

India

REDUCE (no change)

Consensus ratings*: Buy 7 Hold 12 Sell 10

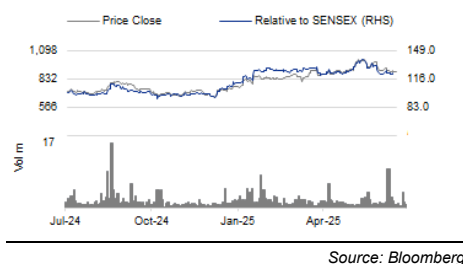
Current price: Rs886
 Target price: ▼ Rs700
 Previous target: Rs800
 Up/downside: -21.0%
 InCred Research / Consensus: -23.1%

Reuters:
 Bloomberg: SBICARD IN
 Market cap: US\$9,754m
 Rs842,863m
 Average daily turnover: US\$16.3m
 Rs1407.1m
 Current shares o/s: 951.5m
 Free float: 31.4%

*Source: Bloomberg

Key changes in this note

- We revise downwards our earnings estimates because of lower card issuance and higher credit costs than our expectations.



Price performance	1M	3M	12M
Absolute (%)	(9.8)	(4.4)	19.1
Relative (%)	(9.2)	(7.9)	16.0

Major shareholders

	% held
State Bank of India	68.6
ICICI Prudential MF	3.4
Nippon Life India MF	2.2

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SBI Cards**Caution in the cards, stretched valuation**

- SBI Cards posted a lower-than-expected 1QFY26 PAT of Rs5.6bn, down 6% yoy and up 4% qoq, amid higher credit costs and a slow growth in receivables.
- The growth in receivables slowed significantly, 7% yoy in 1QFY26 from ~20-40% yoy over FY23 to mid-FY25, as SBIC implements tighter underwriting.
- We believe any abatement in credit costs has already been priced in and thus await a revival in receivable growth. Retain REDUCE with a lower TP of Rs700.

Elevated credit costs continue to erode PAT

SBI Cards reported a lower-than-expected 1QFY26 PAT of Rs5.6bn, down 6% yoy and up 4% qoq, because of continued elevated credit costs (up 60bp qoq and 110bp yoy). High credit costs are attributable to a revised expected credit loss or ECL rate due to periodic data refresh and rising interest-earning assets. Gross NPAs were largely flat, both yoy and qoq at 3.07%, as write-offs remained high at Rs13bn, up 32% yoy and down 2% qoq.

Slowdown amid tighter underwriting & higher corporate spending

Receivables at Rs566bn have largely remained flat over the last three quarters, even as spending rose by 21% yoy and 6% qoq to ~Rs932bn, indicating that receivables per card have been declining over the last three quarters, and were at Rs26,710 (down 3% yoy). This decline is higher than the usual seasonal slowdown and is aided by strict underwriting and tightening of spending limits (implemented on ~13-15% of the loan book) along with rising corporate spending. Cards in force (CIF) reached 21.2m, with a net qoq addition of ~0.4m. New account addition moderated to ~0.87m (down 21% qoq, 3% yoy) due to the company's cautious approach. Management indicated that new card addition will be sluggish, in the 0.9-1m range, in FY26F.

NIM to benefit from rate cut due to faster transmission on borrowings

Reported NIM was flat qoq at 11.2%, although excluding the one-time impact of lease liability modification, it was up 10bp qoq on the back of lower cost of funds (down 20bp qoq). The complete benefit of the last repo rate cut (50bp) in Jun 2025 will be seen from 2QFY26F. Other income grew by 14% yoy and 5% qoq led by rising corporate spending.

Outlook & valuation: Retain REDUCE, negatives outweigh positives

We believe the higher ECL rate will restrict downward credit cost movement. This is the fourth consequent quarter of credits costs remaining above 9%, and SBIC's management has indicated the same to be range-bound in the near future. We believe the premium valuation of SBIC will erode as it is streamlining the customer base, given that the mass population has a limited understanding of credit cards. The near- to mid-term return ratios remain feeble due to weak card issuance following a tighter capital adequacy ratio, stricter underwriting norms and elevated credit costs amid higher ECL revision and write-offs. We maintain our REDUCE rating on SBIC with a lower target price of Rs700 (Rs800 earlier) or ~3.8x FY27F ABV. Upside risk: Superior growth or significantly better credit costs.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	53,319	61,689	70,442	76,518	85,948
Total Non-Interest Income (Rsm)	95,564	92,898	104,542	117,448	137,643
Operating Revenue (Rsm)	148,883	154,588	174,984	193,966	223,591
Total Provision Charges (Rsm)	(32,874)	(48,715)	(51,940)	(50,159)	(55,943)
Net Profit (Rsm)	24,079	19,164	22,181	27,721	31,555
Core EPS (Rs)	25.32	20.14	23.31	29.13	33.16
Core EPS Growth	6%	(20%)	16%	25%	14%
FD Core P/E (x)	34.98	43.97	38.00	30.41	26.71
DPS (Rs)	2.50	2.50	3.50	4.37	0.00
Dividend Yield	0.28%	0.28%	0.39%	0.49%	0.00%
BVPS (Rs)	127.1	144.9	164.7	189.5	217.6
P/BV (x)	6.97	6.11	5.38	4.68	4.07
ROE	22.0%	14.8%	15.1%	16.5%	16.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
Net Interest Income	14,765	15,021	15,705	16,199	16,803	13.8%	3.7%
Fee-Based Income	22,393	22,661	23,675	24,166	25,422	13.5%	5.2%
Total Income	37,158	37,681	39,379	40,365	42,226	13.6%	4.6%
Operating Expenses	18,160	20,109	21,072	20,728	21,227	16.9%	2.4%
PPOP	18,998	17,573	18,308	19,637	20,999	10.5%	6.9%
C/I Ratio (%)	48.9%	53.4%	53.5%	51.4%	50.3%		
Provisions	11,006	12,120	13,131	12,451	13,516	22.8%	8.5%
PAT	5,944	4,044	3,832	5,342	5,560	-6.5%	4.1%
Gross NPL	15,935	18,182	17,746	17,199	17,537	10.1%	2.0%
GNPL (% of loans)	3.1%	3.3%	3.2%	3.1%	3.1%		
Net NPL	5,640	6,378	6,231	7,874	6,351	12.6%	-19.4%
NNPL (% of loans)	1.1%	1.2%	1.2%	1.5%	1.2%		
Provision Coverage (%)	63.7%	63.6%	63.6%	52.6%	62.5%		
Advances (Rs m)	5,08,070	5,35,959	5,28,080	5,39,346	5,46,290	7.5%	1.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

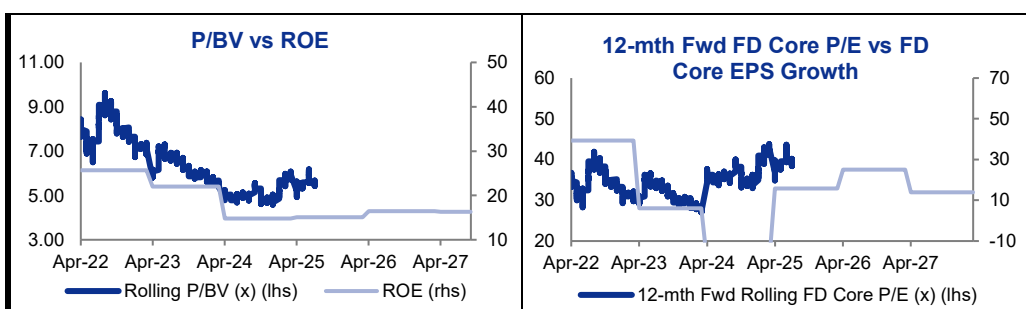
Y/E Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest income	69,036	70,442	2.0%	78,391	76,518	-2.4%	91,589	85,948	-6.2%
Non-Interest Income	1,03,056	1,04,542	1.4%	1,20,531	1,17,448	-2.6%	1,42,334	1,37,643	-3.3%
PPOP	80,744	81,798	1.3%	92,256	87,474	-5.2%	1,08,056	98,418	-8.9%
PAT	23,848	22,181	-7.0%	30,245	27,721	-8.3%	36,843	31,555	-14.4%
EPS (Rs)	25.1	23.3	-7.0%	31.8	29.1	-8.3%	38.7	33.2	-14.4%
BV (Rs)	166.2	164.8	-0.9%	193.3	189.6	-1.9%	226.2	217.8	-3.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY26 earnings-call highlights ➤

- Demand for credit cards is sufficient in the industry; however, SBI Cards' focus area is quality acquisition for sustainable growth of its business.
- Retail spending across discretionary and non-discretionary segments has shown good traction. Travel and entertainment are the significant contributors across online and retail spending.
- Rupay credit cards saw a 20% yoy growth mainly at department stores, utility and fuel payments, etc.
- Spending per Rupay credit card was higher than that of other cards. However, it carries a ~20-30% lower interchange income, although the same is offset by large volumes in Rupay credit cards.
- During the quarter, the company inked partnerships with Apollo Hospitals to cater to the healthcare segment and signed Memorandums of Understanding (MoUs) with Bank of Maharashtra for credit card offerings and with Phonepe to leverage its strong customer base.
- The co-branded credit card base stood at 25-30%.
- The growth in receivables remains muted in the retail segment and the company's guidance is in the range of 10-12% yoy for FY26F.
- The focus is on improving the borrowing mix and optimizing low-cost funds. The guidance is that the cost of borrowing will be 20-30bp lower than current levels.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	53,319	61,689	70,442	76,518	85,948
Total Non-Interest Income	95,564	92,898	104,542	117,448	137,643
Operating Revenue	148,883	154,588	174,984	193,966	223,591
Total Non-Interest Expenses	(83,691)	(80,066)	(93,187)	(106,493)	(125,173)
Pre-provision Operating Profit	65,192	74,522	81,798	87,474	98,418
Total Provision Charges	(32,874)	(48,715)	(51,940)	(50,159)	(55,943)
Operating Profit After Provisions	32,318	25,807	29,858	37,314	42,475
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	32,318	25,807	29,858	37,314	42,475
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	32,318	25,807	29,858	37,314	42,475
Exceptional Items					
Pre-tax Profit	32,318	25,807	29,858	37,314	42,475
Taxation	(8,239)	(6,643)	(7,676)	(9,593)	(10,920)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	24,079	19,164	22,181	27,721	31,555
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	24,079	19,164	22,181	27,721	31,555
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	9.4%	12.3%	12.4%	11.1%	10.2%
Avg Liquid Assets/Avg IEAs	10.4%	13.5%	13.4%	11.9%	10.9%
Net Cust Loans/Assets	84.4%	82.3%	84.2%	84.1%	85.2%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	24.6%	25.6%	25.9%	26.3%	25.2%
Asset Risk Weighting	109.4%	109.4%	109.4%	109.4%	
Provision Charge/Avg Cust Loans	7.43%	9.46%	9.07%	7.76%	7.41%
Provision Charge/Avg Assets	6.34%	7.88%	7.55%	6.53%	6.28%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	490,790	539,346	606,079	686,586	822,718
Liquid Assets & Invst. (Current)	35,191	62,351	67,164	72,700	78,693
Other Int. Earning Assets					
Total Gross Int. Earning Assets	525,981	601,697	673,243	759,286	901,411
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	525,981	601,697	673,243	759,286	901,411
Intangible Assets					
Other Non-Interest Earning Assets	28,435	26,379	32,777	40,739	50,650
Total Non-Interest Earning Assets	28,435	26,379	32,777	40,739	50,650
Cash And Marketable Securities	27,296	27,382	13,902	16,613	13,510
Long-term Investments					
Total Assets	581,712	655,458	719,922	816,638	965,570
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	443,649	499,203	545,471	617,928	732,219
Total Interest-Bearing Liabilities	443,649	499,203	545,471	617,928	732,219
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	17,223	18,438	17,736	18,433	26,252
Total Liabilities	460,872	517,641	563,208	636,361	758,471
Shareholders Equity	120,840	137,817	156,715	180,277	207,099
Minority Interests					
Total Equity	120,840	137,817	156,715	180,277	207,099

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	18.4%	15.7%	14.2%	8.6%	12.3%
Operating Profit Growth	25.6%	14.3%	9.8%	6.9%	12.5%
Pretax Profit Growth	7%	(20%)	16%	25%	14%
Net Interest To Total Income	35.8%	39.9%	40.3%	39.4%	38.4%
Cost Of Funds	6.61%	6.74%	6.19%	5.92%	5.57%
Return On Interest Earning Assets	16.8%	16.6%	16.1%	15.5%	14.9%
Net Interest Spread	10.24%	9.84%	9.93%	9.57%	9.31%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)	10.18%	9.12%	9.37%	9.11%	19.25%
Provisions to Pre Prov. Operating Profit	50%	65%	63%	57%	57%
Interest Return On Average Assets	10.28%	9.97%	10.24%	9.96%	9.65%
Effective Tax Rate	25.5%	25.7%	25.7%	25.7%	25.7%
Net Dividend Payout Ratio					
Return On Average Assets	4.64%	3.10%	3.23%	3.61%	3.54%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.