

SBI CARDS AND PAYMENT SERVICES LIMITED (SUBSCRIBE)

Issue Details:

Recommendation	Subscribe
Issue Open	Mar 2, 2020 - Mar 5, 2020
Issue Type	Book Build Issue IPO
Issue Size	137,149,315 Eq Shares of Rs.10 (aggregating up to Rs.10,354.77 Cr)
Fresh Issue	6,622,517 Eq Shares of Rs.10 (aggregating up to Rs.500.00 Cr)
Offer for sale	130,526,798 Eq Shares of Rs.10 (aggregating up to Rs.9,854.77 Cr)
Face Value	Rs.10 per Equity Share
Issue Price	Rs.750 to Rs.755 Per Equity Share
Market Lot	19 Shares
Employee Discount	Rs.75
Listing at	NSE/ BSE

Timelines of SBI Cards IPO:

Bid/Offer Opens On	Mar 02 nd , 2020
Bid/Offer Closes On	Mar 04 th , 2020
Finalization of Basis of Allotment	On or about Mar 11, 2020
Initiation of refunds	On or about Mar 12, 2020
Credit of Shares to demat accounts	On or about Mar 13, 2020
Commencement of trading on the Stock Exchanges	On or about Mar 16, 2020

Company Profile

Incorporated in 1998, SBI Cards and Payment Services Limited is a subsidiary of SBI, India's largest commercial bank in terms of deposits, advances and the number of branches. SBI currently holds (along with its nominees) 689,927,363 Equity Shares, constituting to 74.00 % of the pre-Offer issued, subscribed and paid-up Equity Share capital of the Company.

The company the 2nd largest credit card issuer in the country, with a 17.6% and 18.0% market share of the Indian credit card market (number of credit cards) as of March 31, 2019, and September 30, 2019, respectively, and a 17.1% and 17.9% market share of the Indian credit card market (total credit card spends) in fiscal 2019 and in the six months ended September 30, 2019.

SBI Cards has partnered with several leading names across industries, including Air India, Apollo Hospitals, BPCL, Etihad Guest, Fbb, IRCTC, OLA Money and Yatra, amongst others.

Pre Shareholding Pattern:-

State Bank of India (SBI) – 74%
CA Rover Holdings – 26%

Lead Manager of the issue

1. Kotak Mahindra Capital Company Limited
2. Nomura Financial Advisory and Securities (India) Private Limited
3. SBI Capital Markets Limited
4. Axis Capital Limited
5. DSP Merrill Lynch Limited
6. HSBC Securities and Capital Markets (India) Private Limited

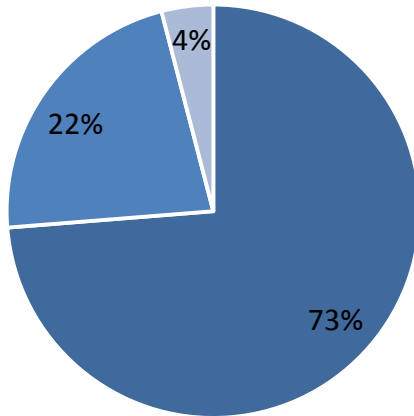
Objective of the issue

Two main objective of the offer are :-

1. The Net Proceeds are proposed to be used for augmenting capital base to meet its future capital requirements.
2. To experience benefits of listing securities on stock exchange.

Industry growth and outlook

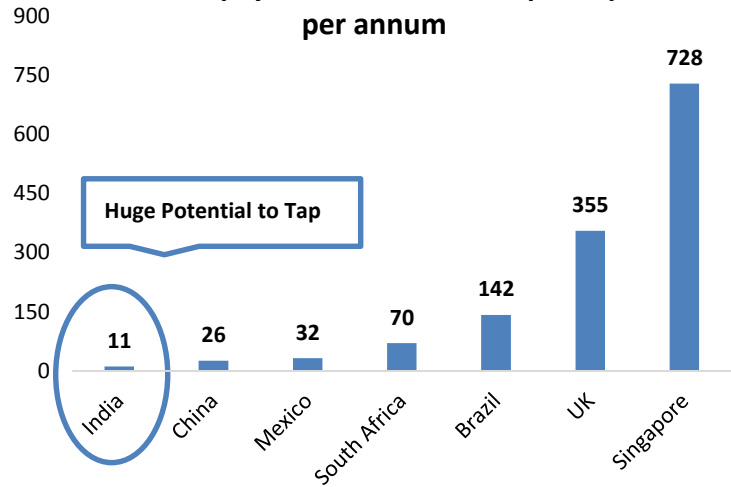
Unsecured Loans Breakup



■ Personal Loan ■ Credit Cards ■ Consumer Durables

Source: Crisil Research

Non-cash payments transactions per capita per annum



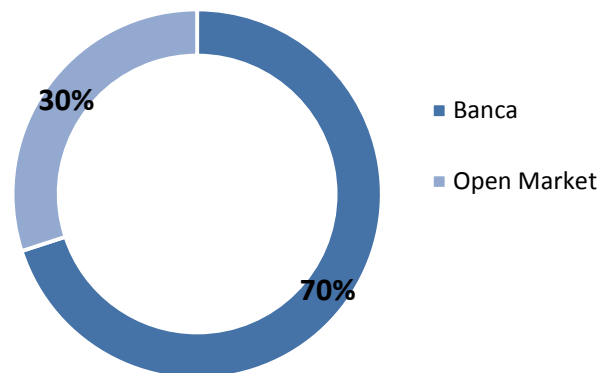
Source: Niti Aayog Report (January 2017)

According to Crisil Research overall credit card industry is expected to grow **2.5 times** in next 5 years. 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. Co-branded cards by way of partnerships with various businesses have also contributed to the growth of the credit cards market.

Credit card players use various distribution channels such as Banca (selling to existing bank customers) and the open market to acquire customers. Banca channels involve leveraging the bank's existing data base. These customers are offered pre-approved offers.

The open market channel involves sourcing customers from POS at various locations (such as organized retail stores, airports, and malls), tele-sales, direct applications through web-sites and co-branding partnerships between a bank and an associate company and issued in the name of both entities.

Distribution Channel



Key Growth Drivers of the credit card industry

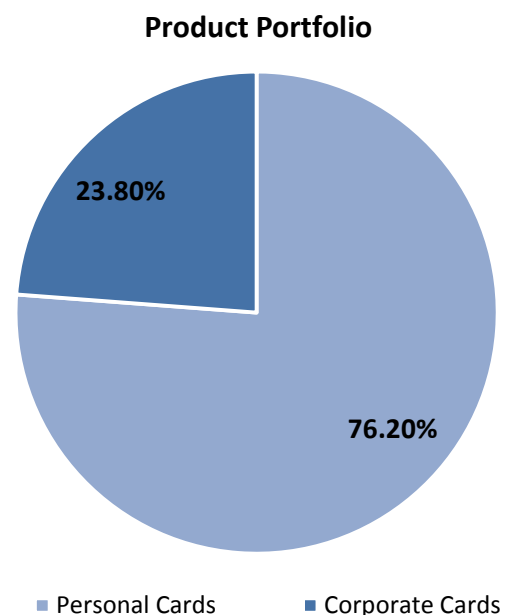
- There is hand room for growth given an under penetrated credit card market. Credit card spending relative to PFCE (Private Final Consumption Spending) has significantly increased in recent years. Per capital credit card spend as a percentage of per capita PFCE is expected to reach 7.6% by fiscal 2024.

Industry growth and outlook

- Demonetization was an inflection point for the credit card industry which led to high incremental growth in card issuances and thereby a rise in penetration. Demographic advantage, issuances of cards in smaller cities, tapping new-to-credit (“NTC”) customers and strong investments in payment infrastructure will all aid the credit-card penetration going forward.
- The number of NTC customer originations in credit cards has increased at a CAGR of 20.0% to reach approximately 3.0 million as of fiscal 2018 in the last three years. Going forward, according to CRISIL Research, this trend is expected to continue.
- Organized retail penetration has grown from 5.6% in fiscal 2009 to 10.6% in fiscal 2019 on the back of a supportive macro-environment, a rise in discretionary spending, higher product penetration, a rise in e-commerce and favorable regulations. According to CRISIL Research, organized retail penetration is expected to grow to approximately 15.0% in fiscal 2024.
- Payment infrastructure includes POS terminals and payment gateways which facilitate online payments. The number of POS terminals has grown at a CAGR of 29.0% from fiscal 2015 to reach 3.7 million terminals in fiscal 2019. Continuous improvement in payment infrastructure is expected further.
- One of the key growth driver of credit card industry is ability to cross sell to liability and asset side customers. Players like ICICI, SBI Card, Kotak, and Axis also offer secured credit cards against fixed deposits (“FD”).
- The government has taken multiple initiatives to give a fillip to digitalization in the country. This includes biometric identification of all Indian citizens through the Aadhaar programme, financial inclusion through ‘Jan Dhan Yojana’, launch of UPI, launch of Aadhaar-enabled payment systems and encouraging online tax filings.

Product and services offered

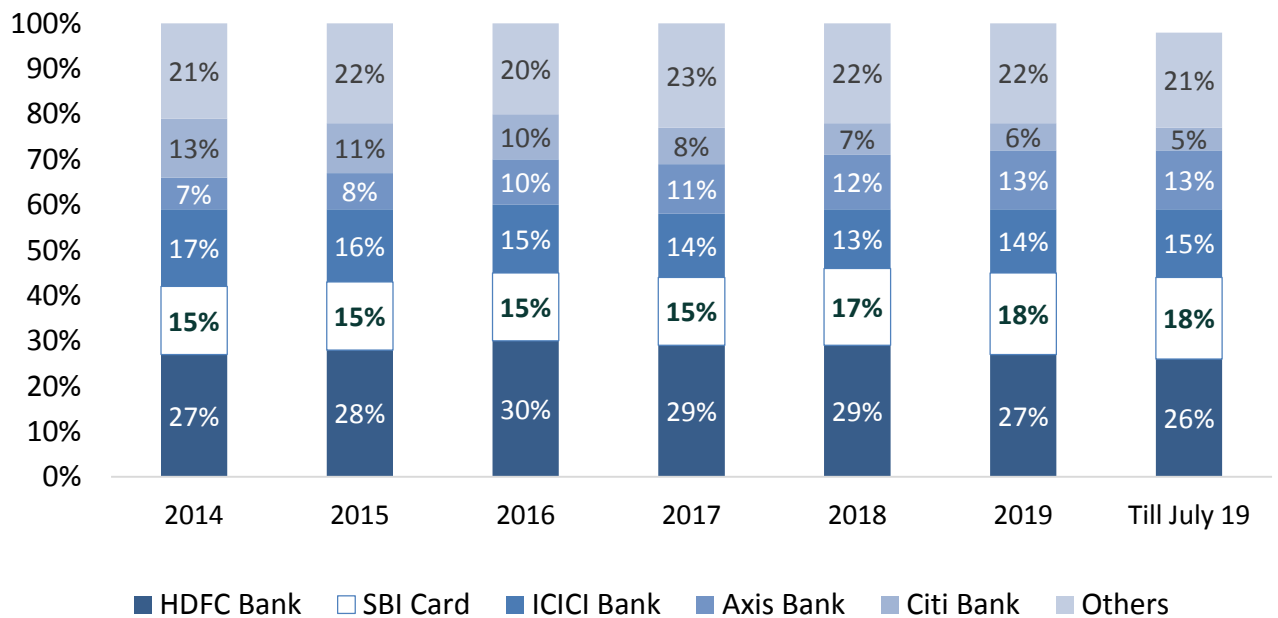
- **Personal Cards** – The company has developed wide range of premium cards for their customer. Different types of personal card offered by the company includes lifestyle card, Rewards card, Shopping Card, Travel and fuel card, Banking partnership card and business.
- **Corporate Card** – The company offers variety of cards to satisfy the needs of MNCS. Some of them include general card, central travel account, utility, etc
- **White Label Card** – They are partner branded credit card that carry the brand partner’s logo without SBI Card logo. Currently company offers one card under this category in partnership with Tata Sons.
- **Value added services** – The company offers different type of value added services such as ATM Cash, Easy Money, Encash, Flexipay, Balance Transfer, etc



Peer Comparison

Credit card industry is highly concentrated by top 4 players which accounts 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.

Market Share



Particulars	SBI Card	HDFC Bank	ICICI Bank	Axis Bank	Citi Bank
No. of credit cards in force (in mn)	12.5	8.3	6.6	6	2.7
No. of transaction (in mn)	486	280	241	168	239
Total Spend (Rs. mn)	1704208	1038353	673006	620827	532185
Avg. spend per transaction	3504	3713	2795	3695	2227
Avg. spend per card in force (Rs.)	144770	144813	117203	121220	199881
Avg. outstanding per card in force (Rs.)	35909	22398	18514	20622	--
No. of POS terminal	490180	--	391625	507409	34744

Comparative Strength

- Second largest credit card issuer in India with deep industry expertise and a demonstrated track record of growth and profitability.
- Diversified customer acquisition capabilities.
- Supported by a strong brand and pre-eminent Promoter.
- Diversified portfolio of credit card offerings.
- Advanced risk management and data analytics capabilities.
- Modern and scalable technology infrastructure.
- Highly experienced and professional management team.

Key Financials

Income Statement

Particulars	2017	2018	2019	1H FY20
Interest Income	18882	27600	35757	22116
Interest Expense	5284	7115	-10172	-6213
Net Interest Income	13598	20485	25585	15903
Non interest income	14580	24270	34234	21524
Net Income	29426	46587	62696	40559
Operating expenses	-18390	-29393	-37903	-22955
Pre provision profit	11036	17194	24793	17604
Provisions	-5320	-8001	-11477	-7258
Profit before tax	5716	9193	13136	10346
Tax	-1988	-3182	-4689	-3087
Tax Rate	35	35	35	30
Profit after tax	3728	6011	8447	7259

Balance Sheet

Particulars	2017	2018	2019	1H FY20
Equity	7850	7850	8372	9324
Reserves	6638	15681	27445	33776
Net worth	14488	23531	35817	43099
Borrowings	86758	125901	153828	185878
Other liabilities & Provisions	6404	7429	12751	15615
Total Liabilities	107650	156860	202396	244592
Cash and bank	2829	4727	7768	4927
Investments	0	0	15	15
Loans	99829	140455	179087	222795

Key Financials

Loans	99829	140455	179087	222795
Other Assets	4992	11678	15527	16855
Total Assets	107650	156860	202396	244592

Ratios

Particulars	2017	2018	2019	1H FY20
NIM	13.8	15.2	13.6	15.3
ROA	4	4.5	4.8	6.5
ROE	28.6	32.4	30	36.1
GNPA (%)	2.3	2.8	2.4	2.3
NNPA (%)	0.8	0.1	0.8	0.8
EPS	4.7	7.7	10.6	16.4
BVPS	18.5	28.8	41.6	46.2

Recommendation

SBI Cards and payments services Limited is one of the major player in highly concentrated credit card industry. Credit card penetration in India is relatively low in comparison with other countries which indicates that company has opportunity to grow further and can increase its market share. In order to attract and retain customers, it is trying to develop new credit card offerings and than launching them in market. In last 6 months company has launched 3 new products. It is one of the major co-branded credit card issuer according to crisil report. Currently companies has 18 fully operational co-brand partners including partnerships with several major retailers, airlines, railway operators, department stores, banks, specialty retailers and mass merchandisers, etc. The company is trying to strengthen its sales and acquisition team, as of September 30, 2019 its sales workforce consisted of 33,086 outsourced sales personnel operating out of 133 cities spread across most of India's territory. They are also trying to enhance the experience of online customers through digital strategies. Recently company has launched Sales24 digital application platform which is fully integrated. New to credit customer is also increasing which acting as a key growth driver.

We recommend **Subscribe** for SBI Cards and payments services Limited IPO at its price band of **Rs.750 – Rs.755** for a lot size of **19 shares**.

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1. Financial interest of research analyst or IGSL or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or IGSL or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No