Issue Brief:

Dates:
Open - March 02, 2020
Close - March 04, 2020

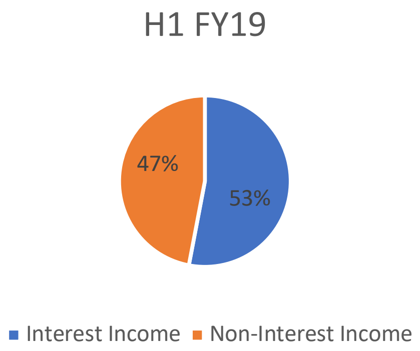
Size:
Price band - INR 750-755
Issue - ~INR 10,300 Cr

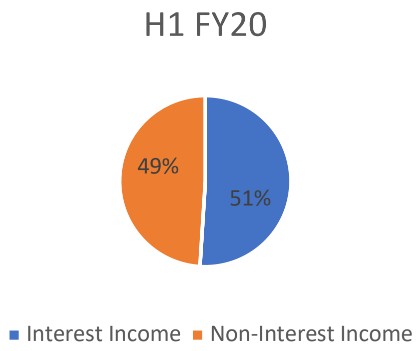
Value:
Book - INR 51 (Dec 2019)
Face - INR 10
Bid Size - 19 equity shares and in multiples of thereof

Background

Established in 1998, with a joint venture between SBI & GE Capital (bought by CA Rover Holdings in 2017), SBI Cards and Payment Services Ltd (SBI Cards) is a NBFC and second largest credit card issuer in India with 18.1 percent market share of Indian credit card market (Interestingly, only selected NBFCs have the right to issue credit card as per RBI guidelines). The company derives its revenue from two main operations: interest income (on credit card receivables) & non-interest income (compromised of fee-based income). The NBFC in SBI Cards earns the interest income, the payments service provider earns from the fee.

Figure 1: SBI Cards Revenue Breakup



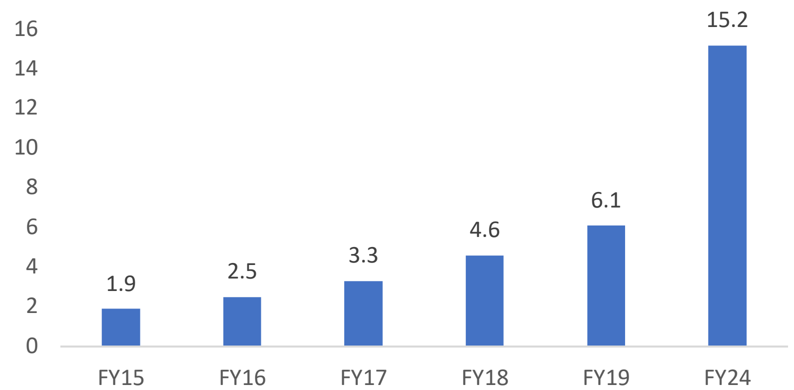


Source: SBI Cards DRHP

Industry Scenario

Credit card spends have grown at a CAGR of 32 percent for the period FY15-19 and have reached INR 6 trillion as of FY19. The growth is expected to continue at a CAGR of ~20 percent till FY24 (CRISIL Research). However, what we also need to notice that while the credit card spend has grown at a commendable rate but the average annual spending per card is expected to grow at meagre 1 percent from FY19 to FY20. Which means while the sale of credit card is commendable but end gain to the issuer is negligible. With consistent increase in set up costs in Tier-II and Tier-III cities, companies need to differentiate between buyers and users.

Figure 2: Growth in Credit Card Spends (in trillion)



Source: RBI, CRISIL Research

Strengths of the IPO

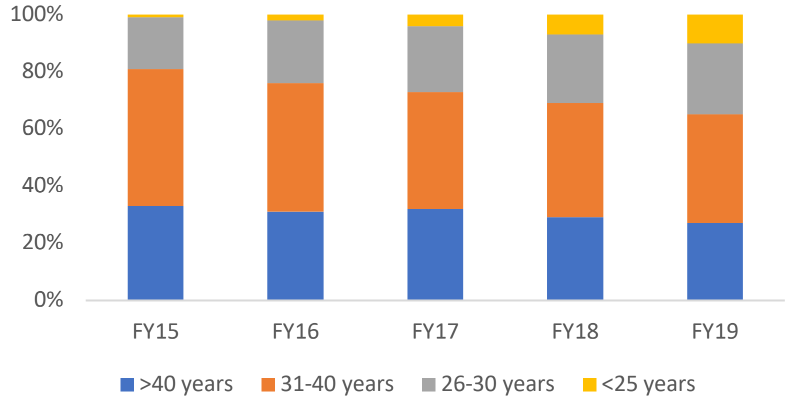
SBI Brand Name

While the business is undoubtedly lucrative, one of the biggest benefits that lies with SBI Cards is the brand/promoter name attached. Regarded as one of the most trusted brands in India, SBI, not just gives recognition to the card holder but also provides a backup of extensive branch network across India.

Industry Growth in Millennials

Following the western mindset, tech savvy young generation of India has started believing in the potential of credit and is utilizing it not just for necessary purchases but also for leisure and entertainment purpose. Usage of credit cards has increased from 19 percent in FY15 to 35 percent in FY19 and is increasing at a substantial rate among people below the age of 25.

Figure 3: Credit card usage growth as per age



Source: CIBIL, CRISIL Research

Risk Factors

The Legacy "SBI" Cards Carry

We understand the advantage of having such a big brand/promoter name at the back but that also carries the risk attached to it. Any kind of brand or promoter issues for SBI would also have a dripple down effect on SBI Cards.

Single Product Dependency

As mentioned above, the company has income only through interest or fee-based revenue system. Which means, in case of rise in the default (probably at the time of credit crisis) there is no other business lines which can act as a buffer in difficult times.

Competition from Other NBFCs

Currently SBI Cards is an exception which as an NBFC has the advantage of issuing credit cards. But how long is this likely to continue? NBFCs (like Bajaj Finserve) have been suggesting government to let NBFCs issues credit cards directly. Not just this, the Payments Council of India is also looking forward for entry of NBFCs into the business. Once this entry barrier is removed, SBI Cards would not have any competitive advantage over others.

Technology Pace

With the growth in the number of Unified Payment Interface (UPIs) and the government focusing aggressively on the digital payment system, one could not assume the same phenomenal growth of credit card as before. Also, with the ever-changing technology, it would not be wise to bank on one single product for long.

Massively Growing Credit Damage and NPAs

Credit issued through credit cards is an unsecured loan (no security behind the amount being issued). With the growing spending habit of millennials (spending before the income and no savings policy), the risk with NPAs would just be higher.

Losing Premium Market Share

While SBI Cards banks most on its diversified user base, however, in this run for millennials and smaller town cities, the company has lost its share of premium cards portfolio which has declined substantially during the period FY17-19.

Figure 4: New Customer Acquisition

Contribution in %	FY17	FY18	FY19	H1-20
Top Eight Metropolitan Areas	67	53.9	43	42
Tier II Metropolitan Areas	18.6	18.8	17.5	18.1
Tier III Metropolitan Areas	10.5	13.6	13.8	14.2
Others	4	13.7	25.7	25.7

Source: SBI Cards DRHP

High Valuation

Apart from the above-mentioned points, based on the profitability as compared with other NBFCs and companies in similar sector, the IPO values SBI Cards at INR 70,000 Cr at the upper end of the price band, which as per Lakewater Advisor is a valuation on much a higher side.

Lakewater Advisor's View

Based on the market sentiments and a brand name in its background, the IPO may generate an above average return in short term, but weighing the concerns over the benefits in a detailed manner, Lakewater Advisors would not recommend its value investors to keep SBI Cards in portfolio for a long term.