


Another Quarter of Asset Quality Pain; Outlook Bleak!
Est. Vs. Actual for Q2FY25: NII – **INLINE**; PPOP – **Broadly INLINE**; PAT – **MISS**
Changes in Estimates post Q2FY25
FY25E/FY26E/FY27E (in %): NII -2.5/-2.7/-3.1; PPOP -6.4/-9.8/-9.1; PAT -29.1/-12.2/-5.4

Recommendation Rationale

- **No respite on credit costs in the near term:** In line with the industry trends, SBIC continued to face headwinds on asset quality mainly owing to customer over-leveraging and an increase in household debt. Higher delinquency levels and customers' inability to repay outstanding have kept credit costs at elevated levels. **The management believes that SBIC is nearing its peak credit cost cycle. Over the next 2 quarters, credit costs will continue to remain elevated at current levels.** To ensure lower delinquencies, SBIC has tightened its filters (reduced limits of ~1 Mn card in H1FY25) alongside strengthening underwriting standards and collection mechanisms. The outcome of these efforts is visible in the decline in the early bucket delinquencies of new customers. The management also indicated that the flow rates into early buckets have tapered. However, a challenge lies among the customers who are delinquent and unable to pay. Thus, write-offs could remain higher.
- **Banca sourcing mix to improve; sourcing pace subdued:** With the company making its customer sourcing filters more stringent, the share of banca customer sourcing has dropped significantly. However, the management indicated that the drop in the banca channel sourcing is temporary and expects the share to improve to 55% vs 38% currently. SBIC has been and will continue to be cautious and remain selective on customer acquisition. Thus, the pace of customer acquisition is expected to stay in a similar corridor (~9 Lc customers/quarter). Hereon, the SBI channel (banca) will be used to source NTC customers while sourcing through the open market channel would largely be of customers with a good track record and strong credit scores.
- **Festive season to support spends growth:** SBIC will continue to focus on retail spends to drive overall spends growth, while corporate spends growth would be an outcome of profitable growth. The management indicated that the trends in retail spends continue to remain healthy. Thus, spends growth in Q3FY25 could register healthy growth, in line with seasonal trends. SBIC's management has guided for a spends growth of 22-23% in FY25.

Sector Outlook: Cautious

Company Outlook: SBIC's near-term outlook continues to remain unencouraging owing to elevated asset quality stress and high credit costs denting earnings growth. Driven by the company's cherry-picking approach to customer acquisition resulting in the inability to defend market share, slower growth, disappointing fee income growth and elevated credit costs, we expect SBIC's RoA/RoE to remain subdued between ~3%/18-20% vs long-term average of 4.5-5%/20-22%.

Current Valuation: 17x Sep'26E EPS Earlier Valuation: 20x FY26E EPS
Current TP: Rs 625/share Earlier TP: Rs 750/share
Recommendation: We maintain our HOLD recommendation on the stock.

Financial Performance:

- **Operational Performance:** SBIC's CIF grew by 9.5/2% YoY/QoQ. The company added ~904K accounts during the quarter (-21% YoY, flat QoQ). Spends growth was muted, largely in line with expectations at 3/6% YoY/QoQ, with growth driven by Retail spends (+24/6% YoY/QoQ), while corporate spends continued to remain soft (-69% YoY, 5% QoQ). SBIC lost market share in terms of Spends by ~10bps QoQ which stood at 15.8% while was able to maintain CIF market share at 18.5%, flat QoQ. Receivable growth was ahead of our expectations at ~23/6% YoY/QoQ with the mix of interest-yielding assets declining to 60% vs 62% QoQ.
- **Financial Performance:** NII grew by 16/2% YoY/QoQ with NIMs contracting by ~30bps QoQ largely on account of mix change. CoF improved by ~10bps QoQ while yields contracted sharply by 40bps QoQ. Fee income growth was weak at 2% QoQ and de-grew by 1% YoY. Opex growth was higher at 11% QoQ, owing to festival-related spends. C-I Ratio stood at 53.4% vs 57.1/48.8% YoY/QoQ. PPOP grew by 13% and de-grew by 8% QoQ. Credit costs inched up further to 9.0% vs 8.5% QoQ, denting earnings growth. PAT de-grew by 33% each YoY/QoQ.
- **Asset Quality** continued to deteriorate with GNPA/NNPA up 21/8bps QoQ and stood at 3.27/1.19% vs 3.06/1.11% in Q1FY25. Stage 2 assets came down to 5.7% vs 6.2% in Q1FY25.

Key Financials (Standalone)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	1,502	+1.7	+15.8	1,513	-0.7
PPOP	1,757	-7.8	+13.3	1,790	-1.8
Net Profit	404	-32.8	-32.9	493	-18.0
NNPA (%)	1.2	+8 bps	+30 bps	1.2	+3 bps
RoA (%)	2.7	-138 bps	-219 bps	3.0	-33 bps

Source: Company, Axis Securities Research

 (CMP as of 29th October, 2024)

CMP (Rs)	687
Upside /Downside (%)	-9%
High/Low (Rs)	893/649
Market cap (Cr)	68,523
Avg. daily vol. (6m) Shrs.	18,75,942
No. of shares (Cr)	95.1

Shareholding (%)

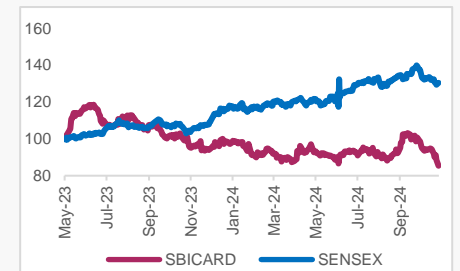
	Mar-24	Jun-24	Sep-24
Promoter	68.6	68.6	68.6
FIs	8.6	8.7	9.2
MFs / UTI	10.0	9.9	9.9
Others	12.8	12.8	12.3

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
NII	6,141	7,352	8,747
PPOP	7,272	8,790	10,339
Net Profit	1,814	3,126	3,863
EPS (Rs)	19.1	32.9	40.6
P/E (x)	36.0	20.9	16.9
P/ABV (x)	5.1	4.2	3.5
RoA (%)	2.9	4.2	4.4
NNPA (%)	1.2	1.0	1.0

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
NII	-2.5	-2.7	-3.1
Fee Income	-16.9	-14.6	-12.9
PPOP	-6.4	-9.8	-9.1
PAT	-29.1	-12.2	-5.4

Relative performance


Source: Ace Equity, Axis Securities Research

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Outlook:

- While the management remains confident of growth momentum sustaining, a bleak outlook on asset quality resulting in elevated credit costs has resulted in us hacking our earnings estimates sharply by ~29%/12%/5% in FY25/26/27E. We expect SBIC to report an unimpressive RoA of 2.9% in FY25E and assuming asset quality challenges to subside, we expect RoA to improve to 4.2-4.4% over FY26-27E.

Valuation & Recommendation:

- We maintain our HOLD rating given multiple headwinds.** We value SBIC at 17x Sep'26E EPS (vs current valuations of ~19x) and arrive at a target price of Rs 625/share, implying a downside of 9% from the CMP.

Key Highlights

- NIM improvement likely by end of FY25:** In Q2FY25, margin compression was an outcome of pressure on yields due to the shift in the receivable mix towards non-interest yielding transactor balances alongside higher spends in the latter part of September, not translating into revolver/EMI balances. The management indicated that this is a seasonal phenomenon and similar trends would be visible in Q3FY25, before reversing in Q4FY25. While the company is not actively pursuing improvement in revolver balance, it expects the mix to stabilize at 23-25% for the next few quarters. The CoF have peaked out and are likely to taper as the rate cut cycle starts.

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall spends and new customer sourcing momentum would impact the revenue generation capability of the company.
- Another key risk area for SBIC is an unfavourable receivable mix with a skew towards non-interest-yielding loans (transactors) which will continue to put pressure on margins.
- An unfavourable decision on MDR could affect our earnings estimates.

Change in Estimates

	Revised Estimates			Old Estimates			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	6,141	7,352	8,747	6,296	7,556	9,025	-2.5	-2.7	-3.1
Fee Income	8,145	10,630	13,020	9,806	12,451	14,954	-16.9	-14.6	-12.9
PBP	7,272	8,790	10,339	7,767	9,744	11,372	-6.4	-9.8	-9.1
Provisions	4,833	4,589	5,147	4,347	4,983	5,909	11.2	-7.9	-12.9
PAT	1,814	3,126	3,863	2,558	3,561	4,086	-29.1	-12.2	-5.4

Source: Axis Securities Research

Results Review

	Q2FY25	Q2FY24	% YoY	Q1FY25	% QoQ	H1FY25	H1FY24	% YoY
CIF	2.0	1.8	9.5	1.9	2.1	2.0	1.8	9.5
Spends (Rs. Cr)	81,893	79,164	3.4	77,129	6.2	1,59,022	1,53,077	3.9
Avg. Spend per card	1,68,852	1,79,697	-6.0	1,61,951	4.3	1,65,401	1,76,425	-6.2
Market share - CIF	18.5%	19.2%	-70 bps	18.5%	0 bps	18.5%	19.2%	-70 bps
Market share - Spends	15.8%	17.9%	-210 bps	15.9%	-10 bps	15.8%	17.9%	-210 bps
Income Statement								
Interest Income	2,290	1,902	20.4	2,243	2.1	4,533	3,706	22.3
Interest Expense	788	605	30.2	767	2.7	1,555	1,176	32.2
Net Interest Income	1,502	1,297	15.8	1,476	1.7	2,979	2,530	17.7
Fee Income	1,957	1,974	-0.8	1,928	1.5	3,885	3,872	0.3
Other Income	309	346	-10.7	319	-3.1	4,512	4,561	-1.1
Total Income	3,768	3,616	4.2	3,723	1.2	7,491	7,091	5.6
Operating Expenses	2,011	2,066	-2.6	1,816	10.7	3,827	4,025	-4.9
<i>Staff Cost</i>	149	148	0.6	134	10.9	283	293	-3.5
Cost-Income Ratio (%)	53.4	57.1	-375 bps	48.8	459 bps	51.1	56.8	-569 bps
Pre provision profit	1,757	1,551	13.3	1,907	-7.8	3,664	3,066	19.5
Provisions	1,212	742	63.4	1,101	10.1	2,313	1,460	58.4
PBT	545	809	-32.6	806	-32.4	1,351	1,606	-15.8
Taxes	141	206	-31.8	205	-31.2	346	410	-15.7
PAT	404	603	-32.9	601	-32.8	1,006	1,196	-15.9
Asset Quality								
Gross NPA (%)	3.3%	2.4%	84 bps	3.1%	21 bps	3.3%	2.4%	84 bps
Net NPA (%)	1.2%	0.9%	30 bps	1.1%	8 bps	1.2%	0.9%	30 bps
PCR (%)	64.4%	64.1%	30 bps	64.4%	0 bps	64.4%	64.1%	30 bps
Spread Analysis								
Yields	16.4%	16.8%	-40 bps	16.8%	-40 bps	16.6%	16.9%	-25 bps
CoF	7.4%	7.1%	30 bps	7.5%	-10 bps	7.5%	7.1%	35 bps
NIM %	10.6%	11.3%	-70 bps	10.9%	-30 bps	10.8%	11.4%	-65 bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Interest Income	5,332	6,141	7,352	8,747
Fee Income	8,165	8,145	10,630	13,020
Non-Interest Income	1,392	1,385	1,652	1,533
Total Income	14,888	15,671	19,634	23,301
Operating Expenses	8,369	8,400	10,844	12,961
Pre-Provision Profits	6,519	7,272	8,790	10,339
Provisions	3,287	4,833	4,589	5,147
PBT	3,232	2,438	4,202	5,193
Tax	824	624	1,076	1,329
Profit After Tax	2,408	1,814	3,126	3,863

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Equity Share Capital	951	951	951	951
Reserves & Surplus	11,133	12,675	15,332	18,616
Net Worth	12,084	13,626	16,283	19,567
Borrowings	40,315	48,006	55,699	66,215
Other Liabilities	5,773	6,676	7,797	9,292
Total Liabilities	58,171	68,308	79,779	95,073
Cash & Bank balances	2,730	2,727	2,387	2,845
Investments	3,519	4,132	4,826	5,752
Loans	49,079	58,519	69,224	82,495
Fixed Assets & Others	2,844	2,929	3,341	3,982
Total Assets	58,171	68,308	79,779	95,073

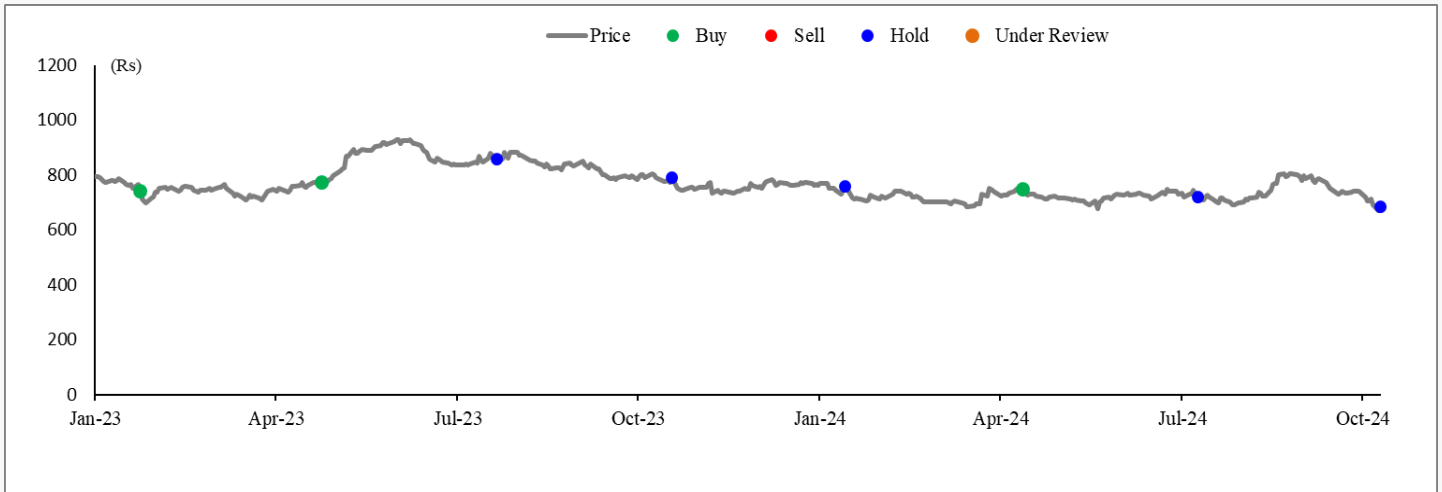
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25E	FY26E	FY27E
ASSET QUALITY				
GNPA	1,403	2,048	2,047	2,311
NNPA	493	718	717	809
GNPA Ratio (%)	2.8	3.4	2.9	2.7
NNPA Ratio (%)	1.0	1.2	1.0	1.0
PCR (%)	64.9	65.0	65.0	65.0
PROFITABILITY RATIOS				
Net Interest Margin (%)	11.3	10.7	10.8	10.8
RoE (%)	22.0	14.1	20.9	21.6
RoA (%)	4.6	2.9	4.2	4.4
Cost to Income (%)	56.2	53.6	55.2	55.6
CAR (%)	20.5	19.6	18.9	18.7
Tier 1 (%)	16.5	15.9	15.4	15.4
VALUATION RATIOS				
EPS	25.3	19.1	32.9	40.6
<i>Change</i>	6.1	-24.7	72.3	23.6
Price-Earnings (x)	27.1	36.0	20.9	16.9
BVPS	127.1	143.3	171.2	205.8
Price-BV (x)	22.3	12.8	19.5	20.2
Adj. BVPS	5.4	4.8	4.0	3.3
Price-ABV (x)	121.9	135.7	163.7	197.2
Dividend Per Share	21.6	11.4	20.6	20.5
Dividend Yield (%)	5.6	5.1	4.2	3.5

Source: Company, Axis Securities Research

SBI Cards Price Chart and Recommendation History



Date	Reco	TP	Research
25-Jan-23	BUY	855	Result Update
02-May-23	BUY	900	Result Update
31-Jul-23	HOLD	900	Result Update
30-Oct-23	HOLD	850	Result Update
29-Jan-24	HOLD	810	Result Update
29-Apr-24	BUY	850	Result Update
29-Jul-24	HOLD	750	Result Update
30-Oct-24	HOLD	625	Result Update

Source: Axis Securities Research

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