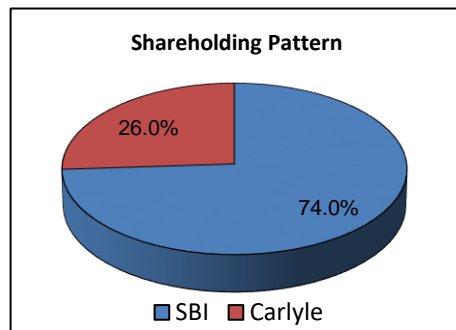


SBI Cards Prospectus Findings



About SBI Cards

They are the second-largest credit card issuer in India, with a 18.0% market share of the Indian credit card market in terms of the number of credit cards outstanding as of September 30, 2019 and a 17.9% market share of the Indian credit card market in terms of total credit card spends in the six months ended September 30, 2019. (RBI Data) 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 overall credit card industry, according to the RBI) and the number of credit cards outstanding grew at a 34.5% CAGR.

History

Commenced operations in 1998 as a joint venture between SBI and GE Capital. Received RBI approval to operate as a non-banking financial institution on October 6, 1998. GE Capital's ownership stake in SBI Cards was acquired by SBI and CA Rover Holdings in 2017.

5 Facts to know

They deploy a sales force of 33,086 outsourced sales personnel (Sept 2019) operating out of 133 Indian cities. Out of the aforesaid outsourced sales personnel, they have 4,350 outsourced workforces for tele-sales.

They engage prospective customers through multiple channels, including physical points of sale in bank branches, retail stores, malls, fuel stations, railway stations, airports, corporate parks and offices, as well as through tele-sales, online channels, email, SMS marketing and mobile applications.

They are the leading player in open market customer acquisition in India according to CRISIL Report.

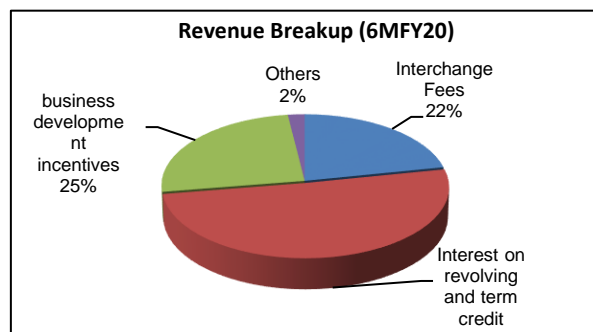
Presence in 3,009 open market points of sale across India.

Partnership with SBI provides them with access to SBI's extensive network of 22,007 branches across India, which enables marketing credit cards to SBI's vast customer base of 436.4 million customers as of March 31, 2019.

Management Team

Managing Director and Chief Executive Officer, Mr. Hardayal Prasad, has over 36 years of experience in the financial services industry.

How does SBI Cards earn money?



They focus on two main financial needs: transactional needs and short term credit. The revenue derived from credit card products consists primarily of interest on credit card receivables and non-interest income primarily comprised of fee-based income such as interchange fees, late fees, annual credit card membership fees and other fees.

They extend credit to cardholders through revolving credit card accounts at standard terms. Their cardholders have the option to "revolve" their balances or convert their

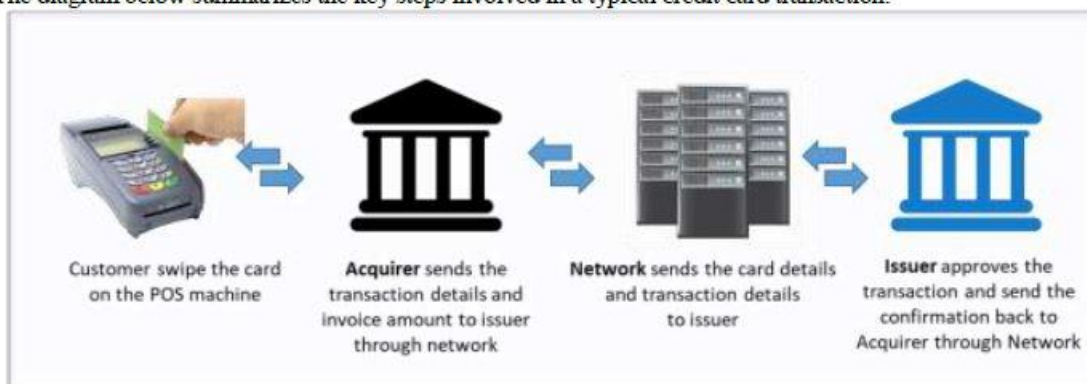
balances into monthly installments and repay their obligations over a period of time and at a fixed interest rate set forth in their cardholder agreements. They assign each card account a credit limit when the account is initially opened.

They typically charge cardholders an annual credit card fee for credit cards. In addition to periodic interest charges, they also charge cardholders other fees as specified in the cardholder agreements. These fees may include fees for late payments where a cardholder has not paid at least the minimum payment due by the required due date, returned checks and balance transfer transactions. These fees are based on a standardized schedule and can vary based on the type of merchant.

Apart from interest and fees from cardholders, they also receive interchange fees from the merchant acquirer that settles their cardholders' transactions with merchants and as business development incentives from the payment networks. Interchange fees comprised 21.1% and 21.9% of total revenue from operations in the six months ended September 30, 2018 and 2019, respectively, and 22.5% in fiscal 2019, 21.5% in fiscal 2018 and 19.3% in fiscal 2017.

Lifecycle of a credit card transaction

The diagram below summarizes the key steps involved in a typical credit card transaction:



A typical credit card transaction begins when a cardholder purchases goods or services from a merchant using SBI Cards credit card.

After the transaction is authorized by the credit card issuer through the payment network, the credit card issuer pays the purchase amount to the payment network net of interchange fees.

The payment network, in turn, then pays the purchase amount to the acquirer.

Finally, the acquirer pays the purchase amount to the merchant net of acquirer fees.

Financial Statement Analysis

In every result declared, firm has been writing down 15% as bad debts and impairment. That's because they are into unsecured lending but NPAs are contained as the size is huge.

Restated Statement of Profit and Loss

Particulars	(Figure in Rupees Million, unless otherwise stated)				
	For the half year ended September 30, 2019	For the half year ended September 30, 2018	For the year ended March 31, 2019	For the year ended March 31, 2018	For the year ended March 31, 2017 (Proforma)
1 Revenue from Operations					
(i) Interest Income	22,115.64	16,992.17	35,757.12	27,599.80	18,881.60
(ii) Income from fees and services	19,378.36	13,593.90	30,720.37	21,772.67	13,115.85
(iii) Service Charges	527.40	329.76	1,258.59	796.13	533.39
(iv) Business development incentive income	1,566.07	707.86	2,166.73	1,628.40	883.29
(v) Insurance commission income	52.92	41.54	87.26	72.75	47.90
(vi) Net gain on fair value changes	(1.04)	491.45	1.04	-	-
Total Revenue from operations	43,639.35	32,156.68	69,991.11	51,869.75	33,462.03
2 Other Income	3,132.73	1,266.06	2,877.23	1,832.17	1,248.35
3 Total Income (1+2)	46,772.08	33,422.74	72,868.34	53,701.92	34,710.38
4 EXPENSES					
(i) Finance costs	6,213.22	4,659.86	10,172.10	7,115.11	5,284.32
(ii) Employee benefits expenses	2,103.13	1,921.87	3,904.03	1,930.88	953.07
(iii) Depreciation, amortisation and impairment	478.75	367.56	811.01	244.93	47.93
(iv) Operating and other expenses	20,358.01	15,435.37	33,045.94	27,119.22	17,318.75
(v) CSR expenses	15.15	24.45	141.85	97.75	70.39
(vi) Impairment losses & bad debts	7,257.97	5,214.87	11,477.42	8,000.58	5,319.69

Findings from Financials

Particulars (Rs Cr)	FY17	FY18	FY19	6M	
				Sept 2019	Comments
Share Capital	785.00	785.00	837.22	932.33	Share capital increased due to capital raise
Networth	1448.82	2424.57	3653.23	4381.42	Networth increased - result of capital raise and profit accumulation
Revenue	3471.04	5370.19	7286.83	4677.20	Revenue on uptrend
PAT	372.86	601.14	862.72	725.89	PAT on uptrend
EPS Diluted	4.75	7.40	9.43	7.79	PAT on uptrend
Book value per share	18.46	29.83	39.93	46.99	BVPS on uptrend
Total Borrowings	8268.42	11412.82	13650.53	17427.34	
Provision Coverage Ratio	67.9%	67.3%	66.5%	67.0%	Has been constant from a long time.
RoE	26%	25%	24%	17%	RoEs are good.
New Accounts acquired from SBI Customer base	35.20%	45.50%	55.20%		Dependence on SBI is huge.
Total credit card receivables portfolio	10305	14569	18526	-	Increase in portfolio size.
Unsecured % of credit card portfolio	97.3%	98.2%	98.7%	98.5%	Business type is such that unsecured credit is the major part
Total Capital Adequacy Ratio	15.68%	18.28%	19.99%	19.00%	CAR on uptrend
Employee benefit expenses	95.31	193.09	390.40	210.31	Employee Benefit expenses increasing rapidly. More sales - more incentives
GNPA	2.34%	2.83%	2.44%	2.33%	GNPA fairly stable
NNPA	0.76%	0.94%	0.83%	0.78%	NNPA fairly stable

Peer Set Glance

They have a broad credit card portfolio that includes SBI Card-branded credit cards as well as co-branded credit cards that bear both the SBI Card brand and their co-brand partners' brands.

	SBI Card	HDFC Bank	ICICI Bank	Axis Bank	RBL Bank	IndusInd Bank
Total number of cards offered	46	20	33	21	30	23
% of premium cards offered*	~40%	~20%	~45%	~25%	~25%	~70%
Range of fees for paid cards	500-5,000	500-10,000	200-10,000	250-10,000	500-5,000	250-25,000

*Note: * Premium cards are classified as cards with joining fee of more than Rs 1,500; Proportion of premium cards is calculated based on total cards offered by the player as per disclosures on the website; Data excludes corporate credit cards*
Source: Company website, CRISIL Research

Objects of Issue

Offer for sale for exiting investor and fresh issue funds to augment capital base (Capital adequacy ratios)

Industry and Competition

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 ~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.

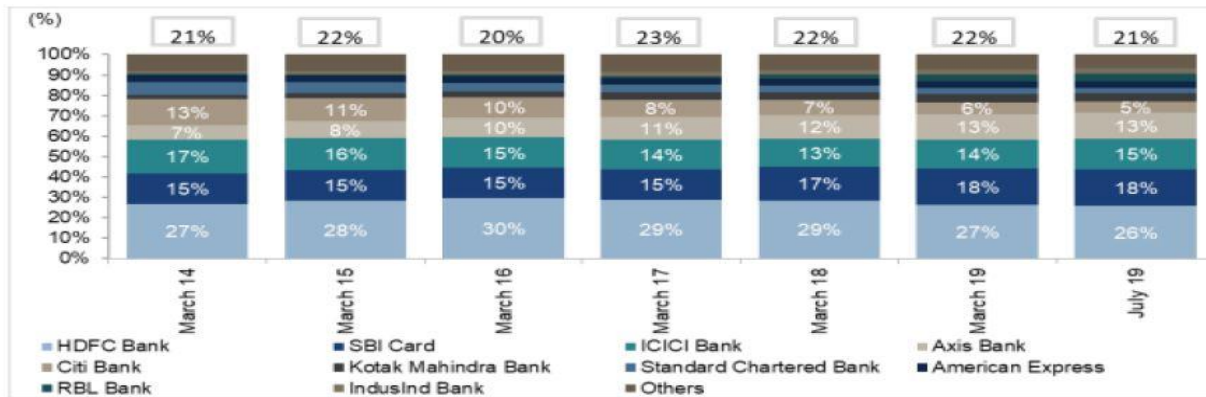
Share in cards in force	1M	3M	6M	12M	24M	36M
HDFC Bank	30%	18%	12%	16%	20%	21%
SBI Card	45%	24%	27%	24%	23%	22%
ICICI Bank	44%	29%	24%	21%	17%	15%
Axis Bank	19%	13%	16%	16%	15%	15%
Citi Bank	2%	1%	0%	1%	1%	1%
Kotak Mahindra Bank	-11%	1%	3%	4%	5%	5%
RBL Bank	-8%	7%	9%	9%	9%	7%
American Express	4%	3%	3%	3%	3%	3%
Standard Chartered Bank	-3%	0%	-1%	0%	1%	1%
IndusInd Bank	4%	4%	3%	3%	3%	3%

	Number of co-branded partners	Travel	Shopping / Entertainment	Payments	Lending	Healthcare	Others
SBI Card	18	7	3	-	-	1	7
ICICI Bank	12	8	1	-	-	-	3
RBL Bank*	8	1	1	-	2	1	4
HDFC Bank	6	3	1	-	1	-	1
Axis Bank	4	2	1	1	-	-	-
Citi bank	3	1	1	1	-	-	-
Amex	1	1	-	-	-	-	-
IndusInd Bank	1	1	-	-	-	-	-

Note: * RBL has same co-brand offering different card under travel and other category

Source: Company website, CRISIL Research

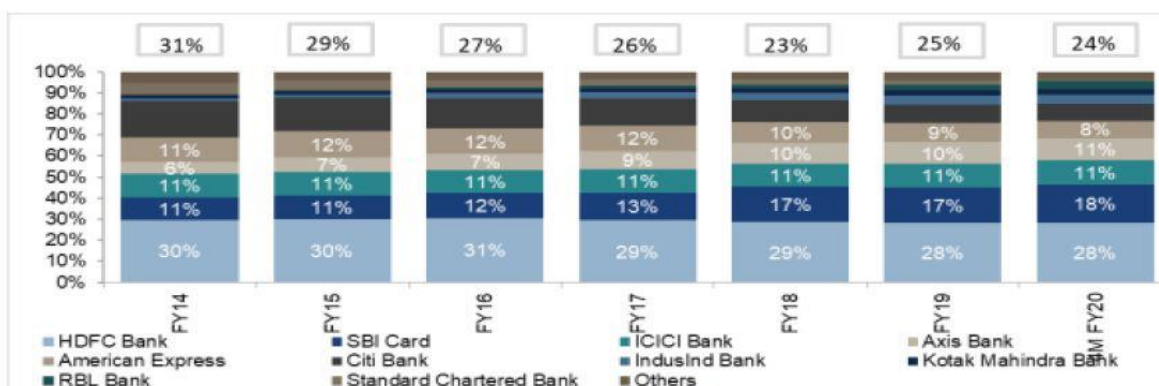
Leaders by Market Share



Note: Figures in box represents share of other players except top 5 players

Source: RBI, CRISIL Research

Leaders by Card Spends



Note: Figures in box represents share of other players except top 5 players
Source: RBI, CRISIL Research

HDFC Bank is the market leader and has maintained its market share in the number of outstanding credit cards at approximately 27.0% over the years, followed by SBI Card at 18.0%, ICICI Bank at 14.0% and Axis Bank at 13.0%. The market share of SBI Card in terms of total outstanding cards has continuously increased over the years from 15.0% in fiscal 2014 to 18.0% in fiscal 2019.

The next six players, after the top four, together accounted for 22.0% of outstanding credit card in fiscal 2019. New players such as RBL Bank have been emerging strongly mainly on the back of co-branded cards. RBL Bank now accounts for approximately 4.0% of the credit card market. Foreign players such as Citi Bank has been losing market share over the years from 13.0% in fiscal 2014 to 5.0% in fiscal 2019 owing to aggressive growth from private banks and new players in the market.

Acquisition Price

The average cost of acquisition per Equity Share at which Equity Shares were acquired by our Promoter (also the Promoter Selling Shareholder) and the Investor Selling Shareholders as at the date of this Draft Red Herring Prospectus is:

Name	No. of Equity Shares acquired	Average cost of acquisition per Equity Share (in ₹)
<i>Promoter (also the Promoter Selling Shareholder)</i>		
State Bank of India*	689,927,363 [^]	28.69
<i>Investor Selling Shareholder</i>		
CA Rover Holdings**	242,406,915	81.19

*As certified by S. Ramanand Aiyar & Co., by way of their certificate dated November 22, 2019.

**As certified by KPB & Associates, by way of their certificate dated November 24, 2019.

[^]This includes one Equity Share each held by Mr. Shree Prakash Singh, Mr. K. Pradeep, Ms. Usha Gautam, Mr. P.M. Mohan Patro and Mr. Sanjay Kumar Tiwari. SBI is the beneficial owner of such Equity Shares.

Supporting Infra

The Point of Sale (POS) infrastructure in India has more than doubled over the past five years from 1.1 million in fiscal 2014 to 3.7 million in fiscal 2019; but it remains weak in terms of availability. According to RBI Payment and Settlement System in India (Vision 2019-2021), acceptance infrastructure, particularly POS terminals, mobile POS and asset-light terminals, as a percentage of the total number of debit and credit cards is low. Hence there is a need to increase the penetration of acceptance infrastructure in the country. RBI expects to have 5.0 million active POS by the end of 2021.

Risks

Over 486 Tax proceedings against SBI (promoter) of Rs 39056 Cr (Net worth of SBI cards was 4381 Cr in 6MFY20)

Poor economic conditions reduce the usage of credit cards and the average purchase amount of transactions on credit cards, both of which reduce interest and fee incomes.

Promoter (SBI) is selling a partial equity stake through this offering. Although, Promoter would require the RBI's approval to relinquish control in SBI Cards, they cannot assure that SBI would not divest additional equity stakes in SBI cards in the future. Therefore, SBI Cards cannot assure that they will continue to enjoy the same level of support from SBI in the future. This could also hamper certain of decision-making processes and could result in sudden or unexpected changes in management, corporate policy and strategic direction, each of which could adversely affect them. (Support was - in its capacity as a commercial banking institution, SBI had extended working capital loans and non-convertible debentures to SBI cards, out of which ₹97,666.01 million remained outstanding as of September 30, 2019. SBI has also contributed several members of SBI Cards' key management personnel, and have also leveraged Promoter's existing infrastructure and management expertise to support some of business functions such as IT infrastructure, compliance and risk management, human resources and support for certain information systems. They also benefit from certain pricing advantages derived from Promoter's size and scale in negotiating third-party vendor contracts, where they may in certain instances obtain more attractive group rate discounts than could have obtained otherwise. Finally, the Promoter is also the sponsor bank for one of the payment network agreements, and withdrawal of Promoter's support from this arrangement and inability to find another sponsor bank, may result in a disruption of that payment network agreement. SBI Cards arrangements with Promoter are not exclusive. As a result, the Promoter (SBI Bank) could enter into similar or competing relationships with third parties, including competitors. In addition, the agreements governing arrangements with Promoter allow Promoter to terminate such agreements upon notice without cause. The termination of any of such arrangements could have a material adverse effect)

Competition with other credit card issuers and payment solutions providers such as banks, payment banks, NBFCs and financial technology enterprises on the basis of a number of factors, including brand, reputation, customer service, product offerings, incentives, pricing, technology and other terms. In particular, mobile, e-wallet and tokenization platforms, including the increasingly prevalent unified payments interface platform, present formidable competition as they are able to attract large payment volumes at low or no payment processing fees to merchants.

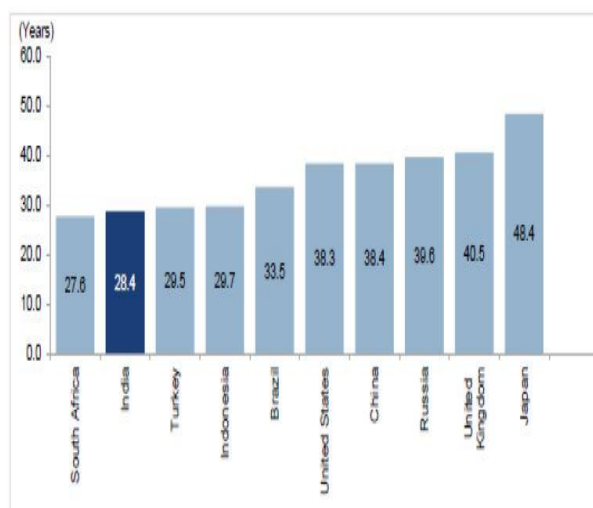
In fiscals 2019, 2018, and 2017, new accounts acquired from Promoter's customer base accounted for 55.2%, 45.5% and 35.2%, respectively, of total new accounts.

Credit Ratings

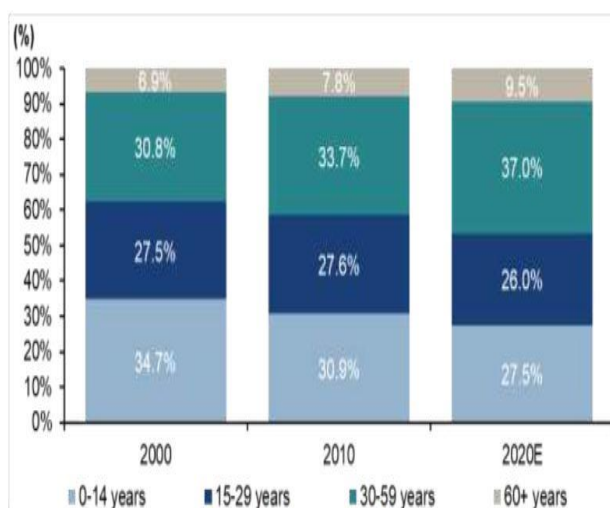
Currently rated AAA and A1+ by both CRISIL and ICRA.

Positive Triggers

India's per capita GDP is expected to grow at a CAGR of 6.0% over the next five years till Rs. 142,000 in fiscal 2024.



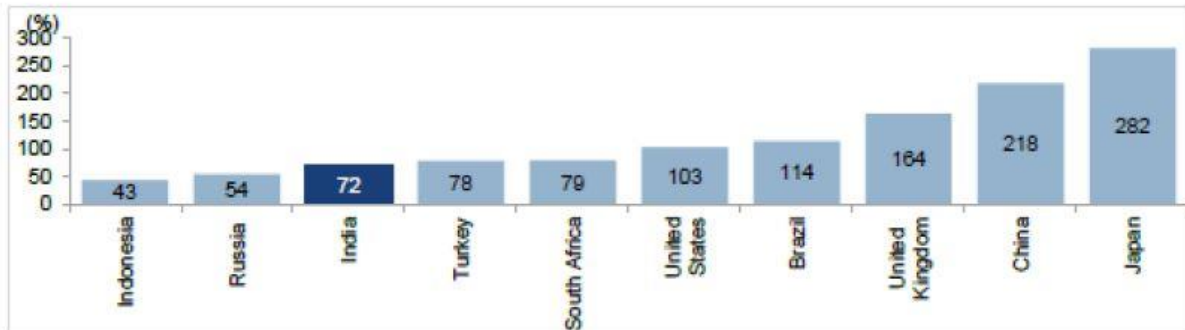
Note: Median age data is for calendar year 2020
Source: United Nations World Population Prospects 2019



Note: E means Estimated
Source: United Nations Department of Economic and Social Affairs, CRISIL Research

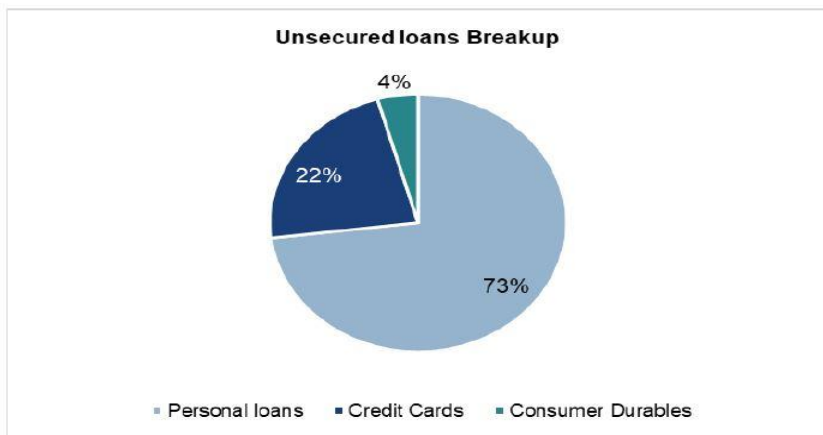
According to CRISIL Research, India's median population age is estimated at 28.4 years in calendar year 2020. Indonesia and South Africa are the only countries which has median population age closer to India at 29.5 years and 27.6 years, respectively. Japan had the highest median population age of 48.4 years. With a low median age, India holds the advantage of having an increased working population going forward. This population group is aspirational which will contribute to private consumption and GDP growth rate. The figure below depicts the median age for India as compared to other countries in the calendar year 2020.

Credit Penetration set to improve as there is huge scope.



Source: World Bank, Data for India is of 2017

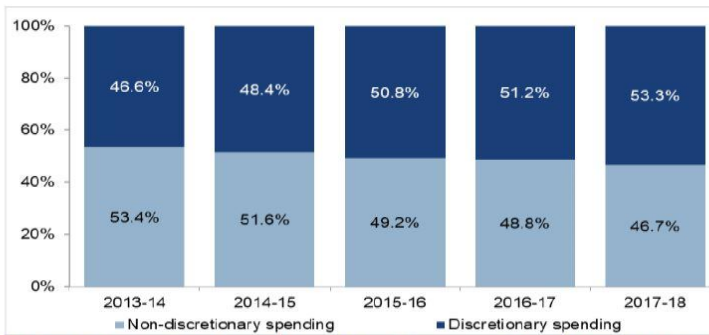
Unsecured loans, which comprise of credit cards, personal and consumer durables loans, is a strong growth driver of retail credit. Compared to retail credit, unsecured loans have grown at a faster pace in India at a CAGR of 28.0% to reach approximately 5.0 trillion unsecured loans as of fiscal 2019. For many customers, especially millennials (persons below 30 years of age), unsecured loans would be the first form in which they access credit.



Note: Data is for fiscal 2019.
Source: CRISIL Research

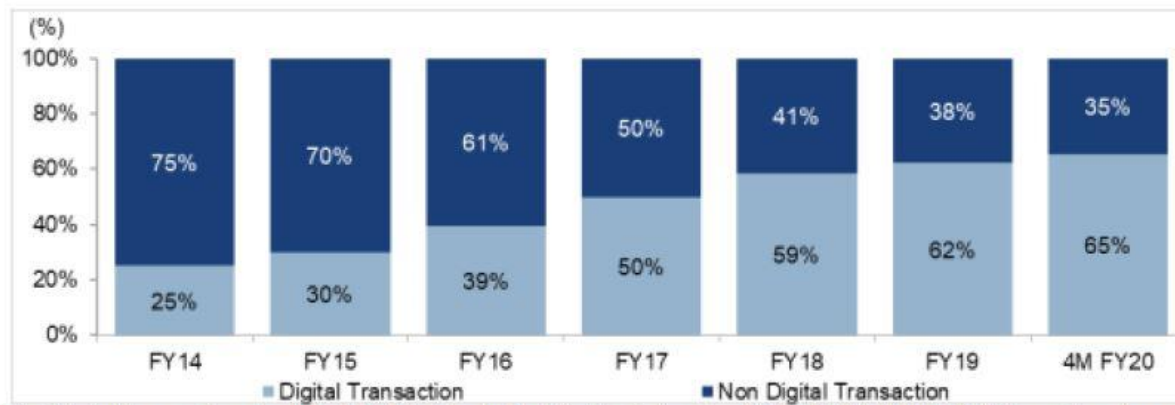
Discretionary spending set to increase due to more millennial population

the years, Indians are increasingly spending more on discretionary items, such as dining, entertainment, vacations and luxury goods, and less on non-discretionary items such as food, shelter and education. The figure below depicts the year-on-year percentage change in discretionary and non-discretionary spending in India.

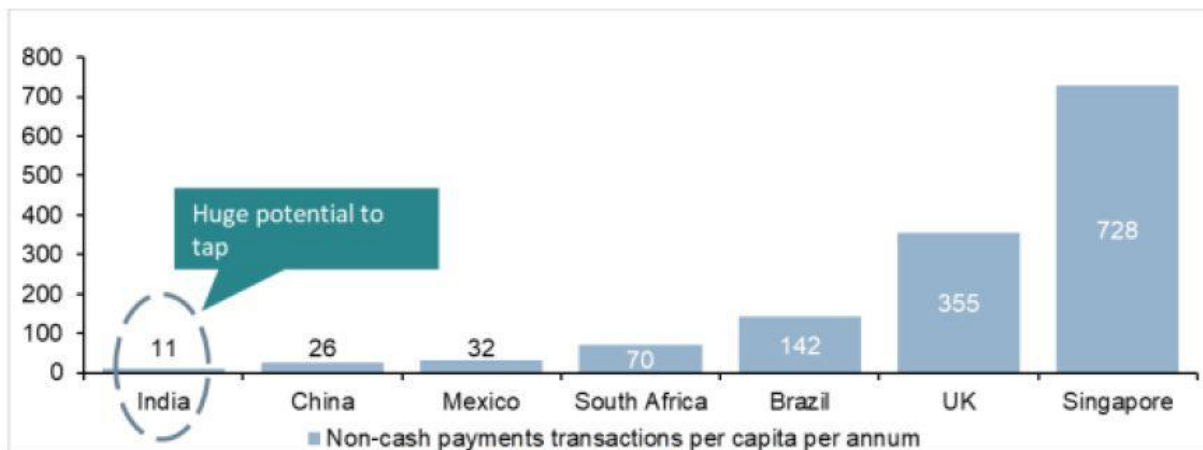


Note: Non-discretionary spending includes food & non-alcoholic beverages, clothing & footwear and housing, water, electricity, gas & other fuels
Source: MOSPI, CRISIL Research

Digital Theme



Note: Digital transactions include RTGS, but excludes interbank clearing, ECS, NEFT, IMPS, NACH, cards and prepaid instruments; Non-digital transactions include cheques/paper clearing and ATM transactions
Source: RBI, CRISIL Research



Source: NITI Aayog report (January 2017)

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