



SMC Ranking
 ★★☆☆☆ (4/5)

Issue Highlights

Industry	Credit Card
Offer for sale (Shares)	130,526,798
Fresh Issue (Shares)	6,622,517
Eligible Employees	1,864,669
SBI Shareholders Reservation Portion	13,052,680
Net Offer to the Public	137,149,315
Issue Size (Rs. Cr.)	10286-10355
Price Band (Rs.)	750-755
Employee Discount	Rs. 75
Offer Date	2-Mar-20
Close Date	5-Mar-20
Face Value	10
Lot Size	19

Issue Composition In shares

Total Issue for Sale	122,231,966
QIB	61,115,983
NIB	18,334,795
Retail	42,781,188

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	74.00%	69.51%
QIB	26.00%	22.40%
NIB	0.00%	1.95%
Employee reservation	0.00%	0.20%
SBI Shareholders Reservation Portion	0.00%	1.39%
Retail	0.00%	4.56%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The net proceeds of the Fresh Issue, i.e. Gross proceeds of the Fresh Issue less the Offer Expenses apportioned to the Company ("Net Proceeds") are proposed to be utilized for augmenting the capital base to meet company's future capital requirements.

Book Running Lead Manager

- Kotak Mahindra Capital Company Limited
- Axis capital Limited
- DSP Merrill Lynch Limited
- HSBC Securities & Capital Markets India Pvt Ltd
- Nomura Financial Advisory and Securities (India) Private Ltd
- SBI Capital Markets Limited

Name of the registrar

- Link Intime India Private Limited

About the Company

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. Since its operations, SBI's parentage and highly trusted brand have allowed it to quickly establish a reputation of trust, reliability and transparency with its cardholders. 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 offers four primary SBI Card-branded credit cards namely SimplySave, SimplyClick, Prime and Elite, each catering to a varying set of cardholder needs

Strength

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 Rs. 1,032.65 billion in total of credit card spends in fiscal 2019. The Company believes that its position as a large-scale, leading market player results in economies of scale that provide it with significant operating efficiencies and also help to diversify some of its 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). During that same period, its revenues from operations increased from Rs. 3346.20 Cr in fiscal 2017 to Rs. 6999.11 Cr in fiscal 2019 at a CAGR of 44.6%, while its net profit increased from Rs. 372.86 Cr in fiscal 2017 to 862.72 Cr in fiscal 2019 at a CAGR of 52.1%.

Diversified customer acquisition capabilities: SBI cards has deployed 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. The company believes that its multi-channel customer acquisition network provide it with broad reach into potential customers and has been one of the key factors to its success in building and developing its market-leading positions.

Supported by a strong brand and pre-eminent Promoter: The SBI Card brand has been honored Reader's Digest "Most Trusted Brand" in India in the credit card category 11 times since 2008, and it has won The Economic Times' "Best BFSI Brand" 130 in India in the credit cards category in 2019. Its relationship with its promoter, SBI provides the company with access to SBI's extensive branch network of 21,961 branches across India and enables it to market its 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. It offers four primary SBI branded credit cards: SimplySave, SimplyClick, Prime and Elite, each catering to a varying set of cardholder needs. In addition, SBI Cards has partnered with several leading names across industries, including Air India, Apollo Hospitals, BPCL, Etihad Guest, Fbb, IRCTC, OLAMoney and Yatra, amongst others.

Advanced risk management and data analytics capabilities: SBI cards possess a large database of cardholder demographic and socio-economic data derived from the numerous transactions carried out by millions of cardholders each year. It analyzes this data together with data obtained from credit bureaus and other sources to, among other things, generate underwriting scorecards tailored to cardholder demographics, proactively mitigate risks, and reduce losses and delinquencies. The company also takes an in-depth approach to credit analytics in its periodic credit monitoring processes.

Modern and scalable technology infrastructure: SBI Cards has a scalable, modern and sophisticated technology infrastructure capable of servicing the entire credit card life cycle. Its technology systems also leverage artificial intelligence and process automation technologies across several of its 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. As a result, its technology infrastructure and systems are a key competitive strength for the company.

Strategies

Expand customer acquisition capabilities to grow the cardholder base: SBI Cards aims to increase the number of open market physical points of sale that it operates across India. The company is focused on increasing its presence in India's tier II and tier III cities where its cardholder base has historically been underrepresented, but which have contributed an increasing proportion of their new accounts in recent years. The company also remains 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, it aims to continue strengthening its brand recognition by increasing its 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: SBI Cards Ltd intends to tap into new cardholder segments by continuing to expand its 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 its portfolio of credit cards with innovative products aimed at satisfying the needs of specific cardholder segments and by adapting its existing portfolio to changing needs and preferences, the company aims to continue meeting cardholders' demands and increase its 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. It's 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: The Company believes that credit management will be key to helping it to manage credit risk and detect early warning signs of credit difficulties. Therefore, it is constantly testing out additional ways to deploy its data analytics capabilities to improve its risk management efforts. The company is also working towards making its credit decision engines fully artificial intelligence-capable, as well as building artificial intelligence and machine learning capabilities into its 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. It constantly seeks to provide additional

payment capabilities and other functionalities to promote greater ease and convenience for their cardholders. It is also enhancing its customer service capabilities by leveraging its artificial intelligence-enabled knowledge management tools that assist its customer service representatives in providing faster information and more accurate resolution in real time to its customers. In addition to increasing its value proposition and providing greater convenience for its cardholders, it also believes these efforts will ultimately deepen its cardholder relationships

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

Risk Factor

Tough competition: The Company faces tough competition in the credit card market from other credit card issuers and payment solutions providers.

Fraudulent activity associated with its products and Network: Any fraudulent activity associated with its products or its networks could cause its brand to suffer reputational damage.

Rely on third-parties: The Company relies on third-party service providers, merchants, cardholder acquisition channels, processors, aggregators, payment networks and other third parties for services.

Cyber-attacks or other security breaches: Cyber-attacks or other security breaches could have a material adverse effect on its business, results of operation or financial condition

Peer comparison

As per the DRHP, there are no listed companies in India that engage in a business similar to that of the Company. Accordingly, it is not possible to provide an industry comparison in relation to the Company.

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 755, the stock is priced at pre issue P/E of 45.46x on its estimated annualised FY20 EPS of Rs. 16.61. Post issue, the stock is priced at a P/E of 45.79x on its EPS of Rs. 16.49. Looking at the P/B ratio at Rs. 755 the stock is priced at P/B ratio of 19.65x on the pre issue book value of Rs.38.42 and on the post issue book value of Rs. 43.47 the P/B comes out to 17.37x.

On the lower end of the price band of Rs.750 the stock is priced at pre issue P/E of 46.16x on its estimated annualised FY20 EPS of Rs. 16.61. Post issue, the stock is priced at a P/E of 45.48x on its EPS of Rs. 16.49. Looking at the P/B ratio at Rs. 750, the stock is priced at P/B ratio of 19.52x on the pre issue book value of Rs. 38.42 and on the post issue book value of Rs. 43.47, the P/B comes out to 17.25x.

Industry overview

Credit card industry intends to grow 2.5 times in the next five years. Credit card spends have registered a robust growth, growing at a CAGR of 32 per cent from fiscal 2015 to fiscal 2019 to reach Rs 6 lakh crore as of fiscal 2019, and is expected to grow at a healthy rate to reach Rs 15 lakh crore as of fiscal 2024, which is 2.5 times over fiscal 2019, according to CRISIL Research.

Outlook

SBI Cards is the subsidiary of SBI and the 2nd largest card issuer in India with nearly 18 per cent market share. Its revenues and margins are consistent and improving. There are no listed peers in same business to compare with. Considering various positive factors, it is expected that the issue will give listing gains to the investors and for the long term investor too.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	March 02, 2020
Bid/Offer Closing Date	March 05, 2020
Finalisation of Basis of Allotment with the Designated Stock Exchange	March 11, 2020
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	March 12, 2020
Credit of Equity Shares to depository accounts of Allottees	March 13, 2020
Commencement of trading of the Equity Shares on the Stock Exchanges	March 16, 2020

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-19 (6 Months)	Period ended 31-Mar-19 (12 Months)	Period ended 31-Mar-18 (12 Months)
Revenue from Operations	6,843.06	6,999.11	5,186.98
Total expenditure	4,581.08	4,856.92	3,714.84
Operating Profit	2,261.98	2,142.19	1,472.13
OPM%	33.06	30.61	28.38
Other Income	397.10	287.72	183.22
PBDIT	2,659.08	2,429.91	1,655.35
Depreciation	74.04	81.10	24.49
PBIT	2,585.04	2,348.81	1,630.86
Interest	966.37	1,017.21	711.51
Profit before tax	1,618.67	1,331.60	919.34
Tax	457.47	468.88	318.20
Profit After Tax	1,161.21	862.72	601.14

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-19	As on 31-Mar-19	As on 31-Mar-18
Financial Assets			
(a) Cash and cash equivalents	452.76	733.50	311.90
(b) Bank Balance other than (a) above	55.02	43.27	160.77
(c) Derivative financial instruments	0.00	0.10	0.00
(d) Receivables			
(i) Trade Receivables	58.49	148.82	23.00
(ii) Other Receivables	118.77	146.20	127.73
(e) Loans	23933.17	17908.72	14045.53
(f) Investment	1.46	1.46	0.00
(g) Other financial assets	29.49	30.60	113.92
Total financial assets	24649.17	19012.70	14782.87
Non- financial assets			
Current assets			
(a) Current tax assets (Net)	0.00	0.00	0.00
(b) Deferred tax assets (Net)	137.37	166.51	88.01
(c) Property plant and equipment	57.18	57.54	41.86
(d) Capital work in progress	18.31	4.34	13.34
(e) Intangible assets	73.82	64.60	43.98
(f) Intangible assets under development	14.62	15.83	21.72
(g) Right-of-use Assets	171.10	164.28	155.92
(h) Other non-Financial assets	871.89	753.83	538.31
Total non-financial assets	1344.29	1226.94	903.14
Total Assets	25993.47	20239.64	15686.01
Liabilities			
Financial liabilities			
(a) Derivative financial instruments	32.28	109.54	2.85
(b) Payables			
(I) Trade payables			
(i) total outstanding dues of micro enterprises and small enterprises	0.34	0.00	0.16
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	78.68	661.49	518.06
(II) Other payables			
(i) total outstanding dues of micro enterprises and small enterprises	0	0	0
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	6.185	3.56	11.341
(c) Debt Securities	6,714.98	4,079.32	2,948.93
(d) Borrowings (Other than Debt Securities)	10,616.20	8,374.41	7,465.86
(e) Subordinated Liabilities	1,246.52	1,196.80	998.04
(f) Other financial liabilities	810.75	957.69	644.85
Total financial liabilities	19,505.93	15,382.81	12,590.09
Non- financial liabilities			
(a) Current Tax liabilities (Net)	3.78	76.23	10.40
(b) Provisions	1,248.43	628.42	392.42
(c) Other Non- financial liabilities	484.02	570.46	340.04
Total Non- financial liabilities	1736.23	1275.11	742.86
Total liabilities	21242.15	16657.91	13332.94
Difference	4751.31	3581.73	2353.06
Net worth represented by:			
Share capital	932.33	837.22	785.00
Other Equity	3818.98	2744.50	1568.06
Net Worth	4751.31	3581.73	2353.06

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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