  | 0.6   | 13%               | 34%         |
| Citi Bank                                      | 0.24  | 0.24  | 0.24  | 0.25  | 0.27  | 0.27  | 6%                | 2%          |
| <b>Number of transactions (In cr)</b>          |       |       |       |       |       |       |                   |             |
| HDFC Bank                                      | 16.1  | 19.8  | 25.3  | 33.3  | 40.5  | 48.6  | 27%               | 25%         |
| SBI Card                                       | 6.5   | 7.8   | 11    | 15.5  | 21.2  | 28    | 16%               | 34%         |
| ICICI Bank                                     | 7.2   | 9.1   | 10.9  | 15    | 18.9  | 24.1  | 14%               | 27%         |
| Axis Bank                                      | 2.7   | 4.1   | 5.9   | 8.8   | 12.8  | 16.8  | 9%                | 44%         |
| Citi Bank                                      | 9.6   | 11.2  | 13.1  | 17.3  | 21.9  | 23.9  | 13%               | 20%         |
| <b>Average spend per transaction</b>           |       |       |       |       |       |       |                   |             |
| HDFC Bank                                      | 2,847 | 2,918 | 2,964 | 2,929 | 3,273 | 3,504 | -                 | 4%          |
| SBI Card                                       | 2,520 | 2,726 | 2,669 | 2,835 | 3,635 | 3,713 | -                 | 8%          |
| ICICI Bank                                     | 2,376 | 2,380 | 2,454 | 2,409 | 2,724 | 2,795 | -                 | 3%          |
| Axis Bank                                      | 3,243 | 3,350 | 3,098 | 3,257 | 3,453 | 3,695 | -                 | 3%          |
| Citi Bank                                      | 2,785 | 2,764 | 2,716 | 2,458 | 2,236 | 2,227 | -                 | -4%         |

Source: RHP

## COMPANY FINANCIALS

### Income statement

| Year End             | FY17    | FY18    | FY19    | 1HFY20  |
|----------------------|---------|---------|---------|---------|
| Interest Income      | 1,888.2 | 2,760.0 | 3,575.7 | 2,211.6 |
| Interest Expense     | 528.4   | 711.5   | 1,017.2 | 621.3   |
| Net interest income  | 1,359.7 | 2,048.5 | 2,558.5 | 1,590.2 |
| Non-Interest Income  | 1,458.0 | 2,427.0 | 3,423.4 | 2,152.4 |
| Net income           | 2,942.6 | 4,658.7 | 6,269.6 | 4,055.9 |
| Operating expenses   | 1,839.0 | 2,939.3 | 3,790.3 | 2,295.5 |
| Pre provision profit | 1,103.6 | 1,719.4 | 2,479.3 | 1,760.4 |
| Provisions           | 532.0   | 800.1   | 1,147.7 | 725.8   |
| Profit before tax    | 571.6   | 919.3   | 1,331.6 | 1,034.6 |
| Tax                  | 198.8   | 318.2   | 468.9   | 308.7   |
| Profit after tax     | 372.8   | 601.1   | 862.7   | 725.9   |

Source: Company, Axis Sec

### Balance sheet

| Year End                       | FY17     | FY18     | FY19     | 1HFY20   |
|--------------------------------|----------|----------|----------|----------|
| Equity                         | 785.0    | 785.0    | 837.2    | 932.4    |
| Reserves                       | 663.8    | 1,568.1  | 2,744.5  | 3,377.6  |
| Net worth                      | 1,448.8  | 2,353.1  | 3,581.7  | 4,309.9  |
| Borrowings                     | 7,729.5  | 10,414.8 | 12,453.7 | 16,181.0 |
| Other Liabilities & Provisions | 1,586.6  | 2,918.2  | 4,204.2  | 3,968.2  |
| Total liabilities              | 10,765.0 | 15,686.0 | 20,239.6 | 24,459.2 |
| Cash and bank                  | 282.9    | 472.7    | 776.8    | 492.7    |
| Investments                    | 0.0      | 0.0      | 1.5      | 1.5      |
| Loans                          | 9,982.9  | 14,045.5 | 17,908.7 | 22,279.5 |
| Others Assets                  | 499.2    | 1,167.8  | 1,552.7  | 1,685.5  |
| Total assets                   | 10,765.0 | 15,686.0 | 20,239.6 | 24,459.2 |

Source: Company, Axis Sec

### Key Ratios

| Year End | FY17 | FY18 | FY19 | 1HFY20* |
|----------|------|------|------|---------|
| NIM      | 15.3 | 16.5 | 15.5 | 15.3    |
| RoA      | 4.0  | 4.5  | 4.8  | 6.5     |
| RoE      | 28.6 | 31.6 | 29.1 | 36.8    |
| GNPA (%) | 2.3  | 2.8  | 2.4  | 2.3     |
| NNPA (%) | 0.8  | 1.0  | 0.8  | 0.8     |
| EPS      | 4.8  | 7.4  | 9.4  | 5.6     |
| BVPS     | 18.5 | 29.8 | 39.9 | 47.0    |

Source: Company, Axis Sec, \*Annualised

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