

FEBRUARY 19, 2020

Pre-IPO Note

Pre-IPO Shareholding

Particulars	%
SBI	74%
CA Rover Holding	26%
Total	100%

Source: Company DRHP

Restated Financial Summary

Particulars	FY18	FY19	FY20
(Rs mn)	12 M	12 M	6 M
Share Capital	7,850	8,372	9,323
Net worth	24,246	36,532	43,814
Revenue	53,702	72,868	46,772
PAT	6,011	8,627	7,259
EPS (Rs)	7.4	9.4	7.8
BVPS (Rs)	29.8	39.9	47.0
ROE (%)	25	24	17

Source: Company DRHP

(Note: All the information in this note is taken from DRHP)

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Management Background

Name	Age	Designation	Background
Mr. Rajnish Kumar	61	Non-Executive Chairman	He is a nominee Director of SBI on Board, appointed pursuant to Section 35A of the SBI Act. He holds a master's degree in physics from the Meerut University. He joined the central board of SBI on May 26, 2015 and is currently the chairman of SBI with effect from October 7, 2017. Prior to this, he served as the managing director (national banking group) and managing director (compliance & risk) in SBI and was also the chief general manager of the north-eastern circle of SBI.
Mr. Dinesh Kumar Khara	58	Non-executive nominee Director	He holds a bachelor's and a master's degree in commerce and a master's degree in business administration from the University of Delhi. He is also an associate of Indian Institute of Bankers. He has been one of the managing directors of SBI from August 9, 2016. He oversees the international banking book, corporate banking book & treasury operations of SBI
Mr. Hardayal Prasad	59	Managing Director and Chief Executive Officer	He holds a master's degree in chemistry from Agra College and is a certified associate of Indian Institute of Bankers. He is a top executive grade special scale – II officer of SBI on deputation to the Company
Mr. Sunil Kaul	59	Non-executive nominee Director	He holds a bachelor's degree in technology in electrical engineering from the Indian Institute of Technology, Bombay and a postgraduate diploma in management from the Indian Institute of Management, Bangalore. He was the global transaction services head for Citibank N.A. Japan. Presently, he is also the managing director and head of the financial services industry of Carlyle Asia Partners and concurrently heads the south-east Asia business of the Carlyle group.

Source: Company DRHP

SBI CARDS AND PAYMENT SERVICES LIMITED

NOT RATED

Background

SBI Cards is the second-largest credit card issuer in India, with a 17.6% and 18.0% market share of the Indian credit card market in terms of the number of credit cards outstanding and a 17.1% and 17.9% market share of the Indian credit card market in terms of total credit card spends as of March 31, 2019 and September 30, 2019, respectively, according to the RBI. The offer 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.

SBI Cards started their operations in 1998, and since then SBI's parentage and highly trusted brand have allowed them to quickly establish a reputation of trust, reliability and transparency with their cardholders. According to the RBI, they have grown their business faster than the Indian credit card market over the past three years both in terms of number of credit cards outstanding and amounts of credit card spends, and they believe they have achieved this by leveraging their strengths and capitalizing on India's favorable economic and demographic changes, including its strong macroeconomic performance, rising affluence, increasing consumer demand, rapid urbanization and the growth of e-commerce platforms.

Company offers four primary SBI Card-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 they have partnerships 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.

Overview of Credit Card Industry

Credit card industry spends to grow 2.5 times in the next five years

Credit card spends have registered a robust growth, growing at a CAGR of 32.0% from fiscal 2015 to fiscal 2019 to reach Rs. 6.0 trillion as of fiscal 2019, and is expected to grow at a healthy rate to reach Rs. 15.0 trillion as of fiscal 2024, which is 2.5 times over fiscal 2019, according to CRISIL Research.

Growth in credit card spends is volume led

Growth in credit cards volume has sped up over the years, while average annual spending has grown at a moderate rate. Increasing acceptance of digital payments by Indian consumers and the rise of e-commerce businesses during this period, such as Flipkart and Amazon, gave a huge impetus to growth, with credit-card players providing promotional-offers and EMI financing options. On the supply side, banks' focus on cross-selling to their existing customers in the form of pre-approved offers has driven growth.

Increased originations among millennials in the last four years

The proportion of credit card originations among millennials (persons below 30 years of age) has increased over the last four years from 19.0% in fiscal 2015 to 35.0% in fiscal 2019, and the share of customers below 25 years of age has increased ten-fold from fiscal 2015 to fiscal 2019. With increasing digitization and cost-control measures, the number of inquiries for credit card requests has increased at a much higher pace than the increase in originations. Due to this, the overall approval rate has reduced over the years. However, approval rate for customers over 40 years of age has remained close to 50.0% over the years.

Competitive Scenario in the Credit Card Industry

Concentrated market – top 4 players account for two-thirds 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 fiscal year 2019.

	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%

Average spend per transaction								
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%
Average spend per card in force (Rs)								
HDFC Bank	84,252	1,03,964	1,14,485	1,19,356	1,35,181	1,44,770	-	11%
SBI Card	60,458	71,547	86,011	1,07,737	1,40,975	1,44,813	-	19%
ICICI Bank	56,543	65,685	77,555	90,611	1,12,042	1,17,203	-	16%
Axis Bank	72,304	88,227	90,193	1,00,167	1,12,877	1,21,220	-	11%
Citi Bank	1,11,642	1,28,731	1,49,410	1,74,225	1,87,045	1,99,881	-	12%

Source: Company DRHP

Strengths

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, with 9.46 million credit cards outstanding as of September 30, 2019 and ₹1,032.65 billion in total of credit card spends in fiscal 2019. Company believes that its position as a large-scale, leading market player results in economies of scale that provide them with significant operating efficiencies and also help to diversify some of its risks, such as regional or geographical risks. From March 31, 2017 to March 31, 2019, its 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 its 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 and which engages 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 its co-brand partners' retail outlets), communication channels and customer interactions to market its credit card products to their existing customers. They believe that their multi-channel customer acquisition network provide 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.

Supported by a strong brand and pre-eminent Promoter

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" 130 in India award in the credit cards category in 2019. Its Promoter, SBI, is India's largest commercial bank in terms of deposits, advances and number of branches as of September 30, 2019, according to the RBI. Its relationship with SBI provides them with access to SBI's extensive branch network of 22,007 branches across India and enables them to market their credit cards to SBI's largely untapped customer base comprising 436.4 million customers as of March 31, 2019.

Diversified portfolio of credit card offerings

SBI Card'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. In addition, they are also the largest co-brand credit card issuer in India according to the CRISIL Report, and they 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. The ability to provide such tailored complementary product and service offers allow them to cross-sell in a more efficient manner while meeting the needs of their cardholders.

Advanced risk management and data analytics capabilities

SBI cards possesses a large database of cardholder demographic and socio-economic data (such as their cardholders' purchase patterns, behaviors and payment histories) derived from the numerous transactions carried out by millions of cardholders each year. They analyze this data together with data obtained from credit bureaus and other sources to, among other things, generate underwriting scorecards tailored to their cardholder demographics, proactively mitigate risks, and reduce losses and delinquencies. They also take an in-depth approach to credit analytics in their periodic credit monitoring processes. 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.

Modern and scalable technology infrastructure

SBI Cards has a 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. In fact, they have successfully tested their key technology systems' ability to support between three to five times the current level of their business volumes, which they believe provides them with a solid foundation for their future growth. 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 their operating efficiencies. As a result, their technology infrastructure and systems are a key competitive strength for them.

Strategies

Expand customer acquisition capabilities to grow the cardholder base

As part of this strategy, SBI Cards aims to increase the number of open market physical points of sale that they operate across India. In particular, they are focused on increasing their presence in India's tier II and tier III cities where their cardholder base has historically been underrepresented, but which have contributed an increasing proportion of their new accounts in recent years. They also remain 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 their new co-brand partners' customer base. Finally, they aim 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 their credit card products to the general public.

Tap into new cardholder segments by broadening portfolio of credit card products

SBI Cards intend to tap into new cardholder segments by continuing to expand their portfolio of credit card products to meet the needs of its existing cardholders and prospective customers, particularly by offering new credit card products tailored for different income-based and lifestyle segments. By continuing to expand their portfolio of credit cards with innovative products aimed at satisfying the needs of specific cardholder segments and by adapting their existing portfolio to changing needs and preferences, they aim to continue meeting cardholders' demands and increase their market share in India's credit card market.

Stimulate growth in credit card transaction volumes

SBI Cards 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 its data analytics platform to deliver more targeted and timely offers to its cardholders. They are also focused on acquiring new corporate clients and deepening its relationships with existing corporate clients to gain a better understanding of their needs and generate additional transactions via its corporate credit cards.

Continue to optimize the risk management processes

Company believes that credit management will be key to helping them manage credit risk and detect early warning signs of credit difficulties. Therefore, they are constantly testing out additional ways to deploy their data analytics capabilities to improve their risk management efforts. They are also working towards 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.

Enhance cardholder experience

SBI Cards is focused on continuing to invest in its digital and mobile capabilities to enhance its cardholder experience. They constantly seek to provide additional payment capabilities and other functionalities to promote greater ease and convenience for their cardholders. They are also enhancing their customer service capabilities by leveraging their artificial intelligence-enabled knowledge management tools that assist their customer service representatives in providing faster information and more accurate resolution in real time to its customers. In addition to increasing their value proposition and providing greater convenience for their cardholders, they also believe these efforts will ultimately deepen their cardholder relationships

Continue leveraging technology across operations

SBI Card focuses on leveraging technology and data analytics in the Indian credit card industry, they intend to continue investing to further enhance these capabilities and derive greater operating efficiencies. In order to maximize the efficiency of their marketing strategy, they are currently deploying geotagging technologies to identify areas with significant potential for credit card penetration. They believe that the continuous evolution of their technological capabilities will drive increased efficiencies, improve their operations and ultimately provide them with a significant competitive advantage.

Note – For internal and external risk factors, kindly refer page no. – 31 to 59 of DRHP

Book running lead managers – Kotak, Axis capital, BofA Securities, HSBC, Nomura, SBI Capital Markets Limited

Financials

Balance Sheet

Rs mn	Sep-19 6 Mths	Sep-18 6 Mths	Mar-19 12 Mths	Mar-18 12 Mths	Mar-17 12 Mths
Financial assets					
Cash and cash equivalents	4,471	5,413	7,335	3,119	1,747
Bank Balance other than (a)	456	1,011	433	1,608	1,082
Receivables	2,827	2,034	2,950	1,507	1,325
Loans	222,795	156,659	179,087	140,455	99,829
Investment	15	15	15	0	0
Other financial assets	290	993	307	1,139	25
Total financial assets	230,854	166,125	190,127	147,829	104,008
Non- financial assets					
Deferred tax assets (Net)	1,286	1,078	1,665	880	1,292
Property plant and equipment	542	404	575	419	17
Capital work in progress	109	159	43	133	-
Intangible assets	655	505	646	440	-
Intangible assets under development	172	164	158	217	-
Right-of-use Assets	1,789	1,552	1,643	1,559	222
Other non Financial assets	9,185	6,048	7,538	5,383	2,112
Total non-financial assets	13,738	9,910	12,269	9,031	3,642
Total Assets	244,591	176,035	202,396	156,860	107,650
LIABILITIES AND EQUITY					
Liabilities					
Financial liabilities					
Derivative financial instruments	197	-	1,095	29	-
Payables	862	679	6,615	5,182	1,189
Other payables	52	31	36	113	2
Debt Securities	64,968	11,986	40,793	29,489	75,098
Borrowings (Other than Debt Sec)	96,842	99,326	83,744	74,659	2,197
Subordinated Liabilities	12,464	9,983	11,968	9,980	5,389
Other financial liabilities	10,494	8,490	9,577	6,449	2,883
Total financial liabilities	185,878	130,495	153,828	125,901	86,758
Non- financial liabilities					
Current Tax liabilities (Net)	-	323	762	104	17
Provisions	10,663	9,778	6,284	3,924	4,952
Other non financial liabilities	4,952	3,464	5,705	3,400	1,434
Total non financial liabilities	15,615	13,565	12,751	7,429	6,404
Total liabilities	201,492	144,060	166,579	133,329	93,162
Equity					
Equity Share capital	9,323	8,372	8,372	7,850	7,850
Other equity	33,776	23,603	27,445	15,681	6,638
Total equity	43,099	31,975	35,817	23,531	14,488
Total liabilities and equity	244,591	176,035	202,396	156,860	107,650

Source: Company DRHP

Profit and Loss statement

Rs mn	Sep-19	Sep-18	Mar-19	Mar-18	Mar-17
	6 Mths	6 Mths	12 Mths	12 Mths	12 Mths
Interest Income	22,116	16,992	35,757	27,600	18,882
Income from fees and services	19,378	13,594	30,720	21,773	13,116
Service Charges	527	330	1,259	796	533
Business development incentive income	1,566	708	2,167	1,628	883
Insurance commission income	53	42	87	73	48
Net gain on fair value changes	(1)	491	1	-	-
Total Revenue from operations	43,639	32,157	69,991	51,870	33,462
Other Income	3,133	1,266	2,877	1,832	1,248
Total Income	46,772	33,423	72,868	53,702	34,710
EXPENSES					
Finance costs	6,213	4,660	10,172	7,115	5,284
Employee benefits expenses	2,103	1,922	3,904	1,931	953
Depreciation, amortisation and impairment	479	368	811	245	48
Operating and other expenses	20,358	15,435	33,046	27,119	17,319
CSR expenses	15	24	142	98	70
Impairment losses & bad debts	7,258	5,215	11,477	8,001	5,320
Total expenses	36,426	27,624	59,552	44,508	28,994
Profit before tax	10,346	5,799	13,316	9,193	5,716
Tax expense	3,087	2,033	4,689	3,182	1,988
Profit after tax for the year	7,259	3,766	8,627	6,011	3,729

Source: Company DRHP

Cash flow statement

Rs mn	Sep-19	Sep-18	Mar-19	Mar-18	Mar-17
	6 Mths	6 Mths	12 Mths	12 Mths	12 Mths
Cash and cash equivalent at the beginning of the year	7,768	4,727	4,727	2,829	2,744
Net cash from operating activity	(37,697)	(9,894)	(23,649)	(28,771)	(22,349)
Net cash from investing activity	(280)	(216)	(724)	(315)	(8)
Net cash from financing activity	35,136	11,807	27,414	29,349	22,442
Net inc/(dec) in cash and cash equivalents	(2,840)	1,697	3,041	263	85
Adjustments (on account of amalgamation)				1,634	
Cash and cash equivalent at the end of the year	4,927	6,424	7,768	4,727	2,829

Source: Company DRHP

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
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NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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