

Bullish on Consumption Story SBI Cards Looks a Good Bet

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IPO WATCH

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Offer Details

IPO Price ₹750-755*	Issue Dates March 2-4, 2020
Issue Size Up to ₹10,354 cr	Asked Market Cap Up to ₹70,891 cr
	Lot Size 19

*SBI Card Employees will get a discount of ₹75/share

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ET Intelligence Group: SBI Cards & Payment Services (SBI Cards), a credit card subsidiary of State Bank of India (SBI) will raise ₹600 crore through fresh issue of shares and up to ₹9,854 crore through offer for sale of existing shares. After the IPO, SBI's shareholding will fall to 70% from 74% and that of CA Rover Holdings will reduce to 16% from 26%. Given its dominant position in the domestic credit cards market and strong parentage of SBI, the company is well-positioned to take advantage of the rising trend of digital payments. Investors with a long-term horizon and wanting an exposure to growing consumerism may consider the IPO.

BUSINESS AND FINANCIALS

The company is the largest pure play credit card issuer in India. Considering the card services of banks, it is the second largest after HDFC Bank. With 10 million cards in force and ₹98,500 crore in card spends in the nine months to December 2019, SBI Cards had 18% market share. Nearly half the cards are issued using distribution channels of SBI and other banks while the remaining are through its customer acquisition network across 145 Indian cities.

Credit card spends in the country increased by 32% annually to ₹6.1 trillion between FY15 and FY19 according to RBI and CRISIL following rising awareness

PROMOTERS SBI & CARLYLE TO LOWER THEIR STAKES

What's on The Card

SBI Cards & Payments Services, the credit card company owned by State Bank of India (SBI), is launching a ₹10,341-crore initial public offer on March 2 closing on March 5. This is the largest IPO of the current fiscal year. The majority of the issue (around 95%) is an offer for sale through which the two promoters, SBI and Carlyle Group, will reduce their stake. SBI's stake will come down from 74% to 70%, and Carlyle's share will fall to 16% from 26%. Following are the key numbers from the issue. — Joel Rebello

Biggest IPOs

Company	Issue Size (₹ Cr)	Year
Coal India	15,199.44	Oct 10
Reliance Power	11,700.00	Jan 08
GIC India	11,175.80	Oct 17
SBI Card	10,341.00	Mar 20
New India Assurance	9,466.98	Nov 17
DLF	9,187.50	Jun 07
HDFC Standard Life	8,695.00	Nov 17
SBI Life Ins	8,386.40	Sep 17

SOURCE: ETIG

Difference in card fees

Issuer	Types of cards offered	Range of fees paid for cards
HDFC Bank	20	₹500-₹5,000
SBI	46	₹500-₹10,000
ICICI Bank	33	₹200-₹10,000
Axis Bank	21	₹250-₹10,000

SOURCE: SBI Card RHP



Credit cards in India (Dec 19)

Issuer	Number of cards	Number of transactions	Amount of transactions
HDFC Bank	1.39 crore	5.94 crore	₹20,156 crore
SBI	1 crore	3.75 crore	₹11,539 crore
ICICI Bank	85.68 lakh	3.07 crore	₹8,353 crore
Axis Bank	68.51 lakh	1.69 crore	₹6,582 crore

ANIRBAN BORA SOURCE: RBI

of digital payments. The proportion of digital transactions increased to 62% in FY19 from 25% in FY14. These factors augur well for SBI Cards.

The company's revenue and net profit doubled to ₹7,286.8 crore and ₹862.7 crore respectively between FY17 and FY19. In the nine months to December 2019,

net profit crossed the FY19 level to reach ₹1,161.2 crore while revenue was ₹7,240.1 crore. Its return on equity (RoE) has remained above 28% since FY17.

Continued on
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Bullish on Consumption Story? SBI Cards IPO Looks A Good Bet

► From ET Markets Page 1

RISKS

Competition from prepaid instruments such as e-wallets and UPI service is rising though they are mainly used for small transactions and do not offer credit period or benefit of reward points unlike credit cards. In addition, SBI Cards has adopted technologies to offer virtual cards on various mobile platforms thereby improving its appeal to tech savvy young generation.

Economic slowdown affecting discretionary spend is another major risk. However, so far, the company has not experienced any slowdown in either card issuance or card spending.

VALUATION

Considering the equity after IPO and annualising the net profit in the nine-month to December 2019, the company demands price-earnings multiple (P/E) of



nearly 46. It has no listed peers in India. A look at more mature markets such as the US reveals that American Express, which derives over half of the revenue from consumer services including credit cards, trades at a trailing P/E of around 17 with RoE of nearly 30%. Another US company Capital One, which earns nearly two-third revenue from the card business, trades at a P/E of 9.2 and has an RoE of 10%.

While SBI Cards' valuation looks aggressive, it reflects the faster growth in the Indian market as well as the company's growth momentum.