

SBI Cards and Payment Service Ltd.

Sensex	38,144
Nifty	11,133

ISSUE DETAILS

Offer Price Band	₹750-755
Face Value	₹10
Issue Size (in mn)	₹103,511
Pre-issue shares (in mn)	932.3
Post-issue shares (in mn)	938.9
Market Cap (in mn. post issue)	₹7,08,945
Type	Offer for Sale & Fresh Issue
Promoters	State Bank of India
Listing (Stock Exchange)	NSE, BSE
Retail Allocation	35%
QIB Allocation	50%
Non-Insti Investors	15%
Min Bid	19 shares
Offer Open Date	02 nd Mar, 2020
Offer Close Date	05 th Mar, 2020
Website:	https://www.sbicard.com

Shareholding Pattern (%)	Pre-Offer	Post Offer
Promoter & Promoter Group	74%	70%
Carlyle	26%	16%
Public & Others	0%	15%

Investors should read the risk factors and more detailed information in the Prospectus and the application form before investing in the issue.

	(₹ mn)		
Year	FY18	FY19	9MFY20
Revenue	51,869	69,991	68,431
Growth%		34.9	
EBITDA	16,553	24,299	26,590
EBITDA Margins %	31.9	34.7	38.8
ReportedPAT	6,011	8,627	11,612
Reported EPS (₹)	7.40	9.43	12.45
Diluted EPS(₹)	7.40	9.43	12.45
Return on Net Worth (%)	25.0	24.0	24.0

Source: SBI Cards and Service Ltd. RHP

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Company Background

Incorporated in October 1998, SBI Cards started its operations as JV between SBI and GE Capital however GE Capital sold its stake to Carlyle Group & SBI in 2017. In April 2018, SBI Business Process and Management Services, a company providing backend payments and processing services to SBI Cards was merged with company and name was changed to SBI Cards and Payment Services Ltd in August 2019. It is the second-largest credit card issuer in India, with a 17.1% and 17.9% market share of the Indian credit card market in terms of total credit card spends in fiscal 2019 and in the six months ended September 30, 2019 respectively. The revenue model generates both non-interest income as well as interest income on credit card receivables, with the share of revenue from operations that derive from non-interest income having steadily increased over the past three fiscal years, from 43.6% in fiscal 2017 to 48.9% in fiscal 2019. Company has maintained strong earnings trajectory with revenue growth at ~60% CAGR to ₹69,991mn and net profit trajectory at ~52.1% CAGR to ₹8,627mn in FY19 with sustained return ratios.

Types of cards offered

- **Personal cards** – It mainly cater to two categories of customers – personal customers and corporate customers. Each category has different features and benefits. Banks and financial institutions offer a variety of cards to personal customers with different value propositions such as cashbacks, discounts or exclusive access to select facilities. The players charge annual credit card fees depending on the host of benefits and services provided on the card. Some players offer a zero-annual fee on credit cards in order to increase sales volume attracting new-to-credit card (“NTCC”) customers in particular.
- **Corporate card** – Corporate credit cards are designed for specific business requirements and are best suited for specific needs. These cards are mainly sourced through direct tie-ups with corporates or private companies and it offer real time data and faster reconciliation to its customers. According to CRISIL Research estimates, the proportion of corporate cards, both in terms of volume and value, stands at approximately 10.0% to 15.0%.
- **Co-branded cards** – Co-branded cards thus act as an important and differentiated product that offers additional value to customers. Co-branded cards refer to credit cards issued by players in conjunction with partners, which are usually consumer-facing entities with strong and loyal customer bases. The features of co-branded credit cards are designed to address specific needs of customers, thus increasing customer loyalty and further enhancing customer experience. Customers earn high reward points along with special offers and promotions for each transaction at partner merchants.

The table below compares the types of cards, fees and rewards structure of key players in the industry

	SBI Card	HDFC Bank	ICICI Bank	Axis Bank	RBL Bank	IndusInd Bank
Total number of cards offered	46	20	33	21	30	23
% of premium cards offered*	~40%	~20%	~45%	~25%	~25%	~70%
Range of fees for paid cards	500-5,000	500-10,000	200-10,000	250-10,000	500-5,000	250-25,000

Business Overview

Legacy of 20+ Years	SBI Holding 74% Stake
18% Market Share of Cards in Force 10.0mm Cards in Force	18% Market Share of Cards Spends ₹985bn Cards Spends
2 nd Largest Credit Cards Issuer	Largest Co-Brand Player (12 Retail and 9 Banking Co-Brand Partners)
RoAA of 4%+ since FY17	RoAE of 28%+ since FY17

Objects of The Issue

The Offer comprises of a Fresh Issue (₹5,000mn/6.67mn shares) and an Offer for Sale (₹97,875mn/130.5mn shares). The net proceeds of the Fresh Issue are proposed to be utilised for augmenting capital base to meet future capital requirements.

Business Strength & Strategy

- **Second largest credit card issuer in India with deep industry expertise and a demonstrated track record of growth and profitability** – According to RBI, SBI Cards is the second-largest credit card issuer in India both in terms of numbers of credit cards outstanding and amounts of credit card spends. Company believes that its position as a large-scale, leading market player provides them with significant operating efficiencies and helps to diversify some of their risks such as regional/geographical risks. From March 31, 2017 to March 31, 2019, company's 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).
- **Diversified customer acquisition capabilities** – SBI Cards deploys a sales force of 33,086 outsourced sales personnel as of September 30, 2019 operating out of 133 Indian cities engaging prospective customers through multiple channels including physical points of sale, telesales and online. When a point of sale is not directly managed by them, they work with their 11 non-bank co-brand partners and seven co-brand bank partners using their distribution network (including our co-brand partners' retail outlets), communication channels and customer interactions to market their credit card products to existing customers. They believe that their multichannel customer acquisition network provides them with broad reach into potential customers and has been one of the key factors to their success in building and developing their market-leading positions.
- **Advanced risk management and data analytics capabilities** – Company possess a large database of cardholder demographic and socio-economic data (such as their cardholders' purchase patterns, payment histories etc) derived from the numerous transactions carried out by millions of cardholders each year. They analyse this data together with data obtained from credit bureaus and other sources to generate underwriting scorecards tailored to their cardholder demographics, proactively mitigate risks, and reduce losses and delinquencies. As a hallmark of their robust data analytics and risk modelling capabilities, they have developed models that more accurately estimate risk for new-to-credit and new-to-card cardholders without a credit history. They see this capability as a distinct competitive advantage, as the CRISIL Report expects these cardholder segments to be key growth drivers for India's credit card market in the future.
- **Diversified portfolio of credit card offerings** – Company'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. They offer four primary SBI branded credit cards: SimplySave, SimplyClick, Prime and Elite, each catering to a varying

set of cardholder needs. They are 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. Their ability to provide such complementary product and service offers allows them to cross-sell in a more efficient manner while meeting the needs of their cardholders.

- **Modern and scalable technology infrastructure** – SBI Cards has scalable, modern and sophisticated technology infrastructure capable of servicing the entire credit card life cycle. Their core technology systems are capable of handling a much higher number of accounts and transaction volumes than they currently handle, which gives them the operating leverage to support the expansion of their cardholder base. Their technology systems also leverage artificial intelligence and process automation technologies across several of their platforms to automate routine activities, such as fraud disputes, collections functions, auto debit reconciliations and customer service, among others, which have increased its operating efficiencies. They believe that the cost and knowledge associated with the development, operation and maintenance of a technology system like theirs represents a significant barrier to entry for potential new entrants to the Indian credit card market. As a result, their technology infrastructure and systems are a key competitive strength.

➤ **Strategies:**

- **Expand their customer acquisition capabilities to grow cardholder base** – Company intends to grow cardholder base by expanding customer acquisition capabilities by increasing the number of open market physical points of sale that they operate across India. They are also focused on increasing their presence in India's tier II and tier III cities and also remain committed to entering into new co-brand partnerships with leading organized retail chains, online aggregators etc, to tap into new cardholder segments by cross-selling into their new co-brand partners' customer base and also intend to deepen their partnerships with existing co-brand partners to include digital penetration in addition to current physical presence at their retail locations. Thereby, SBI Cards aims to continue strengthening their brand recognition by increasing their marketing and brand value enhancement efforts such as reward programs and innovative marketing campaigns and capitalize on the trusted SBI Card brand to market its credit card products to the general public.
- **Tap into new cardholder segments by broadening portfolio of credit card products** – Company intends to tap into new cardholder segments by continuing to expand their portfolio of credit card products to meet the needs of their existing cardholders and prospective customers, particularly by offering new credit card products tailored for different income-based and lifestyle segments. It aims to continue meeting cardholders' demands and increase market share in India's credit card market by continuing to expand its portfolio of credit cards with innovative products and by adapting our existing portfolio to changing needs and preferences.
- **Continue leveraging technology across their operations** – Company believes that credit management will be key to helping them manage credit rise and detect early warning signs of credit difficulties. Therefore, they are constantly testing out additional ways to deploy their data analytics capabilities to improve its risk management efforts. They are also working toward making their credit decision engines fully artificial intelligence capable, as well as building artificial intelligence and machine learning capabilities into their customer acquisition, portfolio management and transaction monitoring models.
- **Stimulate growth in credit card transaction volumes** – Company is constantly working to enhance its value proposition to its cardholders by rolling out new cash back rewards offers, bonus reward points and merchant discounts. As part of these efforts, company plans to increasingly leverage their data analytics platform to deliver more targeted and timely offers to its cardholders. They are especially focused on acquiring new corporate clients and deepening their relationships with existing corporate clients to gain a better understanding of their needs and generate additional transactions via their corporate credit cards.

Key Concerns/Risks

- Delay in implementing growth strategies or penetrating new markets or services
- Liquidity risk and risk arising out of an unsecured loan which may be recalled at any time could have a material adverse effect on funding, profitability and liquidity
- Regulatory changes limiting the interest rates

Our View

Company's total credit card spends grew at a 54.2% CAGR while number of credit cards outstanding grew at a 34.5% CAGR (as compared to a 35.6% CAGR & 25.6% CAGR respectively for the Indian credit card industry from March 2017 to March 2019, according to the RBI) making it one of the leaders among credit card industry. At the offer price band of ₹750-755/- the company is commanding a PBV of ~19.8x and 14.8x at BV of ₹38.14/- & ₹51.0/- for FY19 and 9MFY20 respectively. We believe company's strong growth position (diversified product offerings, improving market share etc), superior return ratios and stable asset quality justifies valuations. **We thus advise investors with a long-term investment horizon to SUBSCRIBE to the issue.**

Balance Sheet

	(₹ mn)				
Particulars	9MFY20	9MFY19	FY19	FY18	FY17
Assets					
Non-Current Assets					
Property, Plant and Equipment	571.84	463.28	575.42	418.61	16.58
Capital Work in Progress	183.09	54.66	43.38	133.37	-
Right of Use Assets	1,711.02	1,547.94	1,642.85	1,559.18	221.92
Intangible Assets	7,38.23	543.44	646.02	439.77	-
Intangible Assets Under Development	146.22	153.47	158.32	217.2	-
Other Non-Financial Assets	8,718.87	6,615.82	7,538.25	5,383.12	2,111.83
Current Tax Assets	-	-	-	-	-
Deferred Tax Assets	1,373.65	1,082.36	1,665.12	880.06	12,92.02
Total Non-Current Assets	13,442.92	10,460.97	12,269.36	9,031.31	3,642.35
Current Assets					
Investments	14.63	14.63	14.63	14.63	14.63
Trade Receivables	1,772.68	1,549.12	2,950.2	1,507.32	1,324.8
Cash and Cash Equivalents	4,527.55	4,452.37	7,335.04	3,119.03	1,747.22
Other Bank Balances	550.19	1,553.64	432.71	1,607.74	1,082.25
Loans	239,331.77	172,403.81	179,087.27	140,455.39	99,828.51
Other Financial Assets	294.91	552.34	306.09	1,139.22	24.71
Derivatives Financial Instruments	-	-	1.04	-	-
Total Current Assets	246,491.73	180,525.91	190,126.98	147,828.71	104,007.50
Total Assets	259,934.65	190,986.88	202,396.34	156,860.02	107,649.85
Equity and Liabilities					
Equity					
Equity Share Capital	9,323.34	8,372.22	8,372.22	7,850.00	7,850.00
Other Equity	38,189.77	25,846.80	27,445.01	15,680.64	6,638.17
Total Equity	47,513.11	34,219.02	35,817.23	23,530.64	14,488.17
Liabilities					
Non-Current Liabilities					
Current Tax Liabilities	37.78	3.68	762.27	104.02	17.34
Other Non-Financial Liabilities	4,840.19	3,934.67	5,704.6	3,400.37	1,434.09
Provisions	12,484.31	11,192.56	6,284.17	3,924.14	4,952.19
Total Non-Current Liabilities	17,362.28	15,130.91	12,751.04	7,428.53	6,403.62
Current Liabilities					
Derivatives Financial Instruments	322.82	2222.9	1,095.35	28.54	-
Payables	790.25	497.75	6,614.94	5,182.9	1,189.9
Other Payables	61.85	34.32	35.6	113.41	2.05
Debt Securities	67,149.75	35,176.75	40,793.16	29,489.26	75,097.82
Borrowings (Other than debt Sec)	106,161.95	86,445.68	83,744.11	74,658.55	2,197.37
Subordinated Liabilities	12,465.16	9,983.71	11,967.99	9,980.37	5,388.97
Other Financial Liabilities	8,107.48	7,275.84	9,576.9	6,448.54	2,883.16
Total Current Liabilities	195,059.26	141,636.95	153,828.07	125,900.85	86,758.06
Total Liabilities	212,421.54	156,767.86	166,579.11	133,329.38	93,161.68
Total Equity and Liabilities	259,934.65	190,986.88	202,396.34	156,860.02	107,649.85

Profit and Loss Statement

	(₹ mn)				
Particulars	9MFY20	9MFY19	FY19	FY18	FY17
Revenue					
Interest Income	34,930.73	26,263.29	35,757.12	27,599.8	18,881.6
Income from Fees & Services	30,192.68	21,586.21	30,720.37	21,772.67	13,115.85
Service Charges	824.57	814.22	1,258.59	796.13	533.39
Business Development Incentive Income	2,403.68	1,429.58	2,166.73	1,628.4	883.29
Insurance Commission Income	79.93	64.16	87.26	72.75	47.9
Net Gain on Fair Value Changes	-1.04	681.78	1.04	-	-
Total Revenue from Operations	68,430.55	50,839.24	69,991.11	51,869.75	33,462.03
Other Income	3,971.01	1,947.52	2,877.23	1,832.17	1,248.35
Total Income	72,401.56	52,786.76	72,868.34	53,701.92	34,710.38
Expenditure					
Finance Costs	9,663.66	7,425.65	10,172.1	7,115.11	5,284.32
Employee Benefit Expenses	3,344.46	2,879.66	3,904.03	1,930.88	953.07
Depreciation Amortisation	740.38	581.05	811.01	244.93	47.93
Operating & Other Expenses	31,412.05	24,431.51	33,045.94	27,119.22	17,318.75
CSR Expenses	33.68	33.60	141.85	97.75	70.39
Impairment Losses & Bad Debts	11,020.60	7,960.16	11,477.42	8,000.58	5,319.69
Total Expenditure	56,214.83	43,311.63	59,552.35	44,508.47	28,994.15
Profit Before Tax	16,186.73	9,475.13	13,315.99	9,193.45	5,716.23
Tax Expenses	4,574.66	3,329.98	4,688.8	3,182.02	1,987.64
Profit After Tax For The Year	11,612.07	6,145.15	8,627.19	6,011.43	3,728.59
Other Comprehensive Income	-7.94	-156.77	-31.25	-18.02	-14.42
Total Comprehensive Income	11,604.13	5,988.38	8595.94	5993.41	3714.17
Earnings Per Share (₹)	12.45	6.76	9.43	7.40	4.75

Cash Flow Statement

	(₹ mn)				
Particulars	9MFY20	9MFY19	FY19	FY18	FY17
A. Cash Flow from Operating Activities					
Profit Before Tax for The Period	16186.73	9475.13	13,315.99	9,193.45	5,716.23
Adjustments For:					
Depreciation and Amortisation Expense	740.38	581.05	811.01	244.93	47.93
Liabilities Written Back	-1619.25	-10.89	-10.93	-17.70	-21.74
Impairment Loss and Provision for Doubtful Debts	11020.61	7960.16	11,464.83	8,000.58	5,319.69
Net Impact of Assets Derecognise Pursuant to Adoption of Ind AS 116	-	-1.75	-1.44	6.70	-0.31
Other Interest Income	-38.13	-102.69	-178.12	-76.39	-0.06
Employee Stock Options	91.72	-	-	-	-
Finance Cost	9663.66	7425.65	10,172.10	7,115.11	5,284.32
Unrealised Foreign Exchange (Gain)/Loss (Net) On Borrowing	-	560.29	-	-	-
Loss/ (Profit) On Sale of Property, Plant & Equipment	2.26	-0.05	-0.22	0.57	-0.02
Profit on Sale on Investments	-4.44	-3.78	-3.83	-5.37	-4.34
Fair Valuation of Derivatives	1.04	-653.24	-1.04	28.54	-
Operating Profit Before Working Capital Changes	36,044.58	25,229.88	35,568.35	24,490.42	16,341.70
Adjustment for Changes in Working Capital					
Adjustments For (Increase) / Decrease in Operating Assets:					
Trade Receivables	903.28	-108.38	-1,258.24	806.18	269.48
Other Receivables	1909.81	77.48	-173.71	-187.62	-468.33
Other Financial Assets	7.87	596.04	797.14	-364.14	-10.99
Other Non-Financial Assets	-1180.62	-1232.69	-2,117.65	-2,791.20	-794.66
Loans	-71265.08	-39908.61	-50,109.30	-48,627.47	-33,292.79
Adjustments for Increase / (Decrease) In Operating Liabilities:					
Other Financial Liabilities	-1666.03	318.43	2,419.13	2,978.24	895.42
Other Non-Financial Liabilities	-880.73	529.37	2,303.98	1,719.82	498.13
Provisions	7165.89	7203.58	1,300.50	-351.50	2,291.74
Trade Payables	-5798.47	-4763.52	1,354.96	3,056.09	330.00
Cash From/ (Used) In Operations	-34759.50	-12058.42	-9,914.84	-19,271.18	-13,940.30
Finance Cost Paid	-8889.97	-6828.28	-8,946.21	-6,917.18	-5,022.97
Cash From/ (Used) In Operations Before Taxes	-43649.47	-18886.7	-18,861.05	-26,188.36	-18,963.27
Direct Taxes Paid (Net of Refunds)	-5005.01	-3548.43	-4,788.38	-2,582.54	-3,385.53
Net Cash Generated/ (Used) In Operating Activities	-48654.48	-22435.13	-23,649.43	-28,770.90	-22,348.80
B. Cash Flow from Investing Activities					
Capital Expenditure on Property, Plant and Equipment	-613.19	-482.69	-928.25	-355.26	-15.50
'Proceeds from Sale of Property, Plant and Equipment	0.00	1.94	1.03	2.66	2.66
Investment Purchased	-10250.0	-7414.62	-7,664.62	-14,300.00	-12,700.01
Investment Sold	10254.43	7403.78	7,653.83	14,305.37	12,704.34
Interest Income	41.45	93.55	214.11	32.38	0.06
Net Cash Used in Investing Activities (B)	-567.31	-398.04	-723.90	-314.85	-8.44
C. Cash Flow from Financing Activities					
Proceeds from Issue of Share Capital	-	522.22	522.22	-	-
Proceeds from Securities Premium	-	4177.78	4,177.78	-	-
Proceeds from Debt Securities	185909.91	155414.58	199,283.50	221,008.57	234,766.47
Repayment of Debt Securities	-159989.51	-149045.99	187,351.38	266,228.38	187,257.75
Borrowings (Other Than Debt Securities)	21578.95	13302.01	9,128.34	71,055.27	-26,077.39
Proceeds from Subordinated Liabilities	1000.00	-	2,500.00	5,000.00	2,000.00
Repayment of Subordinated Liabilities	-500.00	-	-500.00	-400.00	-
Interim Dividend Paid	-1009.36	-	-	-944.81	-944.81
Lease Payment Made	-458.21	-258.18	-346.13	-141.65	-44.22
Net Cash (Used) / Generated in Financing Activities (C)	46531.78	24112.42	27,414.33	29,349.00	22,442.30
D. Net Increase / (Decrease) In Cash and Cash Equivalents (A+B+C)	-2690.01	1279.25	3,041.00	263.25	85.05
Cash and Bank Balances as At the Beginning of The Year	7,767.75	4,726.76	4,726.76	2,829.47	2,744.41
Cash and bank balances on account of Amalgamation	-	-	-	1,634.05	-
Cash and Bank Balances as At the End of The Year	5,077.74	6,006.01	7,767.76	4,726.77	2,829.47

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Disclosure of Interest Statement in SBI Cards and Payment Service Ltd. as on March 02, 2020

Name of the Security	SBI Cards and Payment Service Ltd.
Name of the analyst	Ashwini Sonawane and Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst:	No
Analyst's Relative: Yes / No	No
Analyst's Associate/Firm: Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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