SBI Cards and Payment Services Ltd.

Issue Snapshot:

Issue Open: March 02 – March 04, 2020 (for QIB Bidders) and March 02 to March 05, 2020 (for others)

Price Band: Rs. 750 – 755 (Discount for Employee: Rs.75/- per Share)

Issue Size: 137,149,315 eq shares (Fresh issue 6,622,517* + Offer for sale of 130,526,798 eq sh)

Issue Size: Rs. 10286.19 -10354.77 cr

Reservation for:

Employees	1864669 eq sh
Shareholders of SBI	13052680 eq sh
Of the balance,	
QIB	upto 50% eq sh
Non Institutional	atleast 15% eq sh
Retail	atleast 35% eq sh

Face Value: Rs 10

Book value: Rs 51.73(December 31, 2019)

Bid size: - 19 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 932.33 cr
Post issue Equity:	Rs. 938.95 cr

Listing: BSE & NSE

Book Running Lead Manager: Kotak Mahindra Capital Company Limited, Axis Capital Limited, DSP Merrill Lynch Limited, HSBC Securities and Capital Markets (India) Private Limited, Nomura Financial Advisory and Securities (India) Private Limited, SBI Capital Markets Limited

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	74.0	69.5
Public & Employee	26.0	30.5
Total	100.0	100.0

Source for this Note: RHP

* = assuming pricing at higher end of band

Background & Operations:

SBI Cards 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 SBI cards was acquired by SBI and CA Rover Holdings in 2017.

SBI Cards and Payment Services Ltd (SBI Cards) is the second-largest credit card issuer in India, with a 17.6% and 18.1% market share of the Indian credit card market in terms of the number of credit cards outstanding 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 in terms of total credit card spends in fiscal 2019 and in the eight months ended November 30, 2019, respectively. It offers an extensive credit card portfolio to individual cardholders and corporate clients which includes lifestyle, rewards, travel and fuel, shopping, banking partnership cards and corporate cards covering all major cardholder segments in terms of income profiles and lifestyles.

SBI Cards is a subsidiary of SBI, India's largest commercial bank in terms of deposits, advances and number of branches as of September 30, 2019. It started its operations in 1998, and since then SBI's parentage and highly trusted brand has allowed it to quickly establish a reputation of trust, reliability and transparency with its cardholders. It has grown its business faster than the Indian credit card market over the past three years both in terms of numbers of credit cards outstanding and amounts of credit card spends, and it has achieved this by leveraging its strengths and capitalizing on India's favorable economic and demographic changes, including its strong macroeconomic performance, rising affluence, increasing consumer demand, rapid urbanization and the growth of e-commerce platforms. 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 its credit cards outstanding grew at a 34.5% CAGR (as compared to a 25.6% CAGR for the overall credit card industry, according to the RBI).

SBI Cards has a diversified customer acquisition network that enables it to engage prospective customers across multiple channels. It deploy a sales force of 32,677 outsourced sales personnel as of December 31, 2019 operating out of 145 Indian cities and which engages 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. In addition, its partnership with SBI provides it with access to SBI's extensive network of 21,961 branches across India, which enables it to market credit cards to SBI's vast customer base of 445.5 million customers as of December 31, 2019. Its 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. It 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. This has made its capital structure more efficient and provides it with a relatively stable revenue composition that is less susceptible to market fluctuations, such as interest rate volatility.

Its operating model is focused on catering to what it sees as 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.

Objects of Issue:

The Offer consists of the Fresh Issue and the Offer for Sale.

Offer for Sale

The object of the Offer for Sale is to allow the Selling Shareholders to sell an aggregate of up to 130526798 Equity Shares held by them. SBI Cards will not receive any proceeds from the Offer for Sale.

Fresh Issue

The net proceeds of the Fresh Issue, i.e. Gross proceeds of the Fresh Issue less the Offer Expenses apportioned to SBI Cards (Net Proceeds) are proposed to be utilised for augmenting its capital base to meet its future capital requirements. In addition, SBI Cards expect to achieve the benefit of listing of its Equity Shares on the Stock Exchanges.

Competitive Strengths

Second largest credit card issuer in India with deep industry expertise and a demonstrated track record of growth and profitability: SBI cards are the second-largest credit card issuer in India both in terms of numbers of credit cards outstanding and amounts of credit card spends, with 9.83 million credit cards outstanding as of November 30, 2019 and Rs 1,032.65 billion in total of credit card spends in fiscal 2019. It operates a nationwide business with a substantial cardholder base spanning each of India's eight largest metropolitan areas, India's tier II and tier III cities as well as its rural areas. Its position as a large-scale, leading market player results in economies of scale that provide with significant operating efficiencies and also help to diversify some of its risks, such as regional or geographical risks. SBI Cards are also the largest pure-play credit card issuer in India and it has deep expertise in India's credit card market as a result of its more than 20 years operating history. Its ability to commit almost exclusively to its core credit cards business strengthens its market expertise, focuses its management's attention and improves its customer relationships. Revenue model generates both non-interest income as well as interest income on its credit card receivables, with the share of its revenue from operations that it derives from non-interest income having steadily increased over the past three fiscal years, from 43.6% in fiscal 2017 to 48.9% in fiscal 2019. This has made its capital structure more efficient and provides it with a relatively stable revenue composition that is less susceptible to market fluctuations, such as interest rate volatility.

Diversified customer acquisition capabilities*:* SBI has a diversified customer acquisition network that allows to engage prospective customers across multiple platforms, which is a key strength and competitive advantage for SBI Cards. It is the leading player in open market customer acquisitions in India. It deploy a sales force of 32,677 outsourced sales personnel as of December 31, 2019 operating out of 145 Indian cities and which engages prospective customers through multiple channels, including physical points of sale, telesales and online. When a point of sale is not directly managed by it, it works with its 11 non-bank co-brand partners and seven co-brand bank partners using their distribution network (including its co-brand partner's retail outlets), communication channels and customer interactions to market its credit card products to their existing customers. In addition to SBI Cards open market customer acquisitions platform, its partnership with SBI provides it with access to SB's extensive network of 22,007 branches across India, which enables it to market its credit cards to SBI's vast customer base of 445.5 million customers as of December 31, 2019. It complement its physical customer acquisition network through a broad offering of digital channels, including its website and mobile application as well as online, email and SMS marketing capabilities. SBI Cards recently launched Sales24 digital application platform is fully integrated with its customer onboarding and credit decision platforms, which enhanced its ability to digitally carry out credit analyses and provide a real time in-principle approval at the point of sale. Its multi-channel customer acquisition network provide SBI Cards 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: Its Brand, reputation and cardholder satisfaction are critical factors in developing SBI Cards business and improving its market position. Substantially all of its credit cards carry the SBI Card brand, which is a highly trusted and recognizable brand in India. The SBI Card brand has been awarded Reader's Digest "Most Trusted Brand" in India award in the credit card category 11 times since 2008, and it won The Economic Time's "Best BFSI Brand" in India award in the credit cards category in 2019. The value of SBI Card brand is further strengthened by its superior customer service, which includes its AskILA chat bot and social media customer service capabilities as well as 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. Its Promoter, SBI, is India's largest commercial bank in terms of deposits, advances and number of branches as of September 30, 2019. Its relationship with SBI provides it with access to SBI's extensive branch network of 21,961 branches across India and enables it to market credit cards to SBI's largely untapped customer base comprising 445.5 million customers as of December 31, 2019. SBI has also instilled in it sound corporate governance practices that has helped to consolidate the credibility of the business. As a result, it sees its relationship with its Promoter as a key competitive advantage for it.

Diversified portfolio of credit card offerings: SBI Cards has a comprehensive and diverse portfolio of credit card products that it continuously adapt to the evolving needs of its cardholders and changing industry dynamics. Its 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, it is also the largest co-brand credit card issuer in India and it offers a wide portfolio of co-brand credit cards in partnership with several major players in the travel, fuel, fashion, healthcare and mobility industries, including Air India, Apollo Hospitals, BPCL, Etihad Guest, Fbb, the IRCTC, OLA Money and Yatra, among others. During the entire life cycle of its cardholder relationship, SBI cards also employ its predictive modelling analytics based on its cardholder's behavior and transaction pattern and work with its various business partners to deliver targeted product and service offers to its cardholders. The ability to provide such tailored complementary product and service offers allow it to cross-sell in a more efficient manner while meeting the needs of its cardholders.

Advanced risk management and data analytics capabilities*:* SBI Cards advanced risk management infrastructure is robust and data-intensive, both in terms of frequency and volume of review, and is guided by its data analytics capabilities. It evaluates a large number of data points to generate its credit decisions. It possess a large database of cardholder demographic and socio-economic data (such as its cardholder's purchase patterns, behaviors and payment histories) derived from the numerous transactions carried out by millions of cardholders each year. This information covers existing and historical cardholder accounts across all portfolios and is a significant business asset for it, enabling in-depth analysis of cardholder propensities and modeling of future performance. SBI Cards analyze this data together with data obtained from credit bureaus and other sources to, among other things, generate underwriting scorecards tailored to its cardholder demographics, proactively mitigate risks, and reduce losses and delinquencies. As a hallmark of its robust data analytics and risk modelling capabilities, it has developed models that more accurately estimate risk for new-to-credit and new-to-card cardholders without a credit history.

Modern and scalable technology infrastructure: SBI Cards have a scalable, modern and sophisticated technology infrastructure capable of servicing the entire credit card life cycle. Its core technology systems are capable of handling a much higher number of accounts and transaction volumes than they currently handle, which gives the operating leverage to support the expansion of its cardholder base. In fact, it has successfully tested its key technology system's ability to support between three to five times the current level of its business volumes, which provides it with a solid foundation for its future growth. SBI Cards 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 has increased its operating efficiencies. In addition to the operating efficiencies derived from technology systems, the cost and knowledge associated with the development, operation and maintenance of a technology system like SBI Cards represents a significant barrier to entry for potential new entrants to the Indian credit card market. As a result, its technology infrastructure and systems are a key competitive strength for it.

Highly experienced and professional management team: SBI Cards have a professional and experienced management team with a deep level of expertise in the credit card industry and the overall financial services industry. It's Managing Director and Chief Executive Officer, Mr. Hardayal Prasad, has over 36 years of experience in the financial services industry. This deep industry expertise provides its leadership team with the vision to steer the long-term strategic direction of its business. In addition, it is professionally managed with a significant degree of autonomy from SBI, which has improved its decision-making processes. A large number of its senior management personnel has worked with it for a significant period of time, resulting in effective operational coordination and continuity of business strategies. Therefore, SBI Cards highly experienced and professional management team is a key competitive advantage that will helps in achieving its business objectives.

Business Strategy:

Expand customer acquisition capabilities to grow cardholder base*:* SBI Cards intends to grow its cardholder base by continuing to expand its customer acquisition capabilities. As part of this strategy, it aims to increase the number of open market physical points of sale that it operates across India. In particular, it 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 has contributed an increasing proportion of its new accounts in recent years. SBI Cards also remain 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 its new co-brand partner's customer base. It also intends to deepen its partnerships with existing co-brand partners to include digital penetration into their online and mobile platforms in addition to its current physical presence at their retail locations. 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 itsr credit card products to the general public.

Tap into new cardholder segments by broadening portfolio of credit card products: SBI Cards 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. Among its planned new credit card product categories, it intends to tap into the super-premium segment by offering new credit cards tailored for the needs of high-networth cardholders. It is expected that the super-premium segment to generate higher spends and result in superior growth and profitability for it, while promoting additional brand recognition. In addition, it intends to launch new credit card products targeting the new-to-credit and new-to-card cardholder segments which, is expected to be one of the key growth drivers for the Indian credit card industry. By continuing to expand its portfolio of credit cards with innovative products aimed at satisfying the needs of specific cardholder segments and by adapting existing portfolio to changing needs and preferences, it aims to continue meeting cardholder's demands and increase market share in India's credit card market.

Stimulate growth in credit card transaction volumes: SB I Cards seeks to increase the number of credit card transactions conducted by its cardholders in order to increase its revenues. To achieve this, it 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, SBI Cards plans to increasingly leverage its data analytics platform to deliver more targeted and timely offers to its cardholders. It is especially focused on rolling out such offers to cardholders located in India's tier II and tier III cities, which has contributed an increasing proportion of its new accounts in recent years. Finally, SBI Cards are 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 risk management processes: SBI Cards approach to credit management focuses on making credit decisions more data driven, closely approximating a digital underwriting process. 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 risk management efforts. SBI Cards is also working toward 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. Finally, it intends to further upgrade its award-winning fraud loss prevention program, which consist of neural network and internally developed rules, from an authorization-based model to an authentication-based model, which it expects allow it to preempt, and then prevent fraudulent transactions before they occur and lead to significant efficiency gains going forward.

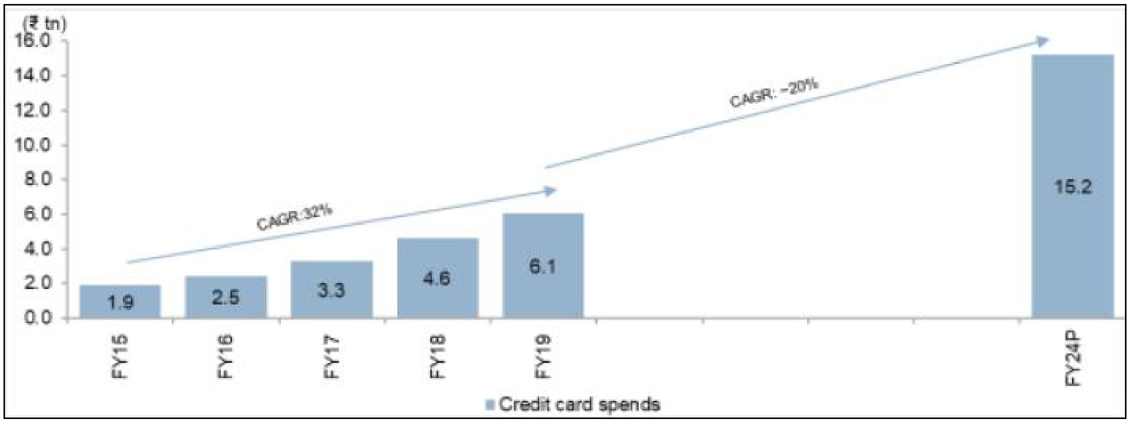
Enhance cardholder experience: SBI Cards is focused on continuing to invest in its digital and mobile capabilities to enhance its cardholder experience. It constantly seeks to provide additional payment capabilities and other functionalities to promote greater ease and convenience for its cardholders. It also strives to leverage its technology to improve customer service experience. In addition to increasing its value proposition and providing greater convenience for its cardholders. These efforts will ultimately deepen its cardholder relationships.

Continue leveraging technology across operations: SBI Cards operates in a highly competitive, ever evolving industry where it must continuously improve its technology platform in order to compete effectively and reduce operating costs. It focus 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. SBI Cards are also upgrading its transaction monitoring capabilities to enable it to decline potentially fraudulent, high risk transactions and protect its customers as well as enhance experience. Finally, it continue driving the adoption of paperless statements and plastic-less, digital credit cards in India. The continuous evolution of its technological capabilities will drive increased efficiencies, improve its operations and ultimately provide it with a significant competitive advantage.

Industry

Overview of the Credit Card Industry

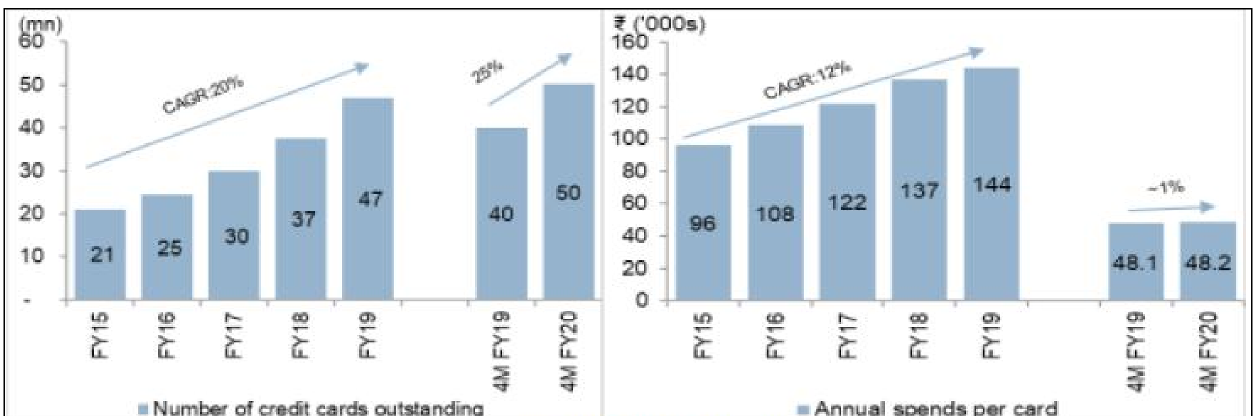
Credit card industry spends to grow 2.5 times in the next five years Credit card spends have registered a robust growth, growing at a CAGR of 32.0% from fiscal 2015 to fiscal 2019 to reach Rs. 6.0 trillion as of fiscal 2019, and is expected to grow at a healthy rate to reach Rs. 15.0 trillion as of fiscal 2024, which is 2.5 times over fiscal 2019, according to CRISIL Research. This growth in overall credit card spends is depicted in the figure below.



Demonetization was one of the significant factors that led to faster growth in credit cards. Further, the government's emerging version of a cash-less society, focus on digitalization, developments in e-commerce, and the availability of POS infrastructure have significantly encouraged payments through credit cards.

Growth in credit card spends is volume led

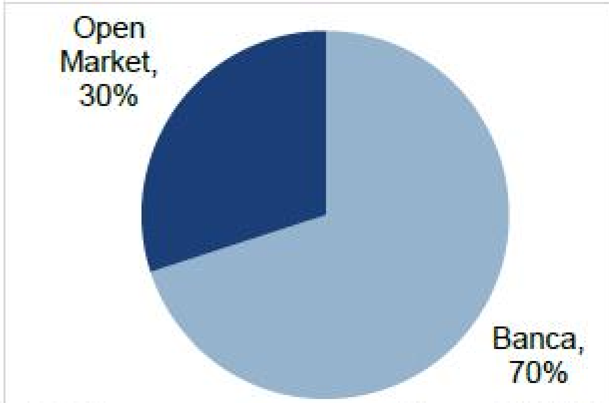
Growth in credit cards volume has sped up over the years, while average annual spending has grown at a moderate rate. As depicted in the figure below, the number of credit cards issued stands at 47.0 million in fiscal 2019, having grown at a CAGR of 20.0% over the last five years, and is expected to grow by 25.0% from fiscal 2019 to fiscal 2020, while annual average spends per card is expected to grow by approximately 1.0% from fiscal 2019 to fiscal 2020, according to CRISIL Research.



Source: RBI, CRISIL Research

Increasing acceptance of digital payments by Indian consumers and the rise of e-commerce businesses during this period, such as Flipkart and Amazon, gave a huge impetus to growth, with credit-card players providing promotional-offers and EMI financing options. On the supply side, banks' focus on cross-selling to their existing customers in the form of pre-approved offers has driven growth. Co-branded cards by way of partnerships with various businesses have also contributed to the growth of the credit cards market. The increased use of cards for purposes such as travel, shopping, lifestyle purchases, entertainment, healthcare, utility bill payments, etc., have increased the spend per card.

Credit card players use various distribution channels such as Banca (selling to existing bank customers) and the open market to acquire customers. Banca channels involve leveraging the bank's existing data base across asset as well as liability-related products and transactions for sourcing customers. With the availability of information about these existing customers with the bank, these customers are offered pre-approved offers. The open market channel involves sourcing customers from POS at various locations (such as organized retail stores, airports, and malls), tele-sales, direct applications through web-sites and co-branding partnerships between a bank and an associate company and issued in the name of both entities. CRISIL Research estimates that the open market channel accounts for 30.0% of overall sourcing as of fiscal 2019, as depicted in the figure below.

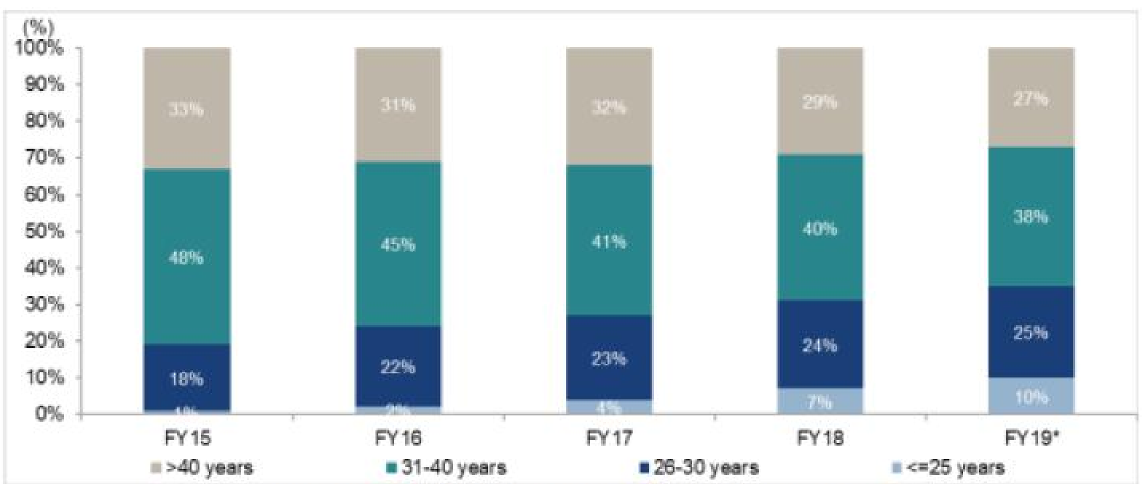


Source: Market interactions, company filings, CRISIL Research

Based on market interactions, issuers such as SBI Card, RBL and Citi Bank have a 40.0% to 50.0% market share of the open market channel while SBI Card is the leader in the open market card holder acquisitions in India due to its strong focus, highest share and scale via this channel of overall sourcing.

Increased originations among millennials in the last four years

The proportion of credit card originations among millennials (persons below 30 years of age) has increased over the last four years from 19.0% in fiscal 2015 to 35.0% in fiscal 2019, and the share of customers below 25 years of age has increased ten-fold from fiscal 2015 to fiscal 2019. The figure below depicts the breakdown of credit card originations by age group from fiscal 2015 to fiscal 2019.



Note: (*) - Fiscal 2019 share is based on first two quarters' data
Source: CIBIL, CRISIL Research

Faster adaptability of technology by the younger generation and a change in consumer mind-set from being debt averse to increasing indebtedness has led to increasing originations among millennials. Strong growth in the ecommerce industry in the past five years, coupled with a tech-savvy younger generation and an increasing proportion of discretionary spends on leisure activities, such as entertaining and eating out, apparels, accessories and electronics, has increased credit-card spending by this age-group. With increasing digitization and cost-control measures, the number of inquiries for credit card requests has increased at a much higher pace than the increase in originations. Due to this, the overall approval rate has reduced over the years. However, approval rate for customers over 40 years of age has remained close to 50.0% over the years.

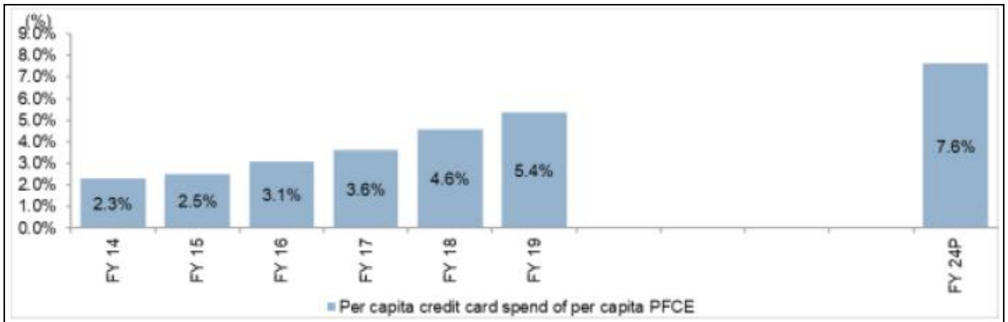
Credit card dues outstanding to be driven by higher spending and increasing usage of EMI facility Credit card dues accrue when customers prefer to reduce their lump-sum payment by converting it to EMI, whereby they pay the minimum amount due and roll-over or revolve their payment or take loans on their credit card. The increasing focus of banks on retail loans amidst a muted environment for corporate loans has led to higher growth in unsecured retail loans, including credit cards. According to CRISIL Research, credit card dues are anticipated to grow at a CAGR of 23.0% to reach Rss 3,313.0 billion as of fiscal 2024. Going forward, credit card dues is expected to be approximately three times over the next five years ending fiscal 2024, supported by spends growth and increasing EMI-based payments using credit cards.

According to CRISIL Research, credit card dues as a proportion of overall spends is expected to remain stable at approximately 20.0% going forward, with 20.0% to 25.0% of credit card dues currently being converted to EMI. This proportion is expected to grow with promotional offers, such as discounts and cash-backs, offered on EMI based payments in organized retail stores. Apart from this, no-cost EMI financing options in consumer durables by major credit-card players will also incentivize EMI-based payments. This will, to some extent, be offset by increased knowledge of customers about the high interest rate charged on credit card dues post interest-free period. Repayment of credit card dues outstanding at the end of the credit period is an important task to avoid any penalties. Credit card issuers provide various modes of making payments to their customers. Some of the options used to pay credit card bills include debit cards, cash payment over the counter and cheque. Customers can also make payments through NEFT, IMPS, ATMs and drop boxes made available by their respective banks. However, with rising digitization, these processes are further simplified and bill payment has gotten convenient with internet banking, UPI, mobile application and auto debit facility provided by banks. The faster processing time through digital payment modes allows customers the benefit of resetting funds available to the sanctioned credit limit in a short time period.

Key growth drivers of the credit card industry

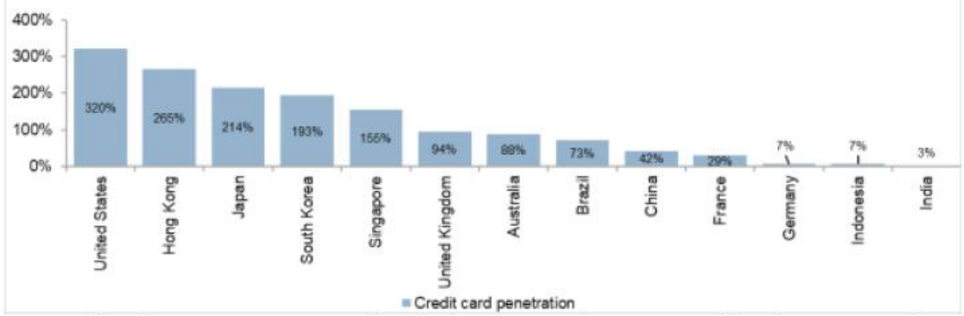
Headroom for growth given an under-penetrated credit card market

Credit card spending relative to PFCE has significantly increased in recent years. In absolute terms, per-capita PFCE was approximately Rs. 85,000.0 in fiscal 2019, of which only Rs. 4,500.0 comprises spending through credit cards. Credit card spending accounted for approximately 5.4% of PFCE in fiscal 2019, compared to approximately 2.3% in fiscal 2014. Going forward, according to CRISIL Research, credit cards spend is expected to grow at a much faster pace than PFCE, and per capital credit card spend as a percentage of per capita PFCE is expected to reach 7.6% by fiscal 2024 as depicted in the figure below.



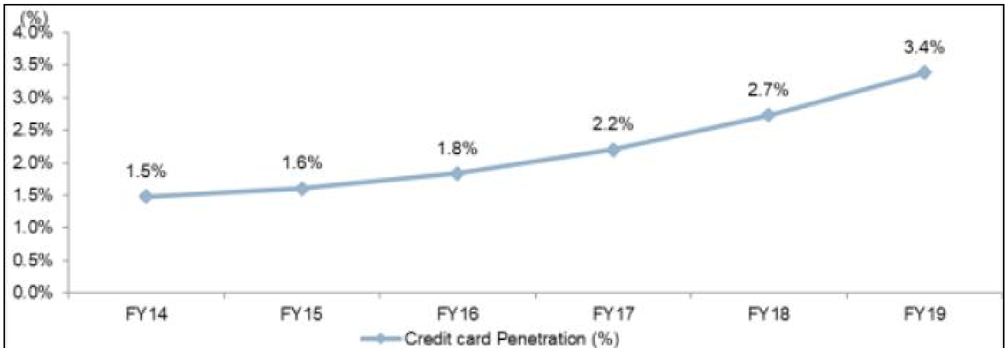
Note: PFCE is based on current prices
Source: RBI, CRISIL Research

As depicted in the figure below, traditionally, credit card penetration in India (i.e. average number of cards per 100 people) is relatively low in comparison with other countries.



Note: Credit card penetration is average number of cards per 100 people, For Japan, credit card penetration is of 2016
Source: BIS (Bank for International Settlements), CRISIL Research

Demonetization was an inflection point for the credit card industry which led to high incremental growth in card issuances and thereby a rise in penetration. Demographic advantage, issuances of cards in smaller cities, tapping new-to-credit ("NTC") customers and strong investments in payment infrastructure will all aid the credit-card penetration going forward. The figure below depicts the year-on-year percentage increase in credit card penetration in India from fiscal 2014 to fiscal 2019.



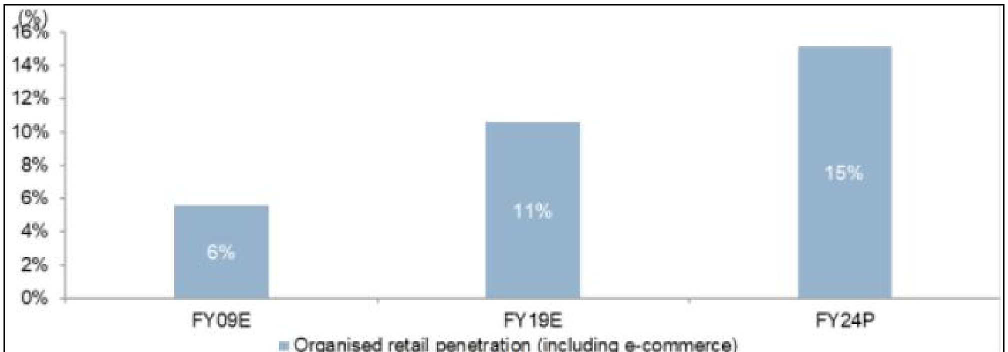
Note: Credit card penetration is average number of cards per 100 population
Source: CRISIL Research

Growth from NTC customers

NTC customers are defined as those who get their bureau record for the first time. With credit card issuers expanding in smaller cities and sourcing their existing debit-card, CASA or FD customers, NTC customers are expected to rise because of the low credit penetration in smaller cities. Apart from this, players are also creating awareness among these NTC customers about credit card usage and credit score. The number of NTC customer originations in credit cards has increased at a CAGR of 20.0% to reach approximately 3.0 million as of fiscal 2018 in the last three years. Going forward, according to CRISIL Research, this trend is expected to continue.

Organized retail penetration (including e-commerce) to increase

Organized retail penetration has grown from 5.6% in fiscal 2009 to 10.6% in fiscal 2019 on the back of a supportive macro-environment, a rise in discretionary spending, higher product penetration, a rise in e-commerce and favorable regulations. According to CRISIL Research, organized retail penetration is expected to grow to approximately 15.0% in fiscal 2024, as depicted in the figure below.



Source: CRISIL Research

Rising e-commerce penetration is led by aggressive marketing, such as by offering discounts or cashbacks, and the convenience factor of making purchases online. This has led to an increased usage of credit cards due to the ease in payment. The presence of financing options on both online and offline stores has also led to an increased use of cards, especially credit cards. Credit card issuers have also jumped onto the bandwagon by offering interest free EMI options for consumer durable products, ranging from smartphones to household appliances. Apart from this, credit card issuers' co-branded partnerships with organized retail stores and e-commerce players also helps them peep through their customer base. Credit card issuers often give huge discounts on online platforms to increase brand-awareness about their credit cards. A combination of these factors leads to increased spending and higher credit card usage.

Continuous improvement in payment infrastructure

Payment infrastructure includes POS terminals and payment gateways which facilitate online payments. The number of POS terminals has grown at a CAGR of 29.0% from fiscal 2015 to reach 3.7 million terminals in fiscal 2019. This growth has been largely driven by demonetization, 'Digital India' initiatives and rising organized retail penetration. POS machines also help merchants to create personalized, targeted advertising, and help with the running of loyalty programs to increase consumer loyalty and boost profits, while also making the shopping experience more efficient for the consumer. The rise in e-commerce penetration has also led to online-payment facilitators (also called payment gateways), such as Razorpay, PayU, and CCAvenue, who integrate payment process on the platform of online merchants. MDR to online merchants charged is approximately 2.0% per transaction for payments through debit cards, credit cards, and net banking options, among others. In terms of credit cards, this improvement in infrastructure has led to a CAGR of 28.0% in volume of transactions to reach 1.7 billion swipes in fiscal 2019. More transactions will lead to more fee-income revenue for credit card issuers as they get interbank charges per transaction through POS as well as payment gateways. On the other hand, according to CRISL Research, volume of transactions per card is expected to grow at a lower rate due to multiple credit card ownership by customers due to different credit cards having specific benefits.

Ability to cross sell to liability and asset side customers

According to CRISIL Research, as of fiscal 2019, debit card penetration in India is 65.0% which shows high potential for players to cross sell credit cards, given that credit card penetration is 3.0% as of fiscal 2019. Players can leverage their existing debit card customers by filtering them based on data analytics to understand their spending behavior and looking at proxies such as monthly average transaction amount, income and monthly average account balance, to assess the feasibility of offering them a credit card. Players like ICICI, SBI Card, Kotak, and Axis also offer secured credit cards against fixed deposits ("FD"). Customers with lower salaries, relatively inferior credit scores, or no regular income can avail this option where they get a credit limit of 80.0% to 85.0% of the value of the FD. Banks with a strong retail asset customer base are cross selling, either directly or through their subsidiaries (such as SBI Card), by providing a pre-approved credit limit based on their transaction, credit and demographic data. With a rise in non-bank credit, especially in low-ticket size financing like consumer durables, smartphones, and gold, etc., and increasing credit penetration, players also cross sell to these customers who are filtered based on their credit bureau score and overall credit history.

Credit cards have additional value proposition over e-wallets and UPI

E-wallets and UPI have made it easier and convenient to make payments using their applications for various purposes on e-commerce websites and retail stores. Apart from this, consumers also use these options because of the rewards that are available, such as cash-backs or discounts. Credit cards give additional value by availing an interest-free line of credit for up to 50 days and international acceptance on top of the value propositions by e-wallets and UPI. Furthermore, credit card players have tied-up with other corporates and online marketplaces through co-branding to give rewards, such as cashback or discounts, based on customer usage. Apart from this, credit cards also act as a facilitator to e-wallet companies as consumers often load money in the e-wallet using it. Some platforms allow credit card users to manage multiple credit cards and make credit card payments simpler through their app. The platform rewards customers for paying them on time which can be used to avail cashbacks and discounts from various vendors.

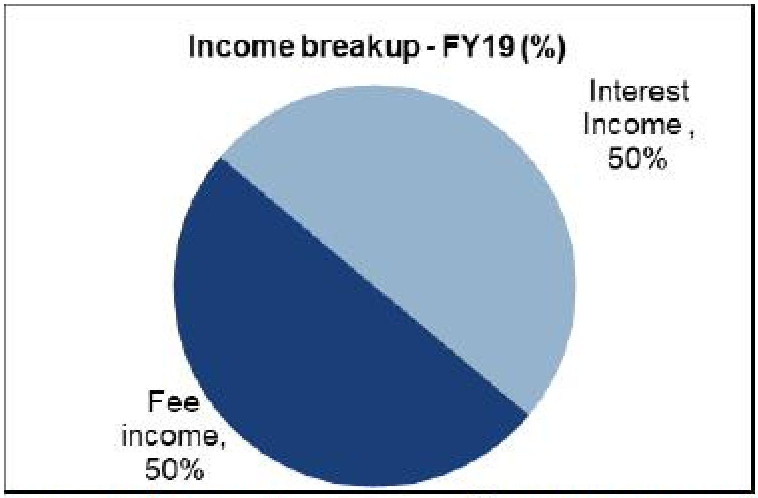
Profitability and Delinquency in the Credit Card Industry

Profitability to remain strong in credit cards Return on assets (defined as profit after tax as a percentage of average assets) is expected to remain strong in the long term, but is expected to reduce marginally in the medium term. Credit card profitability currently stands at 3.5% as of fiscal 2019.

Credit card business revenue is a function of interest income and fee income. With the strong growth expected in credit card spending, the interchange fee, which comprises 50.0% of fee income, will rise proportionately. On the other hand, higher credit card usage will increase consumer awareness about the other costs pertaining to credit cards, such as interest on cash withdrawals from day one, late payments, and over limit charge, among others, and this may limit the increase in fee income. As a result, overall fee income is expected to rise only marginally. On the other hand, operating expenses are expected to increase on account of a strong focus on market engagement programs but will be off-set by a reduction in sourcing, on-boarding and collection costs. Credit costs are expected to increase with increasing competition and players focusing on customers in smaller cities. Increasing analytical capabilities will help in better monitoring of portfolios, thereby limiting this increase in operating expenses.

Overall income to slightly increase over the next 2 to 3 years

The credit card business is based on two major revenue streams: fee income and interest income. The figure below depicts the breakdown between fee income and interest income as part of the revenue stream as of fiscal 2019.



Source: Market interactions, Company filings, CRISIL Research

Interest income refers to debt when customers wish to pay the minimum amount due and roll-over or revolve their payment, reduce their lump-sum payment by converting it to EMI or take loans on their credit card. The annual percentage rate (”APR”) ranges from 36.0% to 48.0%. With the increasing usage of the EMI facility in credit cards offered at a lower interest rate (of up to 24.0%), interest income as a proportion of average assets is expected to remain stable going forward, even though credit card dues is expected to grow at a healthy rate.

Fee income, on the other hand, is majorly a function of interchange fee applicable on spends, membership fees, and other costs related to lending. Other fees include any event-based fee such as over limit fees, late payment fee, and cash withdrawal fees, among others. Fees earned on spends or interchange fees is a percentage of the merchant discount rate (“MDR”) which goes to the issuing bank. This is usually approximately 75.0% to 80.0% of the overall MDR.

Going forward, according to CRISIL Research, credit card spending is expected to grow at a CAGR of 20.0% as of fiscal 2024. This will convert to interchange fees earned by the issuer thereby increasing fee income. On the other hand, customers have become cautious of the other charges incurred on them, from cash-withdrawal to over limit spending, and hence increased card usage is expected to reduce these charges going forward. Overall fee income is therefore expected to marginally increase.

Operating expenses to marginally rise

The credit card business carries high operating expenses compared to other retail segments. It is a function of market-engagement costs, comprising acquisition and marketing costs, rewards redemptions costs, other spend based costs (including costs to payment networks, such as VISA and MasterCard, and payment gateways, among others) and other costs (including employee, sourcing, on-boarding, collection and recovery costs). Acquisition cost comprises costs for acquiring customers through various channels and marketing cost comprises costs for advertisements and discounts or cashbacks offered.

Major players, such as SBI Card and FBB/Central, ICICI and Amazon, are forming both online and offline cobranded partnerships to acquire customers who earn reward points and cashback by spending through these mediums. Furthermore, discounts and cash-back offers are expected to continue to increase the brand-awareness on both online platforms and organised retail stores. These will lead to a rise in market engagement costs. Reward redemption costs are influenced by the volume of cards eligible for rewards, the percentage of customers using up the reward points and claiming the rewards, the nature of tie ups with the partners for redemption of rewards, and the effective cost per reward point, which is generally influenced by the card type and attributes. Going forward, reward costs are expected to remain stable. Other costs, such as sourcing, on boarding and collections costs, are likely to reduce, given the process automation and digitisation initiatives such as mobile solutions to the field employees, e-PIN and digitised payments options, which will offset the operating expenses to an extent.

Credit costs to slightly rise due to focus on smaller geographies

Delinquency (90 plus days) levels has reduced in the last couple of years. This can be attributed to increasing data availability and improved card payment habits as customers are becoming aware of the cost of carrying large balance. Credit bureaus have played an integral part in this with its widened customer-base and more data points available per customer with the passage of time. This has helped credit card players manage their customers better in recent years.

Competitive Scenario in the Credit Card Industry

Concentrated market – top 4 players account for two-thirds of credit card spends 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 approximately 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. 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.

SBI Card has the highest market share in terms of incremental cards in force across different periods SBI Card has the highest market share in terms of incremental cards in force across different time periods with 45.0% market share in the last one month (1M), 27.0% in the past six months (6M) and approximately 23.0% in the past 12 months (12M), 24 months (24M) and 36 months (36M) from July 2019. SBI Card has been able to continuously gain market share in terms of incremental cards in force in the industry over the years. This is followed by ICICI Bank which grew at a similar pace to that of SBI Card. RBL Bank, Kotak Mahindra Bank and Standard Chartered Bank saw a decline in the number of cards in force as of July 2019 compared to June 2019 and hence have shown a negative share of 8.0%, 11.0% and 3.0% respectively. American Express and IndusInd Bank both account for approximately 3.0% of the market. The table below shows the player-wise market share in terms of cards in force from August 2016 to July 2019.

Types of cards offered

Personal cards: Credit card issuers mainly cater to two categories of customers – personal customers and corporate customers. Each category has different features and benefits. Banks and financial institutions offer a variety of cards to personal customers with different value propositions such as cashbacks, discounts or exclusive access to select facilities. The table below compares the types of cards, fees and rewards structure of key players in the industry. Players charge annual credit card fees depending on the host of benefits and services provided on the card. Some players offer a zero annual fee on credit cards in order to increase sales volume attracting new-to-credit card ("NTCC") customers in particular. Players such as SBI Card typically charge their cardholders an annual credit card fee as it stimulates more frequent use of their credit cards. Players also offer premium credit cards to their customers with offers and benefits from airline, hotel credits, VIP lounge access, premium gifts, concierge services and a wide range of other lifestyle, entertainment and shopping benefits. The proportion of premium credit cards offered (as a percentage of the total number of credit cards offered) by players is high at approximately 40.0%. However, according to CRISIL Research estimates and based on market interactions, the proportion of premium credit cards in total credit card customer base is only approximately 15.0% for the industry.

Corporate card: Corporate credit cards are designed for specific business requirements and are best suited for specific needs. These cards are mainly sourced through direct tie-ups with corporates or private companies and they offer real time data and faster reconciliation to its customers. According to CRISIL Research estimates, the proportion of corporate cards, both in terms of volume and value, stands at approximately 10.0% to 15.0%. Players offer various services in terms of travel and expense management (T&E) for large companies, Travel Management Company (TMC) credit card for bulk purchases and other solutions for B2B payments. In corporate card spends, Travel Management Company accounts for most of the proportion compared to other expenses like purchases, vendor payments or spending by employees.

Widening the net with co-branding credit card partnerships

With an increasing acceptance of digital payments combined with a rising degree of convenience available to customers today, players are striving to gain a fair share of consumers' wallets. Co-branded cards thus act as an important and differentiated product that offers additional value to customers. Co-branded cards refer to credit cards issued by players in conjunction with partners, which are usually consumer-facing entities with strong and loyal customer bases. The features of co-branded credit cards are designed to address specific needs of customers, thus increasing customer loyalty and further enhancing customer experience. Customers earn high reward points along with special offers and promotions for each transaction at partner merchants. The figure below summarizes the number of co-branded partnerships currently in the market.

SBI Card has 18 co-branded partnerships, the highest in the industry compared to other players, followed by ICICI Bank at 12 and RBL Bank at 8. In the travel and fuel category, SBI Card and ICICI Bank both have 8 co-branded partnerships. Apart from partnerships with airline companies, they also have partnerships with metros and online hotel booking platforms. SBI Card is the only player who has a tie up with IRCTC which provides offers on railway ticket booking.

In the shopping and entertainment category, with increasing spends on e-commerce platforms, players such as SBI Card, ICICI, HDFC and Axis Bank provide cashbacks or instant discounts in partnership with Amazon, Snapdeal and Flipkart. SBI Card and Citi Bank also offer rewards and discounts to customers for shopping on partner stores such as Central, FBB or First Citizen. Credit card issuers have currently enhanced their focus on segments such as travel and e-commerce and have provided tailored service offerings for customers in partnership with various brands. SBI Card has also tied up with Apollo Hospitals in the healthcare segment. SBI Card is the only credit card company to offer a co-brand credit card specifically targeted at doctors, which offers specialized medical professional liability insurance to cardholders. Apart from this, SBI Card has also tied up with Apollo Hospitals in the healthcare segment.

Key Concerns:

SBI cards use the "SBI" brand of its Promoter, and are exposed to the risk that the "SBI" brand may be affected by events beyond its control and that its Promoter may prevent from using it in the future: SBI Cards do not own the "SBI" name, brand or trademark. The "SBI" name, brand and trademark, as well as the associated logo as displayed in its SBI Card brand are owned by its Promoter. It currently use the "SBI" logo pursuant to a license agreement entered into between it and its Promoter, under which Promoter has granted to SBI Cards the non-exclusive right to use the name, brand and trademark "SBI" and the associated logo in consideration for its payment of royalty fees to its Promoter. Under this license agreement, its Promoter has the right to terminate the license on occurrence of certain events, which include, among other things, its Promoters shareholding in it falling below 26.00% of its outstanding equity share capital, if SBI Cards undergo a change of control event pursuant to any change occurring in the composition of its board of directors or its shareholding pattern, or if SBI Cards fail to pay royalty fees to its Promoter. There can be no assurance that its Promoter will not exercise its rights to terminate this license in the event that its shareholding falls below 26.00%, or for other reasons. In addition, there can be no assurance that its Promoters "SBI" brand, which is a well-recognized brand in India due to its long presence in the Indian financial services markets, will not be adversely affected in the future by events or actions that are beyond its control, including cardholder complaints, developments in other businesses that use the "SBI" brand or adverse publicity.

Substantially all of credit card portfolio is unsupported by any collateral that could help ensure repayment, and in the event of non-payment by a cardholder of their credit card receivables, SBI cards may be unable to collect the unpaid balance: SBI Cards extend revolving unsecured credit to its cardholders as part of its business operations. As of March 31, 2017, 2018 and 2019, and December 31, 2019, 97.3%, 98.2%, 98.7% and 98.6%, respectively, of its credit card portfolio was unsecured. As of December 31, 2019 and March 31, 2019, its gross NPAs as a percentage of gross advances was 2.47% and 2.44%, respectively, as compared to 2.83% as of March 31, 2018 and 2.34% as of March 31, 2017. Unsecured credit card receivables present a greater credit risk for SBI Cards than a portfolio of secured loans because they are not supported by realizable collateral that could help ensure an adequate source of repayment for the credit card receivables. Although it may obtain direct debit instructions from its cardholders for such unsecured credit card receivables, it may still be unable to collect in part or at all in the event of non-payment by a cardholder. Further, any expansion in its unsecured credit card receivables portfolio could require SBI cards to increase its provision for credit losses, which would decrease its profitability.

SBI Cards may be unsuccessful in adapting to rapidly changing technologies and introducing new products or services to keep pace with such technological changes: Technological changes continue to significantly impact the credit cards and payment services industries, such as continuing development of technologies in the areas of smart cards, radio frequency and proximity payment devices, electronic wallets, mobile commerce, data analytics, machine learning, block-chain and artificial intelligence, among others. 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. Therefore increasingly competitive mobile, e-wallet and tokenization spaces are expected to continue to present risks to SBI cards credit cards business and card based transactions.

Collection efforts could expose SBI cards to operational, reputational, and regulatory or other issues could have a negative effect on the business*:* The manner in which SBI cards, or third-party service providers on its behalf, undertake collection processes could negatively affect its business and reputation. It depends on third party service providers for its collection of unpaid credit card balances, and although it follow a robust mechanism for monitoring the collection processes and procedures, taking into account all applicable regulatory requirements and industry best practices, it has in the past become aware of allegations of unethical or improper behavior by it or third parties it uses in the collection process, and similar allegations may recur in the future. Such allegations may lead to negative media publicity, regulatory liability or legal claims that cardholders are treated unfairly. Negative attention and news regarding such collections escalations as mentioned above may have a negative impact on a card holders willingness to repay balances owed to it. Any of these developments could have a material adverse effect on SBI cards business, results of operations or financial condition

Changes in consumer behaviors, the increasing adoption of digital technologies, as well as legal or regulatory changes may affect retail customer sourcing strategies and may adversely impact the competitive advantages it derive from its physical retail customer sourcing assets: SBI Card has expended significant efforts in establishing a physical retail customer sourcing network, co-brand partnerships and other retail distribution assets. Advances in technology such as digital and mobile banking, inbranch self-service technologies, proximity or remote payment technologies, as well as changing consumer preferences for these other methods of delivering financial services, could decrease the value of its physical retail customer sourcing network, co-brand partnerships or other retail distribution assets and decrease the competitive advantage that it derives from such assets. Further, to the extent that it changes its retail customer sourcing strategy and as a result expand into new business areas, it may face more competitors with more experience in the new business areas and more established relationships with relevant customers, regulators and industry participants, which could adversely affect its ability to compete.

SBI cards are subject to certain restrictive covenants in financing instruments that restrict, among other things, its ability to declare dividends and pledge assets as collateral: As of December 31, 2019 and March 31, 2019, SBI Cards total indebtedness was Rs185,776.86 million and Rs136,505.24 million, respectively. The financing documents relating to its outstanding indebtedness contain certain restrictive covenants that, among other things, require it to comply with the RBIs capital adequacy ratios and restrict, in certain circumstances. Although it is currently in compliance with the financial covenants contained in its existing financing documents, no assurances can be provided that SBI Cards will continue to be in compliance in the future, or that it will be able to obtain waivers for any future instances of non-compliance. Further, it cannot assure be assured that, in the event of any such default, it will have sufficient resources to repay the outstanding amounts in accordance with the borrowing arrangements.

Macroeconomic conditions in India could have a material adverse effect on the business, results of operations and financial condition: Substantially all of SBI Cards business activities are conducted in India, and it rely primarily on interest charged on its credit card receivables and fee income derived from interchange fees, late fees, annual card fees and service charges to generate its revenues. These revenue streams has historically been affected by key macroeconomic conditions in India, and are likely to continue being affected by them in the future. Consumer confidence, unemployment and overall economic growth rates are among the main factors that often impact consumer spending behavior and demand for credit. Poor economic conditions reduce the usage of its credit cards and the average purchase amount of transactions on its credit cards, both of which reduce its interest and fee incomes. A slowdown in economic growth in India could also result in lower demand for credit and other related services and may impact the repayment capabilities of its cardholders, resulting in increases in defaults. Substantially all of its credit card receivables portfolio is unsecured, which may heighten its exposure to these risks. These factors could have a material adverse effect on the business, results of operations and financial condition.

SBI Cards faces competition in the credit card market from other credit card issuers: The credit cards business is highly competitive. This increasingly competitive environment is primarily a result of changes in technology, product delivery systems and regulation, as well as the emergence of new or significantly larger credit card issuers or payment solutions providers, all of which may affect its cardholder's expectations and demands. SBI Cards compete 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. Some of its competitors operate out of large, well-established banks and may have greater operational efficiencies, better local distribution capabilities and lower-cost funding than it, among other things, which may give those competitors certain advantages over SBI Cards. It may not be able to compete effectively against these threats or respond or adapt to changes in consumer spending habits as effectively as its competitors. If it is unable to compete successfully, or if competing successfully requires it to take aggressive actions in response to competitor's actions, its financial condition, cash flows and results of operations could be materially adversely affected.

Derives substantial benefits from existing relationship with its Promoter*:* SBI Cards Promoter, SBI, was India's largest commercial bank in terms of deposits, advances and number of branches as of September 30, 2019. It has derived, and continue to derive, substantial benefits from its relationship with its Promoter. Its credit cards portfolio consists primarily of SBI-branded credit cards, and it take advantage of its Promoter's large branch and customer networks in order to market its credit cards. SBI Cards Promoter is its largest customer referral partner, and its referral arrangements with SBI allow it to market its products and services to SBI customers by utilizing its Promoter's vast branch network. Its Promoter is selling a partial equity stake in it through this offering. Although its Promoter would require the RBI's approval to relinquish control in it, it cannot be assured that its Promoter would not divest additional equity stakes in SBI Cards in the future. Therefore, it cannot be assured that it will continue to enjoy the same level of support from its Promoter in the future, which could significantly impact its business model and materially adversely affect it.

SBI Cards may not be successful in implementing its growth strategies or penetrating new markets or services: SBI Cards growth strategies primarily focus on, among others, increasing new card acquisitions and partnerships with retail chains and other retail outlets, capitalizing on SBI's infrastructure and largely untapped customer base, and stimulating growth in credit card transaction volumes. These strategies may not be as successful as it had initially anticipated and may ultimately be unsuccessful. Even if such strategies are partially successful, it cannot be assured that it will be able to manage its growth effectively, continue to grow its business at a rate similar to what it has experienced in the past or fully deliver on its growth objectives. To the extent that SBI Cards fail to meet required targets, develop and launch new products or services successfully, it may lose any or all of the investments that it has made in promoting them, and its reputation with its cardholders could be harmed. Moreover, if SBI Cards competitors are better able to anticipate the needs of individuals in its target market, it could lose market share and its business could be adversely affected. Its inability to effectively manage any of these issues may adversely affect the business growth and, as a result, impact its businesses, prospects, financial condition and results of operations, as well as the market price of the Equity Shares.

Inability to effectively manage funding and liquidity risk and risk arising out of an unsecured loan: SBI Cards need to effectively manage its funding and liquidity in order to meet its cash requirements such as day-today operating expenses, extensions of revolving credit to its cardholders, payments of principal and interest on its indebtedness and payments on its other obligations. If SBI Cards do not have sufficient liquidity, it may be exposed to maturity mismatches between its assets and liabilities, face liquidity shortfalls and may not be able to meet its obligations when due, particularly during a liquidity stress event. In addition, as a growing financial services business, SBI Cards has in the past experienced negative cash flows from operating activities in order to fund the growth in its credit card receivables portfolio, and it has financed these negative cash flows by accessing additional debt or equity financing. Any failure in obtaining additional debt financing in the future would adversely affect its ability to grow credit card receivables portfolio. There can be no assurance that significant disruptions, uncertainties and volatility will not occur in the future. If it is unable to continue to finance its business and access capital markets on favorable terms and in a timely manner, or if it experience an increase in its borrowing costs or otherwise fail to manage its liquidity effectively, this may adversely affect its business growth and, as a result, impact its businesses, prospects, profitability, financial condition and results of operations, as well as the market price of the Equity Shares.

Business depends on the ability to manage credit risk, and failing to manage this risk successfully may result in high charge-off rates: SBI Cards seek to grow its credit card receivables portfolio while maintaining quality credit performance. Its success depends on its ability to manage its credit risk while attracting new cardholders with profitable usage patterns. It select its cardholders, manage their accounts and establish terms and credit limits using scoring models and other analytical techniques that are designed to set terms and credit limits to appropriately compensate it for the credit risk it accept, while encouraging cardholders to use their available credit. Moreover, SBI Cards models cannot predict loss of employment or prolonged or serious medical illness. Its models may also produce incorrect predictions of future events in relation to a cardholder due to erroneous or misleading data or information provided by such cardholder. The errors or inaccuracies in its models could be material. While it continually seeks to improve its assumptions and models, SBI Cards may make modifications that unintentionally cause them to be less predictive or it may incorrectly interpret the data produced by these models in setting its credit policies. This could lead it to make wrong or sub-optimal decisions in managing its business and allocating the appropriate product to cardholders based on their risk profile. Its ability to manage credit risk may also be adversely affected by legal or regulatory changes (such as restrictions on collections and bankruptcy laws), competitor's actions and consumer behavior, as well as inadequate collections staffing, resources, techniques and models. Its failure to manage its credit and other risks may materially adversely affect its profitability and adversely affect the trading price of the Equity Shares.

SBI Cards business, financial condition and results of operations may be adversely affected by regulation or legislation limiting interchange fees: Regulators and legislative bodies in a number of countries are seeking to reduce credit card interchange fees through legislation, competition-related regulatory proceedings, central bank regulation or litigation. Interchange reimbursement rates in India are set by payment networks such as MasterCard and Visa. In some jurisdictions, interchange fees and related practices are subject to regulatory activity that has limited the ability of certain networks to establish default rates, including in some cases imposing caps on permissible interchange fees. A development in certain countries could influence regulatory approaches other countries, including India. In India, the RBI has already implemented regulations limiting interchange fees payable on debit card transactions, and similar regulations could be extended to credit card transactions in the future. Any change in laws or regulations which, among other things, prescribes a ceiling on, or otherwise restricts SBI cards ability to charge interchange fees or similar fees, may require it to restructure its activities and incur additional expenses to comply with such laws and regulations, which could adversely affect the business and its financials.

Regulatory changes limiting the interest rates SBI Cards may charge its cardholders could adversely affect the business: Indian regulations do not currently impose any limit on the interest rate SBI Cards may charge its cardholders. However, Indian regulations could change, and its credit card receivables portfolio could become subject to interest rate caps in the future. Any change in Indian laws, regulations, policies or the manner in which they are interpreted (by the judiciary or otherwise) or enforced which has the effect of imposing a ceiling on the interest rates that may be charged by credit card issuers may require SBI Cards to restructure its activities and incur additional expenses to comply with such laws and regulations, which could adversely affect the business and its financial performance.

Cyber-attacks or other security breaches could have a material adverse effect on the business, results of operation or financial condition: In the normal course of business, SBI Cards collect, process and retain sensitive and confidential information regarding its partners and its cardholders. Its operations therefore rely on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. Although it devote significant resources and management focus to ensuring the integrity of its computer systems and networks through information security and business continuity programs, its systems and network are vulnerable to external or internal security breaches, acts of vandalism, computer viruses or other malicious code, misplaced or lost data, programming or human errors, or other similar events. It also face risks related to cyber-attacks and other security breaches in connection with credit card transactions that typically involve the transmission of sensitive information regarding its cardholders through various third parties, including its co-brand partners, merchant acquiring banks, payment processors, card networks (e.g., Visa and MasterCard) and its processors (e.g., Fiserv). SBI Cards also rely on numerous other third-party service providers to conduct other aspects of its business operations and face similar risks relating to them. Any successful cyberattacks or data breaches could result in proceedings or actions against it by governmental entities or others, which could subject it to significant awards, fines, penalties, judgments, and negative publicity arising from any financial or non-financial damages suffered by any individuals.

Dependent on third-party payment networks to operate credit card business: SBI cards are dependent on third-party payment networks, including Visa, MasterCard and RuPay for the processing of payments made using its credit cards. It also earns interchange fees and business development incentives, primarily on account of cardholder spends, which represented 25.1% and 25.6% of its total revenue from operations for the nine months ended December 31, 2019 and fiscal 2019, respectively. These payment networks may fail or refuse to process its credit card transactions adequately, may breach their agreements with it, or may refuse to renegotiate or renew these agreements on commercially reasonable terms. If SBI Cards is unsuccessful in establishing, renegotiating or maintaining mutually beneficial relationships with these payment networks, its business, financial position and results of operations could be materially and adversely affected.

SBI Cards have limited access to credit and other financial information on cardholders*:* SBI Cards principal activity is to provide credit cards to cardholders located in India. The credit risk associated with its cardholders may be higher than in other economies due to the higher uncertainty in India's regulatory, political, and economic environment. India's system for gathering and publishing statistical information relating to the Indian economy generally or specific economic sectors within it or corporate or financial information relating to companies or other economic enterprises may not be as comprehensive as in countries with established market economies. Credit risks may also be higher with first time credit card users who often may not have credit histories that would enable SBI Cards to accurately assess their creditworthiness, and its focus on expanding its new-to-credit portfolio may expose it to these increased risks. In addition, many of the nationwide credit bureaus have become operational in India in recent years, and it may be some time before comprehensive information on the credit history of its cardholders, especially individuals and small businesses, is available to it. Although as part of its credit policy, SBI Cards conduct credit checks of all its cardholders, including with credit bureaus and personal discussions, there can be no assurance that such credit information will be accurate or comprehensive. Difficulties in assessing credit risks associated with certain cardholders, may lead to an increase payment defaults, which could adversely affect the business prospects, financial condition and results of operations.

Provisions for credit losses may prove to be insufficient to cover losses on credit card receivables*:* SBI Cards maintain provisions for credit losses at levels that to be appropriate to provide for incurred losses in its credit card receivables portfolio. However, the process for establishing provisions for credit losses under the "expected credit loss" model involves a high degree of judgment and complexity, and is thus susceptible to being incorrectly or imprecisely estimated. It may not be successful in its efforts to improve collections and/or recoveries in relation to its NPAs, or otherwise adequately control its NPAs. Should the overall credit quality of SBI Cards credit card receivables portfolio deteriorate, the current level of its provisions may not be adequate to cover further increases in the amount of NPAs. Moreover, it cannot be assured that its experience of NPA recoveries will be similar to that in the past. Increases in its provisions for credit losses or recognized losses would result in a decrease in net earnings and capital, and could have a material adverse effect on the business, results of operations and financial condition and adversely affect the trading price of the Equity Shares.

Results of operations and growth depend on the ability to retain existing co-brand partners and attract new co-brand partners*:* In the ordinary course of SBI Cards business it enter into different types of contractual arrangements with business partners in a variety of industries to provide co-branded cards for consumers. It has co-brand partnerships with several companies in the travel, fuel, fashion, healthcare and mobility industries, including Air India, Apollo Hospitals, BPCL, Etihad Guest, Fbb, the IRCTC, OLA Money and Yatra, among others. The co-branding arrangements entered into by SBI Cards with its co-brand partners are for a fixed period of time, typically ranging from three to five years, and the agreements terminate upon the expiry of the term, unless extended or renewed by the parties. Further, while certain of its co-brand agreements provide for a lock-in period, the parties have the ability to terminate the arrangement upon the expiry of the lock-in period, after providing a prior written notice in accordance with the terms of the respective agreements. Competition for relationships with new and existing co-brand partners is very intense and there can be no assurance it will be able to grow or maintain these partner relationships or that they will remain as profitable. Its results of operations and growth may be impacted by SBI Cards ability to retain existing co-brand partners and attract new co-brand partners. In addition, if its co-brand partners do not fulfil their obligations under its cobrand agreements, it may not able to achieve the anticipated benefits from its co-brand relationships. In particular, certain of its co-brand partners are responsible for significant contributions to its credit card spends and new cardholder account sourcing, and the loss of any significant co-brand partner, or any slowdown in such co-brand partner's individual business or the industry in which they operate, may adversely affect its operations.

SBI Cards rely on third-parties for customer acquisitions, technology, platforms and other services integral to the operations of its businesses: SBI Cards rely on third-party service providers, merchants, cardholder acquisition channels, processors, aggregators, payment networks and other third parties for services that are integral to its operations, such as call center services, fraud control, payment processing, collections, logistical services and certain other services that it provides to its cardholders. It also rely in part on third party co-brand partners for new cardholder acquisitions. As of December 31, 2019, SBI cards had a total of 3,883 employees. It had 3,701 employees as of March 31, 2019, 3,642 employees as of March 31, 2018 and 3,041 employees (including SBIBPMSL), as of March 31, 2017. Its outsourced workforce as of December 31, 2019 was 38,244, most of which were engaged in its sales, customer service, collections and operations functions. As outsourcing, specialization of functions, third-party digital services and technology innovation within the credit card industry increase (including with respect to mobile technologies, tokenization, big data and cloud storage solutions), additional third parties may become involved in processing card transactions and handling its data, among other activities. Additionally, it is dependent on certain external vendors or service providers for the implementation and maintenance of its systems. SBI Cards are exposed to the risk that these external vendors or service providers may be unable to fulfil their contractual obligations to it (or will be subject to the risk of fraud or operational errors by their respective employees) and to the risk that their (or their vendors) business continuity and data security systems prove to be inadequate. Although it may have the benefit of contractual indemnities in certain of its third-party service agreements, such indemnities may not always cover all types of liabilities it may incur and, even if they are within the scope of coverage, the amounts it recover under such indemnities may not be sufficient to cover all of its losses.

SBI Cards may be unsuccessful in adapting to rapidly changing technologies and introducing new products or services to keep pace with such technological changes*:* Technological changes continue to significantly impact the credit cards and payment services industries, such as continuing development of technologies in the areas of smart cards, radio frequency and proximity payment devices, electronic wallets, mobile commerce, data analytics, machine learning, block-chain and artificial intelligence, among others. The effect of technological changes on SBI Cards business is unpredictable. It depend, in part, on third parties for the development of and access to new technologies. Difficulties or delays in the development, production, testing and marketing of new products or services may be caused by a number of factors including, among other things, operational, capital and regulatory constraints. The occurrence of such difficulties may affect the success of its products or services, and developing unsuccessful products and services could result in financial losses as well as decreased capital availability. If SBI Cards are unable to successfully introduce and maintain new income-generating products and services while also managing its expenses, it may impact its ability to compete effectively and materially adversely affect the business and earnings, and the trading price of the Equity Shares

SBI cards will continue to be controlled by its Promoter after the completion of the Offer*:* SBI Cards Promoter holds 74.00% of its issued, subscribed and paid-up equity share capital, while CA Rover Holdings holds 26.00% of its issued, subscribed and paid-up equity share capital. Upon completion of the Offer, its Promoter and CA Rover Holdings will continue to hold a significant portion of its issued, subscribed and paid up Equity Share capital. Further, in exercise of its statutory rights under Indian law, its Promoter will have the right to nominate director(s) to its board of directors following the Offer and listing of its Equity Shares. The interests of SBI Cards Promoter, CA Rover Holdings and other significant shareholders may be different from its interests or the interests of other shareholders. Accordingly, its Promoter, CA Rover Holdings and other significant shareholders may take actions with respect to its business and the businesses of its peers and competitors that may not be in its or its other shareholder’s best interests. The interests of its Promoter, CA Rover Holdings and other significant shareholders may therefore conflict with interests as SBI Cards shareholder and the interest of its other shareholders.

Changes in market interest rates could have a material adverse effect on net earnings, funding and liquidity: Credit card rates historically have not been driven by changes in interest rates to the same extent as, for instance, mortgages, as credit card rates are typically “managed” rates based on creditworthiness of the relevant cardholders. However, increasing or volatile interest rates could lead to higher interest costs for existing cardholders on their other indebtedness, which may affect their ability to repay their borrowings to other financial institutions and, by implication, the credit card receivables SBI Card has extended to them, which may lead to an increase in arrears among its cardholders as well as an increase in its impairment charges and charge-off rates. In addition, it may not be able to raise interest rates on its products in line with any increases in the prevailing interest rates immediately or at all due to competitive or other factors.

Conflicts of interest may arise out of common business objectives shared by SBI Cards Promoter and SBI Cards*:* SBI Cards Promoter was India’s largest commercial bank in terms of deposits, advances and number of branches as of September 30, 2019. Accordingly, it engages in a broad spectrum of activities, including investments in credit cards through it, debit cards and payment services industry. In the ordinary course of its activities, its Promoter may engage in activities where the interests of certain of its business divisions, its affiliates, or the interests of its clients may conflict with the interests of its shareholders. In particular, it may compete with existing and future private and public credit card issuers or payment services companies that its Promoter may establish or invest in. Certain of these divisions and entities have or may have a business or investment strategy similar to its business strategy and therefore may compete with it, which may present various conflicts of interest. In the event that any such conflicts of interest arise, its Promoter may make decisions regarding its operations, financial structure or commercial transactions that may not be in its shareholder's best interests. It may also enable a competitor to take advantage of a corporate opportunity at its expense. Such decisions could have a material adverse effect on the business, financial condition, results of operations and prospects.

The financial services industry is heavily regulated, and material changes in the regulations that govern SBI Cards could cause its business to suffer: SBI Cards are a Non-Banking Financial Company – Systemically Important Non-Deposit Taking Company ("NBFCND-SI") registered with the RBI. It is also registered with the Insurance Regulatory and Development Authority of India ("IRDAI") to act as a "corporate agent (composite). Further, it is also registered with the Indian Department of Telecommunications ("DoT") as an 'other service provider for operating its call-centers for servicing its customers. Accordingly, in addition to the general regulations governing a company in India, it is also subject to comprehensive regulation and supervision by various regulatory authorities, including the RBI, the IRDAI and the DoT. SBI Cards are required to obtain and maintain various statutory and regulatory permits and approvals from time to time to operate its business, which requires it to comply with certain terms and conditions to continue its operations. The financial services industry is heavily regulated and is also subject to frequent change of policies and amendments based on changing macro-economic conditions. It cannot be assure that laws or regulations will not be adopted, amended, enforced or interpreted in the future in a manner that will not have a material adverse effect on its business and results of operations.

A reduction in credit ratings could materially increase the cost of funding from, and restrict access to, the capital markets: SBI Cards are currently rated AAA and A1+ by both CRISIL and ICRA. Its ratings are based on a number of factors, including its financial strength, as well as factors that may not be within its control, such as macroeconomic conditions and the rating agencies perception of the industries in which it operate and the products it offers. These ratings also reflect the various methodologies and assumptions used by the rating agencies, which are subject to change and could adversely affect its ratings. A downgrade in credit ratings (or investor concerns that a downgrade may occur) could materially increase the cost of its funding from, and restrict its access to, the capital markets.

Increasing regulatory focus on personal information protection could impact business and expose to increased liability: Regulators in various jurisdictions are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. This increased scrutiny may result in new interpretations of existing laws, thereby further impacting SBI Cards business. Any failure, or perceived failure, by it to comply with any applicable regulatory requirements, including but not limited to privacy, data protection, information security, or consumer protection-related privacy laws and regulations, could result in proceedings or actions against it by governmental entities or individuals, subject it to fines, penalties, and/or judgments, or otherwise adversely affect SBI Cards business, as its reputation could be negatively impacted. In addition, and attributable to some degree to the increased regulatory focus on personal information protection, certain of its agreements with licensee partners contain data privacy protection requirements, the breach of which may negatively affect the arrangements it has with such licensee partners.

SBI Cards may be impacted due to seasonality*:* Typically, there is an increase in spending on SBI Cards credit cards during holiday and festival seasons in India. During the same periods, availability of outsourced sales manpower is lower and may impact the sourcing of new accounts. It also run promotional offers during holiday and festival seasons to promote usage of its credit cards, as a result of which it may experience higher spends and receivables during such holiday and festival seasons. This seasonality can be expected to cause quarterly or yearly fluctuations in its spends, new accounts sourcing, revenue, profit margins and net earnings.

Profit & Loss — **Rs in million**

Particulars	9MFY20	FY19	FY18
Revenue from Operations			
Interest Income	34930.7	35757.1	27599.8
Income from fees and services	30192.7	30720.4	21772.7
Service Charges	824.6	1258.6	796.1
Business development incentive income	2403.7	2166.7	1628.4
Insurance commission income	79.9	87.3	72.8
Net gain on fair value changes	-1.0	1.0	0.0
Total Revenue from operations	**68430.6**	**69991.1**	**51869.8**
Other Income	3971.0	2877.2	1832.2
Total Income	**72401.6**	**72868.4**	**53701.9**
EXPENSES			
Finance costs	9663.7	10172.1	7115.1
Employee benefits expenses	3344.5	3904.0	1930.9

Depreciation, amortisation and impairment	740.4	811.0	244.9
Operating and other expenses	31412.1	33045.9	27119.2
CSR expenses	33.7	141.9	97.8
Impairment losses & bad debts	11020.6	11477.4	8000.6
Total expenses	**56214.8**	**59552.3**	**44508.5**
Profit before tax	**16186.7**	**13316.0**	**9193.4**
Current tax charge / (credit)	4242.5	5403.1	2854.9
Current tax charge / (credit) - prior years	38.1	71.5	-192.1
Deferred tax charge / (credit)	294.1	-785.8	519.2
Total Tax Expenses	**4574.7**	**4688.8**	**3182.0**
Profit after tax for the year	**11612.1**	**8627.2**	**6011.4**
Other Comprehensive Income			
Remeasurements of the defined benefit liabilities / (asset)	-43.6	-50.2	-27.6
Income tax relating to items that will not be reclassified to profit or loss	11.0	17.6	9.5
Subtotal	**-32.6**	**-32.7**	**-18.0**
Gain/(loss) on forward contracts in hedging relationship	33.0	2.2	0.0
Income tax relating to items that will be reclassified to profit or loss	-8.3	-0.8	0.0
Subtotal	**24.7**	**1.4**	**0.0**
Other comprehensive income	**-7.9**	**-31.3**	**-18.0**
Total Comprehensive Income for the year	**11604.1**	**8596.0**	**5993.4**
EPS (Rs.)	12.45	10.27	7.63
Equity	9323.3	8372.2	7850.0
Face Value	10.0	10.0	10.0

Balance Sheet: **Rs in million**

Particulars	As at December 31, 2019	FY19	FY18
Financial Assets			
Cash and cash equivalents	4,527.6	7,335.0	3119.0
Bank Balance other than Cash & Cash Equivalents	550.2	432.7	1607.7
Derivative financial instruments	0.0	1.0	0.0
Trade Receivables	584.9	1488.2	230.0
Other Receivables	1187.7	1462.0	1277.3
Loans	239331.8	179087.3	140455.4
Investments	14.6	14.6	0.0
Other financial assets	294.9	306.1	1139.2
Total financial assets	**246491.7**	**190127.0**	**147828.7**
Non- financial assets			
Deferred tax assets (Net)	1373.7	1665.1	880.1
Property plant and equipment	571.8	575.4	418.6
Capital work in progress	183.1	43.4	133.4
Intangible assets	738.2	646.0	439.8
Intangible assets under development	146.2	158.3	217.2
Right-of-use Assets	1711.0	1642.8	1559.2
Other non-Financial assets	8718.9	7538.3	5383.1
Total non-financial assets	**13442.9**	**12269.4**	**9031.4**
Total Assets	**259934.7**	**202396.4**	**156860.1**
Liabilities			
Financial liabilities			
Derivative financial instruments	322.8	1095.4	28.5
Payables			
Total outstanding dues of creditors other than micro enterprises and small enterprises	*3.5*	*0.0*	*1.6*
Total outstanding dues of creditors other than micro enterprises and small enterprises	*786.8*	*6614.9*	*5180.6*

Other payables			
Total outstanding dues of creditors other than micro enterprises and small enterprises	*61.9*	*35.6*	*113.4*
Debt Securities	67149.8	40793.2	29489.3
Borrowings (Other than Debt Securities)	106162.0	83744.1	74658.6
Subordinated Liabilities	12465.2	11968.0	9980.4
Other financial liabilities	8107.5	9576.9	6448.5
Total financial liabilities	**195059.3**	**153828.1**	**125900.9**
Non-Current Liabilities			
Current Tax liabilities	37.8	762.3	104.0
Provisions	12484.3	6284.2	3924.2
Other Non- financial liabilities	4840.2	5704.6	3400.4
Total Non- financial liabilities	**17362.3**	**12751.1**	**7428.6**
Total liabilities	**212421.5**	**166579.1**	**133329.4**
Equity			
Equity Share capital	9323.3	8372.2	7850.0
Other equity	38189.8	27445.0	15680.6
Total equity	**47513.1**	**35817.3**	**23530.6**
Total Equity & Liabilities	**259934.7**	**202396.4**	**156860.1**

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