

2nd March 2020

SBI Cards –SUBSCRIBE

Investment Thesis

SBI Cards and Payment Services Ltd. (SBI Cards) is coming out with an initial public offering (IPO) on March 02, 2020. The Issue comprises of a fresh issue and an offer for sale. SBI Cards plans to issue new shares worth Rs.5,000mn and will offer 130.5mn equity shares for sale. The net proceeds of the fresh issue are proposed to be utilised for increasing the capital base to meet the future capital requirements.

SBI Cards is promoted by SBI, India's largest commercial bank in terms of deposits, advances and number of branches. Substantially all of its credit cards carry SBI Card brand, which is a highly trusted and recognizable brand in India. SBI Card is 2nd largest credit card issuer in India both in terms of numbers of credit cards outstanding and amounts of credit card spends, with 9.46mn credit cards outstanding and Rs.1,032.65bn total credit card spends in FY19. It operates a nationwide business with a substantial cardholder base spanning metro cities, tier-II and tier-III cities as well as its rural areas. It has a diversified revenue model whereby it generates both non-interest income as well as interest income on its credit card receivables. Its number of credit cards outstanding grew at a 34.5% CAGR as against 25.6% for the overall credit card industry.

Credit Card Industry has a total of 74 players offering credit cards in India and SBI Cards with the top three private banks (HDFC Bank, Axis bank and ICICI Bank) are the leading pure-play credit card issuer, dominating the credit card business with a total of ~72.0% market share by number of outstanding credit cards and ~66.0% market share by credit card spends in fiscal year 2019. Credit card spends in India has registered a robust growth, growing at a CAGR of 32.0% from fiscal 2015 to fiscal 2019 to reach Rs.6.0tn as of fiscal 2019. According to CRISIL Research, credit card spends is expected to grow at a healthy rate to reach Rs.15.0tn by the end of FY24E, which is 2.5 times from current level.

Financials

- During the past 5 years, revenue of SBI Cards grew at a CAGR of 37.3% while PAT grew at a CAGR of 24.1% in the same period.

Standal. (Rs.Mn.)	FY17	FY18	FY19	FY20E	FY21E
Revenue	33,462	51,870	69,991	80,490	92,563
EBITDA	15,786	21,214	24,516	28,193	32,422
% growth	82.3	34.4	15.6	15.0	15.0
PAT	3,729	6,011	8,627	9,921	11,409
EPS (Rs.) #	N.A.	N.A.	N.A.	N.A.	N.A.
P/E (x) *#	N.A.	N.A.	N.A.	N.A.	N.A.
RoE (%) #	N.A.	N.A.	N.A.	N.A.	N.A.

* At highest price band# Post listing
N.A. as Price Band is announced

IPO Details

Issue Open Date	02 March, 2020
Issue Close Date	05 March, 2020
Price Band (Rs.)	Rs 750-755
Issue Size (Rs. Mn)	Rs 10275cr -Rs10340.8cr
Issue Size (Shares)	13.72cr
Market Lot	19
Listing Exchanges	BSE / NSE
Face Value (Rs.)	10/-

Key Details

Fresh Issue	Equity of ~Rs. 50,000Mn
Offer for Sales	130,526,798 Equity Shares
Issue Type	100% Book Built Issue
Book Running Lead Manager	Kotak Mahindra Capital, Axis Capital, DSP Merrill Lynch, HSBC Securities, Nomura Financial Advisory and SBI Capital
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%

Key Business Highlights

- SBI Cards, incorporated in 1998, is the second-largest credit card issuer in India, with a 18.0% market share of the Indian credit card market in terms of the number of credit cards outstanding. SBI Card, a subsidiary of SBI, is a non-deposit-taking NBFC (NBFC-ND-SI) and only one among the two credit card issuers registered as an NBFC.
- SBI Cards offers an extensive credit card portfolio to individual and corporate clients which includes lifestyle, rewards, shopping, travel & fuel, banking partnership cards and corporate cards covering all major cardholder segments in terms of income profiles and lifestyles.
- SBI Cards' parentage and highly trusted brand has allowed it to quickly establish a reputation of trust, reliability and transparency with its cardholders.

Valuation

- SBI Cards has diversified its customer acquisition network, which allows it to engage prospective customers across multiple platforms. SBI Cards is the leading player in open market customer acquisitions in India with sales force of 33,086 outsourced sales staff operating out of 133 Indian cities and engaging prospective customers through multiple channels, including physical points of sale, tele-sales and online. Its partnership with SBI provides it with access to SBI's extensive network of over 22,000 branches across India, which enables it to market its credit cards to SBI's vast customer base. It complements its physical customer acquisition network through a broad offering of digital channels, including website and mobile application as well as online, email and SMS marketing capabilities.
- SBI Cards has a comprehensive and diverse portfolio of credit card products catering to individual and corporate clients. It is the largest co-brand credit card issuer in India and it offers 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, IRCTC, OLA Money and Yatra among others. Its ability to provide specialized credit card products across several cardholder segments allows it to deliver a more compelling value proposition, tap several specialized consumer segments and strengthen its long-term relationships with its clients.
- SBI Cards has developed an advanced risk management infrastructure, which are robust and data-intensive, both in terms of frequency and volume of review and is guided by its data analytics capabilities. It evaluates a large number of data points to generate its credit decisions. Its large database of cardholder demographic and socio-economic data covering existing and historical cardholder accounts across all portfolios, enables in-depth analysis of cardholder propensities and modeling of future performance. It analyzes this data together with data obtained from credit bureaus and other sources to generate underwriting scorecards.
- With second-largest credit card issuer in India, diversified its customer acquisition network, comprehensive and diverse portfolio of credit card products and advanced risk management infrastructure, we are recommending SUBSCRIBE to the IPO of SBI Cards.

Risk & Concern

- SBI Cards faces stiff competition not only from other credit card issuers but also from other payment solution providers.
- Inability to adapt rapidly changing technologies and introducing new products/services may impact future growth of SBI Cards negatively.
- Any cyber-attacks or other security breaches may have a material adverse effect on credit cards business of SBI Cards.

Graphs & Charts

Figure 1: Net Sales Trend

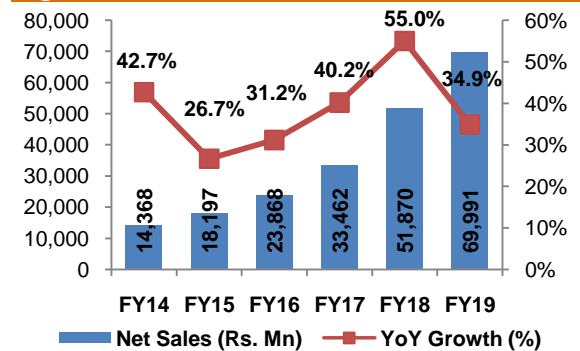


Figure 2: EBITDA & EBITDA Margin Trend

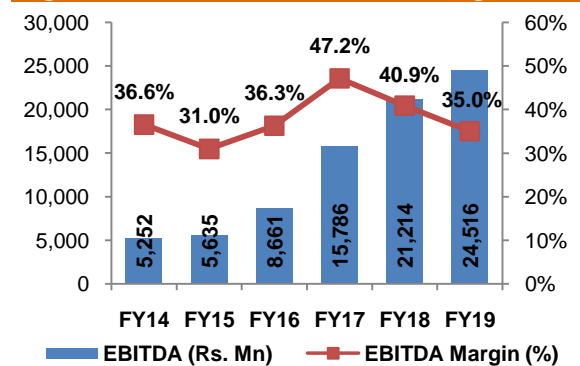


Figure 3: PAT Trend

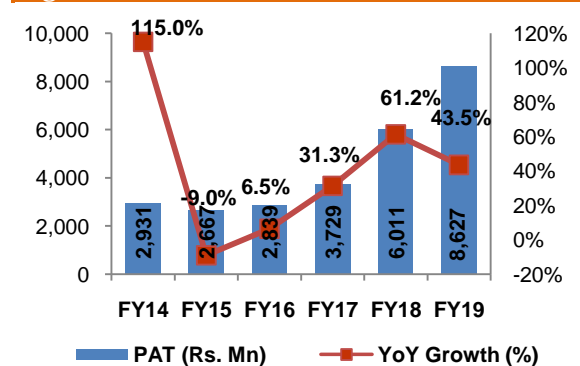
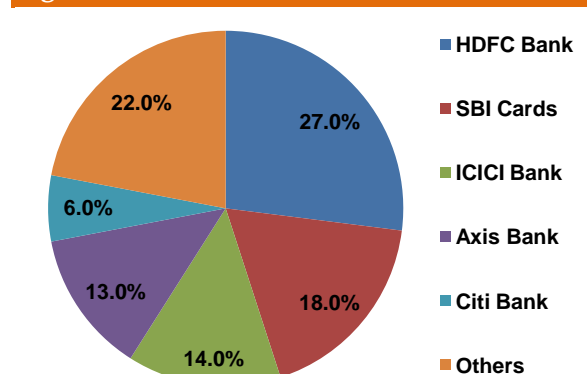


Figure 4: Market Share of Credit Cards



Team Details

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