



**IPO note: SBI Cards and Payment Services Limited: Robust play in India's credit card space - "SUBSCRIBE" Feb.27, 2020**

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. SBI holds 74% stake in SBI Cards, while Carlyle owns the rest 26% through its subsidiary CA Rover Holdings. The company is the 2nd largest credit card issuer in the country, with a 17.6% and ~18.1% market share of the Indian credit card market (number of credit cards) as of March 31, 2019, and November 30, 2019, respectively, and a 17.1% and 17.9% market share of the Indian credit card market (total credit card spends) in fiscal 2019 and in the eight months ended November 30, 2019. The Company has 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 its co-brand partners' brands. The Company offers four primary SBI Card-branded credit cards: SimplySave, SimplyClick, Prime and Elite, each catering to a varying set of cardholder needs. The Company is also the largest co-brand credit card issuer in India according to the CRISIL Report, and has partnerships with several major players in the travel, fuel, fashion, healthcare and mobility industries, including Air India, Apollo Hospitals, BPCL, Etihad Guest, Fbb, IRCTC, OLA Money and Yatra, among others. SBI Cards offers a wide range of credit cards to individual and corporate clients including lifestyle, rewards, shopping, travel, fuel, banking partnership cards, and corporate cards, etc. As a subsidiary of SBI, the company has access to SBI's extensive network of 22,007 branches across India. The partnership enables it to market its cards to a huge customer base of 436.4 million customers. The Company's extensive physical customer acquisition network is complemented by its digital sales and marketing capabilities which include its website, mobile application and online, email and SMS marketing platforms.

The total credit card spends grew at a CAGR of 54.2 percent over the period (FY18-19). The Company has a diversified revenue model whereby it generates both non-interest income (primarily comprised of fee based income such as interchange fees, late fees and annual fees, among others) as well as interest income on its credit card receivables. The share of its revenue from operations that it derives from non-interest income has steadily increased over the past three fiscal years, from 43.6% in fiscal 2017 to 48.9% in fiscal 2019.

**Investment recommendation and rationale**

At upper end of the price band of Rs. 755, the issue is valued at a P/E of 46x at 9MFY20 annualised EPS and 82x at FY19 EPS which is at a steep premium. With absence of pure play credit player in the listed space, we believe Company will enjoy scarcity premium and the recent fancy for companies with differentiated business model has aided in delivering superior returns for shareholders post listing instills confidence on this issue. We have a positive bias to the Company owing to the following factors: a) big opportunity to be seized as India's credit card spends as % of GDP is 3 percent as compared to South Korea – 37%, Hong Kong – 25%, US – 17%, Brazil – 12%, b) 2nd largest credit card issuer in India with a strong track record of growth and profitability, c) legacy of 20+ years, d) leading player in open market customer acquisitions using physical and digital channels in India, e) largest co-brand player, f) supported by a strong brand and pre-eminent promoter with SBI holding of 74 percent (pre IPO), g) pan – India presence, h) technology driven operating model with advanced digital platform, i) advanced risk management and data analytics capabilities, j) modern and scalable technology infrastructure, k) strong record of financial performance, i) robust RoAA of 4 percent + since FY17 and strong ROE of 28 percent+, we recommend investors to "SUBSCRIBE" the issue.

<b>Issue date</b>	<b>March 02 – March 05, 2020</b>
<b>Issue type &amp; size</b>	Fresh Issue: Rs. 500 crores Offer for sale: 130,526,798 equity shares
<b>Issue size</b>	Rs. 10,349 crores
<b>Issue structure</b>	QIB – 50 %, NIB – 15%, Retail – 35%
<b>Reservation for SBI employees</b>	1,864,669 equity shares (Discount: Rs. 75)
<b>Reservation for SBI shareholders:</b>	13,052,680 equity shares
<b>Price Band</b>	Rs. 750 – Rs. 755 (FV: Rs. 10)
<b>Post IPO equity shares</b>	938,956,794 at Rs.755
<b>Post issue Market Cap</b>	Rs. 70,891 crores
<b>Shareholding - Pre/Post holding</b>	SBI: 74%/69.51% CA Rover Holdings: 26%/15.89% Public: -/14.60%
<b>Bid lot</b>	19 Equity shares and in multiples thereof
<b>BRLM</b>	Kotak, Axis Capital, BoFA Securities
<b>Registrar to the issue</b>	Link Intime

Particulars:Rs. crs.	9MFY20	FY19	FY18	FY17
<b>Total cards outstanding (o/s) (mn)</b>	10.03	8.27	6.26	4.57
<b>Premium cards</b>	13.7%	14.8%	15.5%	15.7%
<b>Total income as a proportion of average total cards o/s (Rs.)</b>	10,548	10,030	9,920	8,477
<b>Net card additions (mn)</b>	1.76	2.01	1.69	0.95
<b>Avg. card limit</b>	Rs. 79,000	Rs.80,000	Rs. 71,000	Rs. 77,000
<b>Market share</b>	18.1%	17.6%	16.7%	15.3%
<b>Interest income</b>	3,493	3,576	2,760	1,888
<b>Income from fee and services</b>	3,019	3,072	2,177	1,312
<b>Service charges</b>	82	126	80	53
<b>Bus. Dev.income</b>	240	217	163	88
<b>Revenue from operations</b>	6,843	6,999	5,187	3,346
<b>Profit after tax</b>	1,161	863	601	373
<b>Equity share cap.</b>	932.3	837.2	837.2	785
<b>Networth</b>	4,751	3,582	2,353	1,449
<b>Opex/Income (%)</b>	56.6	60.5	63.1	62.5
<b>Gross NPA (%)</b>	2.5	2.4	2.8	2.3
<b>Net NPA (%)</b>	0.8	0.8	0.9	0.8
<b>PCR (%)</b>	67	66.5	67.3	67.9
<b>EPS (Rs.)</b>	16.48*	9.19	6.40	3.97
<b>Book value (Rs.)</b>	51	38	25	16
<b>RoAE (%)</b>	36.5	28.4	31.0	28.5
<b>RoAA (%)</b>	6.7	4.8	4.5	4.0

Source: RHP, P/E calculated at upper end of price band – Rs. 755 per share, \*\* on annualized basis



AJCON GLOBAL  
YOUR FRIENDLY FINANCIAL ADVISOR

## History

It initially started its operations in 1998 as a joint venture between SBI and GE Capital. It received RBI approval to operate as a non-banking financial institution on October 6, 1998. SBI's parentage and trusted brand have since then provided it with an image of trust and transparency that allowed it to gain consumers' confidence. GE Capital's ownership stake in us was acquired by SBI and CA Rover Holdings in 2017. Effective from April 1, 2018, SBI Business Process and Management Services Pvt Ltd (SBIBPMSL), an entity that provided back-end payment and processing services to us, was merged with and amalgamated into the Company.

## Key Shareholders

### State Bank of India (SBI)

**SBI** owns 74% of the total outstanding equity share capital. SBI is India's largest commercial bank in terms of deposits, advances and number of branches as of September 30, 2019 according to the RBI. SBI is a public sector bank, with the President of the Republic of India (acting through the Ministry of Finance of the Government of India) owning 57.88% of SBI's equity shares as of September 30, 2019.

### CA Rover Holdings

CA Rover Holdings, an affiliate of the **Carlyle Group**, owns 26% of its total outstanding equity share capital. The Carlyle Group is a global investment firm with deep industry expertise with over \$222 billion of assets under management as of March 31, 2019.

## Brief profiles of the Company Directors

**Rajnish Kumar** is the non-executive Chairman of the company. He is a nominee Director of SBI on the company Board. He is currently the chairman of SBI with effect from October 7, 2017. Prior to this, he served as the managing director (national banking group) and managing director (compliance & risk) in SBI and was also the chief general manager of the north-eastern circle of SBI. He has held several key assignments across various business verticals of SBI, including the mid-corporate group, project finance, and two overseas assignments of SBI in Canada and U.K. Further, he was also the managing director and chief executive officer of SBICAP. He has over 39 years of experience in the banking industry.

**Dinesh Kumar Khara** is a non-executive nominee Director of SBI on the Company Board. He has been one of the managing directors of SBI from August 9, 2016. He oversees the international banking book, corporate banking book & treasury operations of SBI. Additionally, he supervises the businesses of non-banking subsidiaries of SBI, which are engaged in diverse financial activities such as asset management, life insurance, general insurance, custodial services, primary dealership, investment banking, broking, credit cards, pension funds and factoring services. He is also entrusted with the role of supervision of 15 regional rural banks (sponsored by SBI) having more than 5,200 branches. He was the managing director and chief executive officer of the SBI Funds Management Pvt. Ltd. He has over 35 years of experience in the banking industry.

**Hardayal Prasad** is the **Managing Director and Chief Executive Officer** of the company. He is a nominee Director of SBI on the Company Board. He is a top executive grade special scale-II officer of SBI on deputation to the Company. He has handled several assignments for SBI in various locations in India and abroad. Over the years, he has held multiple leadership positions at SBI. He has been a part of SBI since 1983 and has 36 years of experience in the banking industry.

**Shree Prakash Singh** is a nominee Director of SBI on the Company Board. Currently, he is the chief general manager (associate and subsidiaries) in SBI, overseeing performance of non-banking domestic subsidiaries and regional rural banks. Apart from working as a manager in Emirates India International Exchange Company, he has also handled various important operational, marketing, cross-selling, human resources and stressed asset management related assignments within SBI and overseas. He has 35 years of experience in the banking industry.

**Sunil Kaul** is a non-executive nominee Director of CA Rover on the Company Board. Presently, he is also the managing director and head of the financial services industry of Carlyle Asia Partners and concurrently heads the south-east Asia business of the Carlyle group. He has 34 years of experience in the fields of private equity,



AJCON GLOBAL  
YOUR FRIENDLY FINANCIAL ADVISOR

corporate and consumer banking. Prior to joining the Carlyle group in 2008, he was the president of Citibank Japan Ltd. and was concurrently the chairman of CitiCards Japan KK and CitiFinancials Japan KK.

**Tejendra Mohan Bhasin, Nilesh Shivji Vikamsey, Rajendra Kumar Saraf, Dinesh Kumar Mehrotra, Anuradha Shripad Nadkarni** are the independent Directors of the company.

### **Key Managerial Personnel**

**Richhpal Singh** is the Chief Operating Officer. He was associated with the erstwhile SBIBPMSL (previously known as GE Capital Business Process Management Services Pvt. Ltd.) since December, 2017. He joined the company with effect from April 1, 2018.

**Nalin Negi** is the Executive Vice President, Finance and has been nominated to be the Chief Financial Officer of the company by SBI. He was associated with various GE group companies for 10 years, approximately, including the erstwhile SBIBPMSL. He was transferred to the company on December 1, 2018.

**Aparna Kuppuswamy** is the Executive Vice President and Chief Risk Officer. She was associated with GE Money Financial Services Ltd for 1 year and was transferred to the company on April 1, 2009.

**Manish Dewan** is the Executive Vice President & Chief Sales Officer. He was associated with the erstwhile SBIBPMSL for 5 years, approximately. He was transferred to the company with effect from October 1, 2011.

**Girish Budhiraja** is the Executive Vice President and Chief Product and Marketing Officer. He joined the company on November 1, 2012.

**Suruchi Nagpal** is the Executive Vice President and Head, Workforce Effectiveness and has been deputed by SBI. She has been associated with SBI since 1984.

**Naresh Kumar Kapur** is the Executive Vice President and Chief People Officer and has been deputed by SBI. He has been associated with SBI since 1990.

**Rajendra Singh Chauhan** is the Executive Vice President and Head, Internal Audit and has been deputed by SBI. He has been associated with SBI since 1985.

**Rinku Sharma** is the Executive Vice President and Chief Compliance Officer of the company. She was associated with various GE group companies for 15 years, approximately, including the erstwhile SBIBPMSL. She was transferred to the company with effect from November 1, 2012.

**Ugen Tashi Bhutia** is the Executive Vice President and Head, Legal. He joined the company on January 2, 2012.

**Amit Batra** is the Executive Vice President and Head, Operations. He was associated with various GE group companies for 11 years, approximately, including the erstwhile SBIBPMSL. He was transferred to the company on January 1, 2011.

**Monish Vohra** is the Executive Vice President and Head, Customer Service. He was associated with the erstwhile SBIBPMSL for 4 years, approximately. He joined the company with effect from April 1, 2018.

**Pradeep Khurana** is the Executive Vice President and Chief Information Officer. He was associated with various GE group companies for 17 years, approximately, including the erstwhile SBIBPMSL. He joined the company with effect from April 1, 2018.

**Anu Choudhary Gupta** is the Executive Vice President and Head, Collections. She was associated with the erstwhile SBIBPMSL for 2 years, approximately. She joined the company with effect from April 1, 2018.



**AJCON GLOBAL**  
YOUR FRIENDLY FINANCIAL ADVISOR

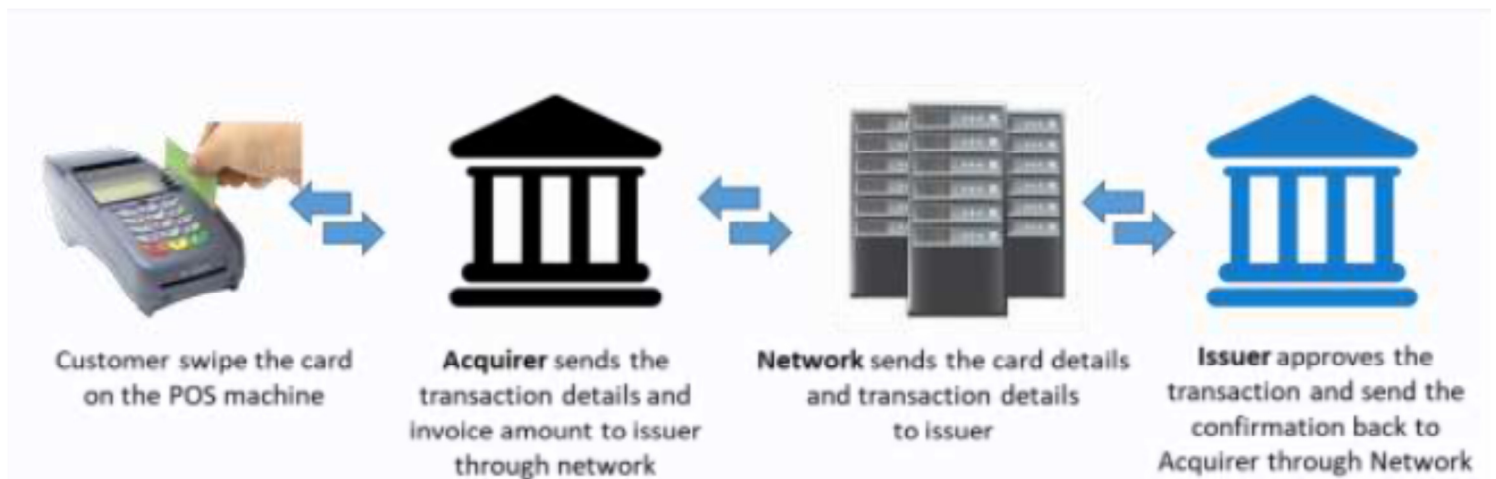
**Payal Mittal Chhabra** is the Senior Vice President, Company Secretarial. She joined the company on February 15, 2012.

### **Company's business model**

The Company is one of India's leading providers of credit cards according to the CRISIL Report. The Company's operating model is focused on catering to what it sees its cardholders' two main financial needs: transactional needs and short term credit. The revenue it derives from its credit card products consists primarily of interest on its 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.

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

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



The Company extends credit to its cardholders through revolving credit card accounts at standard terms. The 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. The Company assigns each card account a credit limit when the account is initially opened. Thereafter, it may increase or decrease individual credit limits from time to time, at its discretion, based primarily on its evaluation of the cardholder's creditworthiness and ability to pay. Cardholders' accounts are assessed periodic interest charges using a standard fixed interest rate. The interest that it earns on revolving credit card balances and monthly installment balances comprised 52.8% and 50.7% of its total revenue from operations in the six months ended September 30, 2018 and 2019, respectively, as compared to 51.1% in fiscal 2019, 53.2% in fiscal 2018 and 56.4% in fiscal 2017.

It typically charges its cardholders an annual credit card fee for its credit cards. In addition to periodic interest charges, it 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, it also receives interchange fees from the merchant acquirer that settles its cardholders' transactions with merchants and as business development incentives from the payment networks. Non-interest income comprised 47.2% and 49.3% of its revenue from operations in the six months ended September 30, 2018 and 2019, respectively, and 48.9% in fiscal 2019, 46.8% in fiscal 2018 and 43.6% in fiscal 2017.



AJCON GLOBAL  
YOUR FRIENDLY FINANCIAL ADVISOR

As a general matter, the financial terms and conditions governing its credit card products vary by program and product type and change over time, although it seeks to standardize the non-financial provisions consistently across all products. The terms and conditions of its credit card products are governed by a cardholder agreement and applicable laws and regulations.

As of December 31, 2019 it deploys a sales force of 33,086 outsourced sales personnel operating out of 145 Indian cities which engages prospective customers through multiple channels, including physical points of sale, telesales and online. Collectively with their co-brand partners, SBI Cards is present in 3,190 open market physical points of sale in India, retail stores, malls, fuel stations, railway stations and airports. Out of the aforesaid outsourced sales personnel, they have 4,173 outsourced workforce for tele-sales.

In October 2017, they launched Project Shikhar as a joint effort between SBI Cards and SBI to market the credit card products directly to SBI's customers. Since its implementation, Project Shikhar has significantly increased the proportion of new accounts sourced from SBI's existing customer base from 35.2% of all new accounts in fiscal 2017 to 45.5% in fiscal 2018 and 55.2% in fiscal 2019.

SBI Cards has registered the "SBI Card" logo under the Trademarks Act. The company do not own the "SBI" trademark and currently use the "SBI" logo pursuant to a non-exclusive licensing agreement between SBI Cards and SBI. Pursuant to the licensing agreement, SBI has permitted SBI Cards to use certain trademarks registered in favour of SBI such as the "SBI" wordmark and logos part of their corporate or trading name, for which **SBI Cards pay royalty fees of 2% of their net profit or 0.2% of their total income, whichever is higher**. The licensing agreement may be terminated by SBI upon the occurrence of certain events, which include, among other things, SBI's shareholding in SBI Cards falling below 26% of their outstanding equity share capital, if SBI Cards undergo a change of control event, or if they fail to pay royalty fees to SBI.

#### **Objects of the issue**

- a) **Fresh issue of Rs.500 crores (Upto 6,622,516 (at Rs. 755) – 6,666,666 (at Rs. 750)~ Equity Shares** to augment the Company's future capital requirements
- b) **Offer for sale – Upto 130,526,798 Equity Shares** by following equity shareholders
  - 1) **State Bank of India (SBI) – Promoter Selling Shareholder: Shares upto 37,293,371 Equity Shares**
  - 2) **CA Rover Holdings – Investor Selling Shareholder: Shares upto 93,233,427 Equity Shares**



**AJCON GLOBAL**  
YOUR FRIENDLY FINANCIAL ADVISOR

## **Disclaimer**

Ajcon Global Services Ltd. is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Ltd. research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Ltd. is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Ltd. or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and within five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, We and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Ltd. or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Ltd. and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Ltd. While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Ltd. is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Ltd. from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Ltd. will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Ltd. accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Ltd. or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Ltd. encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Ltd. or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Ltd. nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Akash Jain – MBA (Financial Markets) or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Ltd. or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

**Research report written by - Akash Jain, MBA (Financial Markets), Vice – President Research**



**AJCON GLOBAL**  
YOUR FRIENDLY FINANCIAL ADVISOR

It is confirmed that Akash Jain – MBA (Financial Markets) research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Ltd. may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Neither the Research Analysts nor Ajcon Global Services Ltd. have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Ltd. by any Regulatory Authority impacting Equity Research Analysis activities.

### **Analyst Certification**

I, Akash Jain MBA (Financial Markets), research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.

### **For research related queries contact:**

Mr. Akash Jain – Vice President (Research) at [research@ajcon.net](mailto:research@ajcon.net), 022-67160431 (D)

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: [www.ajcononline.com](http://www.ajcononline.com)

### **Registered and Corporate office**

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062