

Credit Cards - India

3Q wrap: Asset quality risk rising; revolver stable to lower QoQ; spends strong

Industry Overview

Asset Quality deterioration flagged by multiple issuers

Multiple credit card (CC) issuers flagged a deterioration in performance of their credit card portfolio during 3Q, with higher customer leverage being cited as one of the probable reasons for diminished repayment capability and payment delays. Highlighting commentary from key issuers: **RBL** – CC GNPA rose by 8bp QoQ, CC contributed to 55% of Gross slippages in 3Q; **Kotak** – emerging risk seen in CC, rationalized sourcing in the lower end of the credit card segment; **SBI Card (SBIC)** – CC GS-3 rose by 21bp QoQ; credit cost rose to eight quarter high of 7.5%, and is likely to remain elevated for the next two quarters with limited visibility on normalization, **AU Small Finance Bank** – CC credit cost rose to 6.5% as the book seasoned. Consequently, many issuers have rationalized new card sourcing in the lower end of the credit card segment (low limit cards). Our recent downgrade of SBIC was premised on credit card delinquencies remaining elevated, where the visibility on normalization remains low. Maintain Neutral.

Advances outpace credit growth; IEA mix stable to down

Credit card advances growth was strong at 3-11% QoQ, mirroring strong spends in festive season, outpacing banking credit (ex-HDFC) growth of 5% QoQ (BofAe) with share of CC receivable in banking credit rising by 23bp QoQ to 1.87% (BofAe). While IEA mix was largely stable QoQ for most issuers, revolver was down selectively: **RBL**: stable QoQ; **HDFCB**: revolver down QoQ; **SBIC**: IEA stable QoQ, revolver down QoQ.

Strong spends; PSBs gaining market share in C/O

Strong spends momentum sustained with 20-79% YoY growth across key CC issuers (industry: +36% YoY) on resilient discretionary spending and improved 30-day activation rates, in the seasonally strong festive season. Share of e-commerce spends was flat to up for SBIC, RBL. Industry net card addition at 4.9mn was up 13% QoQ and is now in line with the quarterly run-rate pre-September 2022 (4.5mn), when RBI's directions on in-active card closures got implemented. C/O growth improved to 21% YoY vs 16%/19% in FY23/22, on favorable base. While Top-5 names are taking a calibrated approach on new card sourcing (flow share: 60% vs 76% stock), with tightened risk filters, PSBs (ex-SBIC) are more aggressive with share in December new card sourcing (net) at 8.7%, vs 4.9% in C/O. Digital sourcing is priority with Kotak/Indusind/Axis sourcing 99%/97%/86% CC digitally, respectively.

UPI- credit card integration to aid spends/volumes

We continue to believe that Unified Payment Interface (UPI) -Rupay credit card integration could be a significant growth accelerator for CC volumes/spends with (i) significant rise in acceptance points, (ii) potential for shifting of lower ATS spends to credit. This is a key focus area for issuers: Kotak, Axis and SBIC went live with UPI on Rupay credit card in 1H. SBIC mentioned that the adaption of UPI on its Rupay credit cards is picking up well with 23% of Rupay card holders enrolled for UPI usage in 3Q vs 9% QoQ. Axis has also witnessed a 15% MoM growth in credit cards linked to UPI, in 3Q.

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Key terms

C/O – Cards Outstanding

GNPA – Gross non-performing Assets

IEA – Interest Earning Assets

Recent reports

SBI Cards: 3Q'FY24: Credit costs disappoint; likely to remain elevated near term; retain Neutral 26 January 2024

Credit Cards - India: Dec spends +31% YoY; C/O +2% MoM; market share gains for smaller players 26 January 2024

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Key names - 3Q'FY24 commentary

Exhibit 1: India credit card issuers commentary – 3Q'FY24

AQ deterioration flagged by multiple players; Strong growth in spends, credit card advances

Credit Card Business Momentum

HDFC bank* (Advances growth for 'Payment Products' business)	Advances: +17% YoY Spends: +25% YoY Cards: +6% QoQ Commentary: 1.6m cards issued in 3Q (vs 1.7mn cards QoQ)
ICICI bank	Advances: +40% YoY Spends: +48% YoY Cards: +6% QoQ Commentary: Credit card outstanding at 7.5% of retail portfolio (4.2% of total), +50bp QoQ
Kotak	Advances: +52% YoY Spends: +66% YoY Cards: +5% QoQ
IndusInd	Advances: +33% YoY Spends: +20% YoY Cards: +8% QoQ Commentary: Credit card receivables rose by 8% QoQ and constituted 3% of portfolio in 3Q (stable QoQ)
RBL	Advances: +26% YoY Spends: +34% YoY Cards: +5% QoQ Commentary: Card issuance of 0.57m in 3Q, remains conservative vs the last 2 quarters at 0.63m and 0.59m respectively.
Axis Bank	Advances: +92% YoY (partly on inclusion of Citi) Spends: +79% YoY (partly on inclusion of Citi) Cards: +3% QoQ Commentary: Credit card advances grew by 92% YoY, ahead of overall retail loan growth of 27% YoY. 1.26mn credit cards were issued in 3Q, vs 1.21mn QoQ.
SBI cards	Advances: +27% YoY Spends: +41% YoY Cards: +3% QoQ Commentary: Adoption of UPI on SBIC's Rupay credit cards is progressing well with penetration rising to 23% (vs 9% QoQ) with monthly average UPI spends per account healthy at INR12.5k
AU Small Finance bank	Advances: +156% YoY Spends: +155% YoY Cards: +17% QoQ
Asset Quality	Commentary
IndusInd Bank	GNPA stood at 2.57% in 3Q vs 2.59% QoQ.
RBL	GNPA rose by 8bp QoQ. Credit cards contributed to 55% of Gross slippages in 3Q.
Kotak	Emerging risk seen in the credit cards due to leverage built up by customers leading to diminished repayment capability. Company believes that their unsecured portfolio is appropriately priced to deliver targeted risk assisted returns.
SBIC	Gross credit costs rose to an 8 quarter high of 7.5%. While SBIC has been taking portfolio actions and intensified collection efforts, it conceded that the credit costs are likely to remain elevated at least over next 2 quarters. SBIC attributed this to a broad-base rise in delinquency levels for unsecured lending including credit cards with 40-80bps higher flow rates for 30+/90+ dpd buckets, which is likely to take some time to normalize. GS-3 rose by 21bp QoQ to 2.64%, confirming AQ weakness.
AU Small Finance bank	Credit cost net of the recovery for the quarter normalized to 62bps with an 18 bps contribution coming from credit card book. Credit cost for credit card book getting normalized and in line with industry average, as the book attains a size and gets seasoned.
Asset mix and revolvers	
HDFC bank	Witnessed QoQ decline in revolver during 3Q. Revolver customers active only in the shorter duration, with the growth subdued in the six months plus category.
RBL	Interest earning assets mix remained stable QoQ at 62%.
SBIC	Interest earning assets (revolvers + term) share in total receivables remained stable QoQ at 62% with revolvers declining QoQ.
Digital Initiatives	
ICICI Bank	Issued 4.7mn+ Amazon Pay cards. Retail credit card spends driven by improvement in discretionary spending with higher activation rate through digital onboarding of customers, including Amazon Pay credit cards.
IndusInd Bank	97% of credit cards sourced digitally. Remote digital DIY credit cards crossed 12,000 cards per month at 20% lower CAC than offline and better activation rates (1.4 times).
Kotak	99% of new credit cards were sold digitally.
Axis bank	86% of credit cards are issued through digital and phygital modes. CIF for Flipkart Axis Bank Credit card platform with 69% activation rate. 74% cross sell/up sell happening digitally.
RBL bank	E commerce spend share rose by 100bp QoQ to 62%. 30-day retail active rate rose by 100bp QoQ to 47%.
SBIC	Online spends share in retail stable QoQ at 57%
AU Small Finance bank	50% credit card customers acquired digitally in 3Q with 20% uptick in credit card QoQ acquisition. Launched first co-branded credit card with travel portal 'ixigo', allowing access to more than 15cr users, largely based in tier 2/3 locations. 62% purchase active customers (30 days).
Fee Income	
Axis Bank	Retail cards & payment fees grew 52% YoY, 10% QoQ, while the overall retail fee income grew by 36% YoY, 6% QoQ.

Exhibit 1: India credit card issuers commentary – 3Q'FY24

AQ deterioration flagged by multiple players; Strong growth in spends, credit card advances

Credit Card Business Momentum

IndusInd Bank	Cards and distribution fees grew by 20% YoY
SBIC	Fees and service income rose 34% YoY with share in the revenue mix up 200bp YoY. Interest income grew at a higher rate of 29% YoY.
NIMs/Opex	
SBIC	NIM (monthly avg) contraction of 30bps QoQ on (i) yield decline on lower revolver mix, (ii) rise in borrowing costs on tight liquidity and 25-30bps rise in bank borrowing cost post RBI's risk weight increase for bank lending to NBFCs, with the full impact to be visible in 4Q. C/I came at 59.9% (vs 57.1% QoQ, BofAe: 60.9%) with SBIC rolling out 2.2k offers during the extended festive sales season.
Other	
HDFC bank	Working on credit card cross-sell to HDFC Ltd. customers
ICICI bank	55%/85% portfolio to existing customers/salaried individuals. 75% salaried customers are from well rated corporates, MNCs and government entities.
Axis bank	78% of credit card portfolio is to salaried segment and existing to bank mix constitutes 52% of the portfolio. 15% MoM growth in the number of credit cards linked to UPI, in 3Q.
RBL	Focuses on diversifying the sourcing engine by adding more partners in coming months - currently 20k cards per month are acquired through direct sales and branches, expects to increase the share of acquisition from field sales force (recently employed 2000+) and other co-branded partners to 25-30% each. Plans to bring down BAF sourcing to 50% over next 3-6 months (vs 65% in 3Q). Focus on cross-sell to credit card customers - recently launched a product called GO. The credit card co-origination journey with savings fund account to commence soon, with the later expected to aid in funding the account.
Kotak	85-90% cards are issued to the existing bank customers. Sourcing in the lower end of the credit card segment is being rationalized.
AU Small Finance bank	Bank-wide sourcing contributes 55% of credit cards sourced

Source: Company

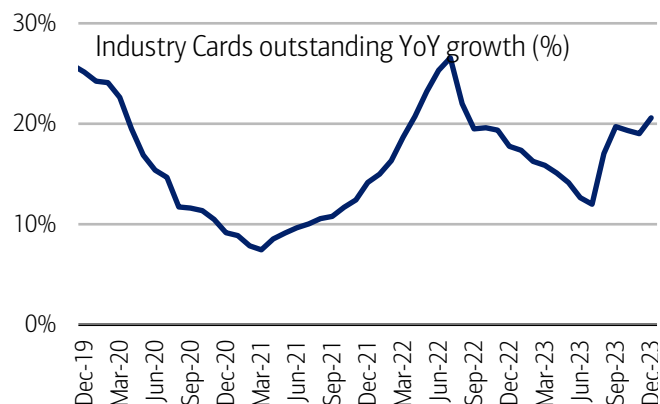
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Key charts

Exhibit 2: Industry cards outstanding YoY growth (%)

Cards outstanding rose by 21% YoY in 3Q24 on back of favorable base, with top five names taking a calibrated approach on new card sourcing

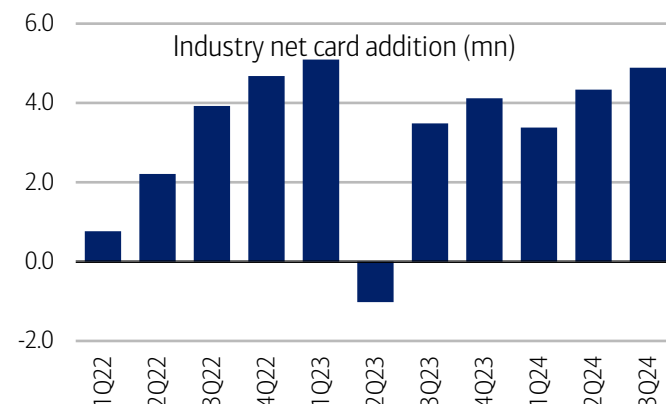


Source: RBI, BofA Global Research estimates

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Exhibit 3: Net credit card addition (mn) – Industry

4.9mn credit cards were added in 3Q'FY24 vs 3.5mn in 3Q'FY23

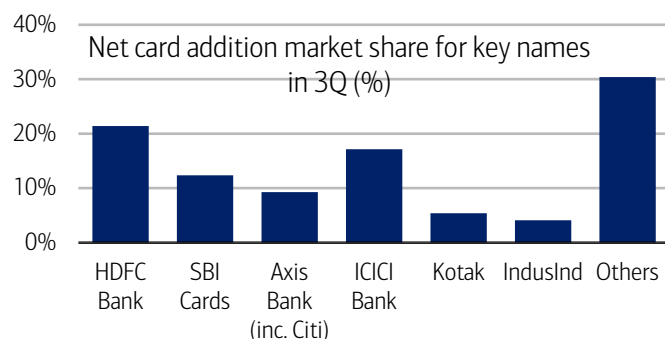


Source: RBI, BofA Global Research estimates

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Exhibit 4: Net card addition market share (%)

HDFC Bank had the highest market share in net card addition in 3Q

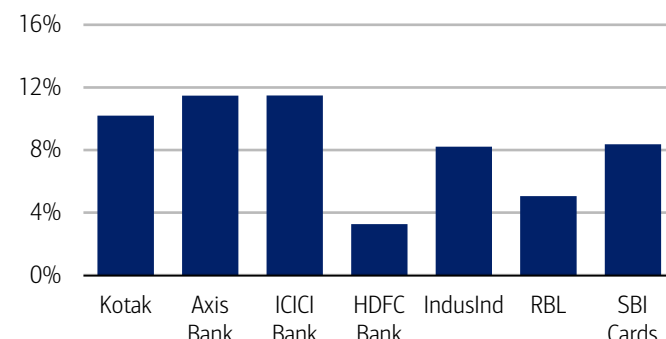


Source: RBI, BofA Global Research estimates

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Exhibit 5: Credit card Advances growth QoQ (%)

Advances for Axis and ICICI Bank grew above other key names



Source: RBI, BofA Global Research estimates

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Exhibit 6: Indian credit card market – spends trend

Key gainers in YoY growth terms: Axis (+79.4%), Kotak (+65.8%),

Credit Card spends growth - 3Q24

3Q24	YoY	QoQ
Axis	79.4%	14.9%
Kotak	65.8%	19.0%
ICICI	48.5%	15.9%
SBI	41.2%	22.6%
Industry	36.1%	15.8%
RBL	33.8%	13.5%
HDFC	24.7%	12.4%
Indusind	20.0%	15.6%

Source: RBI, BofA Global Research

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Exhibit 7: Indian credit card market – cards o/s trend

Key gainers in YoY growth terms: Axis (+43.9%), IndusInd (+32.2%)

Credit Card o/s growth - 3Q24

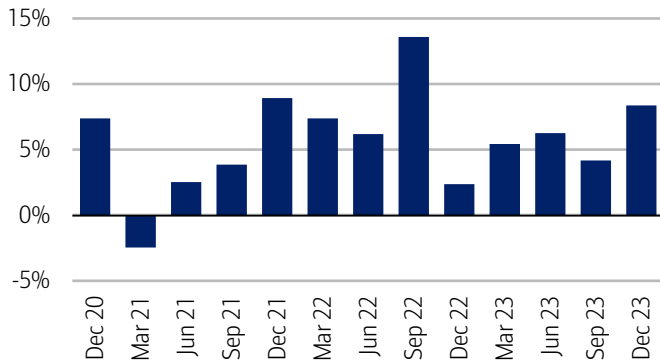
3Q24	YoY	QoQ
Axis	43.9%	3.3%
Indusind	32.2%	7.9%
Kotak	22.3%	4.8%
ICICI	21.9%	5.4%
Industry	20.6%	5.3%
RBL	18.9%	4.8%
HDFC	16.8%	5.6%
SBI	16.3%	3.4%

Source: RBI, BofA Global Research

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Exhibit 8: SBIC Credit card receivables - period end (QoQ %)

SBIC receivables grew 8% QoQ vs 4% in 2Q

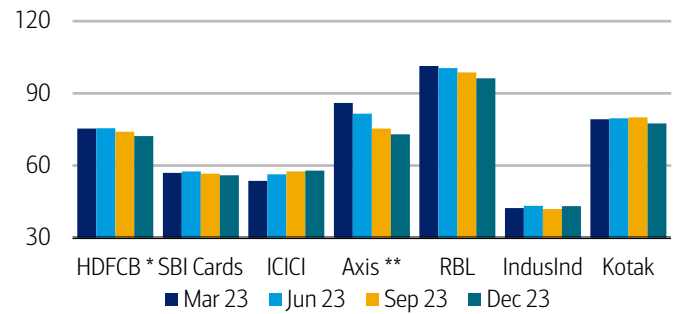


Source: BofA Global Research, Company

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Exhibit 9: Credit card receivables outstanding (as number of days of trailing 12M spends)

ICICI has seen broadly stable days of receivables in 3Q



Source: BofA Global Research

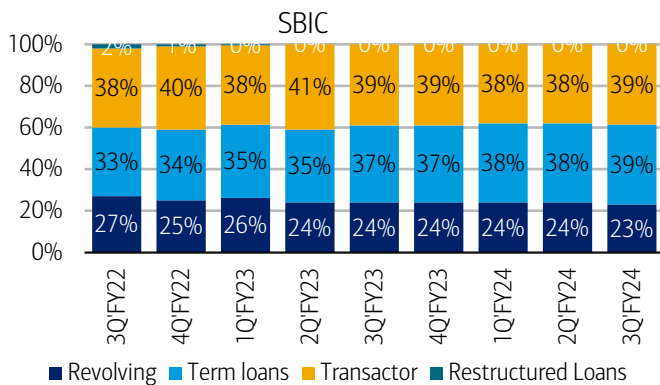
* For HDFCB receivables days estimated based on advances for 'Payments Products'

** Axis includes Citi portfolio

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Exhibit 10: SBIC asset mix

Interest bearing asset mix (revolver + term loans + restructured loans) remained stable QoQ for SBIC, with revolver seeing a decline QoQ...

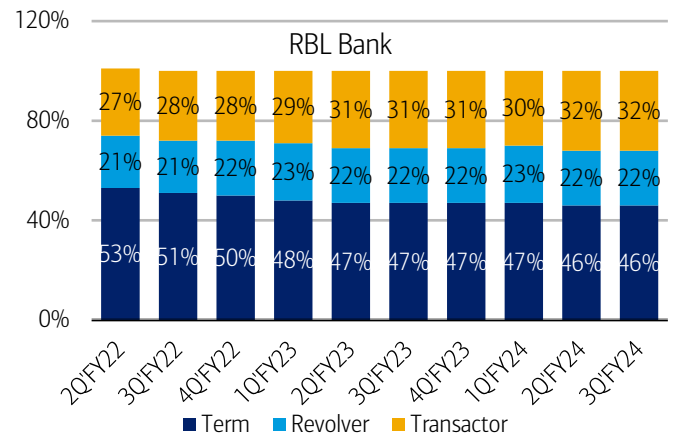


Source: BofA Global Research, Company

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Exhibit 11: RBL asset mix

...for RBL, IEA mix remained stable QoQ

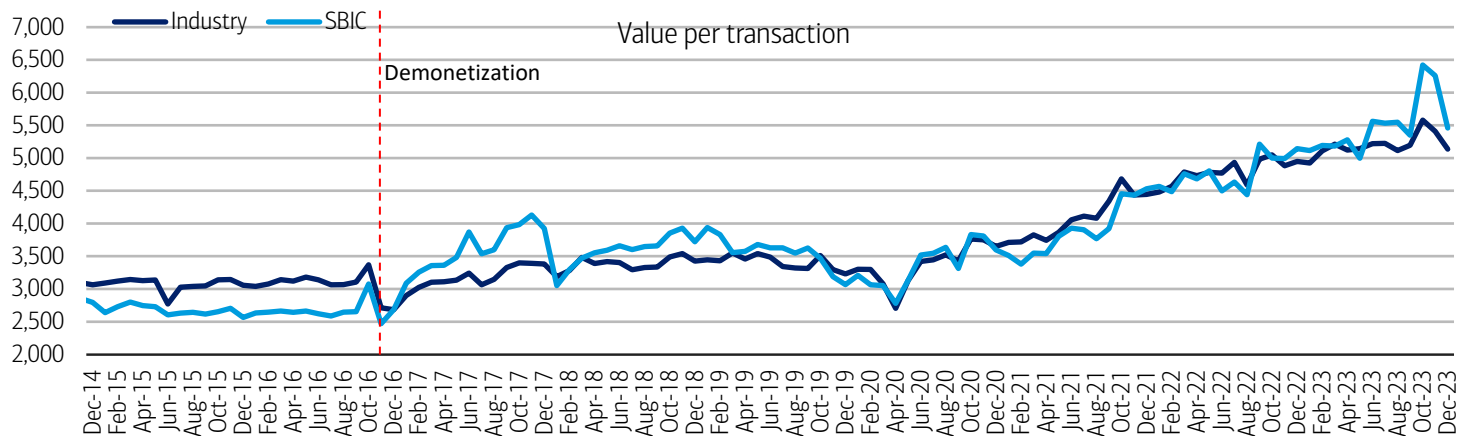


Source: BofA Global Research, Company

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Exhibit 12: Value per transaction

Industry value per transaction levels have risen to levels higher vs pre-COVID levels, which are supported by the new high value use cases especially on corporate side and newer spend categories

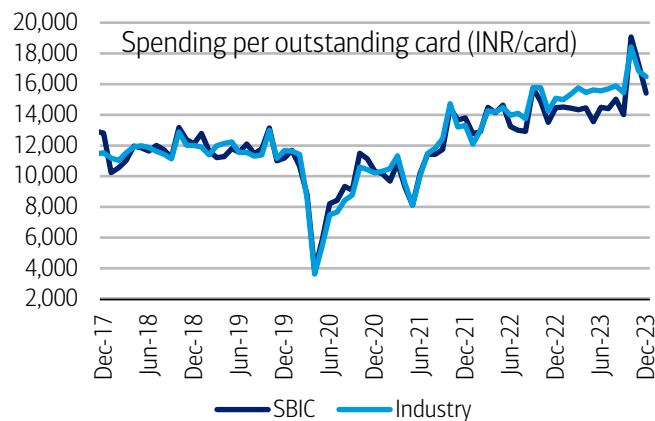


Source: BofA Global Research, RBI

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Exhibit 13: Spending per outstanding card (INR/card)

SBIC's spend per card was lower vs industry average

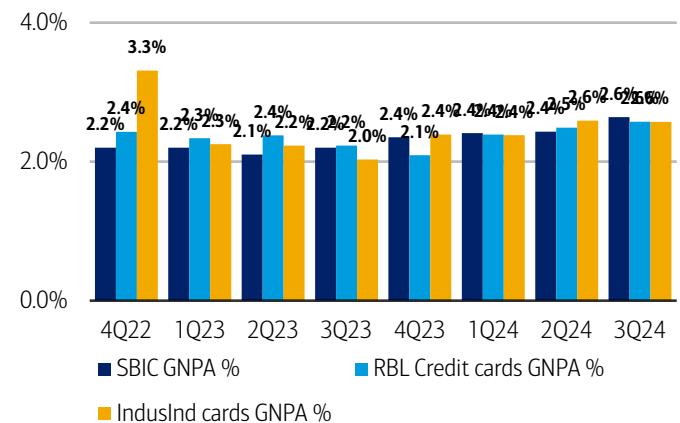


Source: BofA Global Research, RBI, Company

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Exhibit 14: GNPA trends

Credit card GNPA for SBIC/RBL/IndusInd was +21bp/+8bp/-2bp QoQ

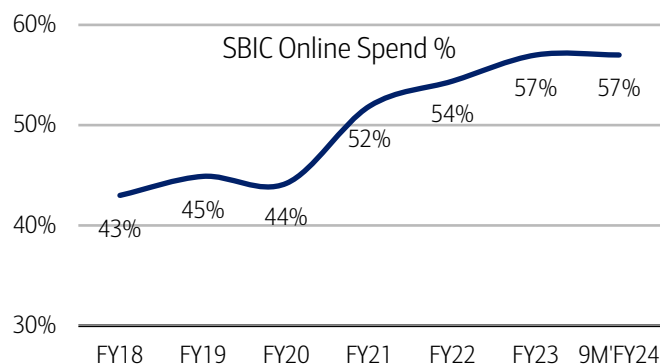


Source: BofA Global Research

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Exhibit 15: SBIC online spends share (%)

Online retail spends share rose remained broadly stable over 9M FY24

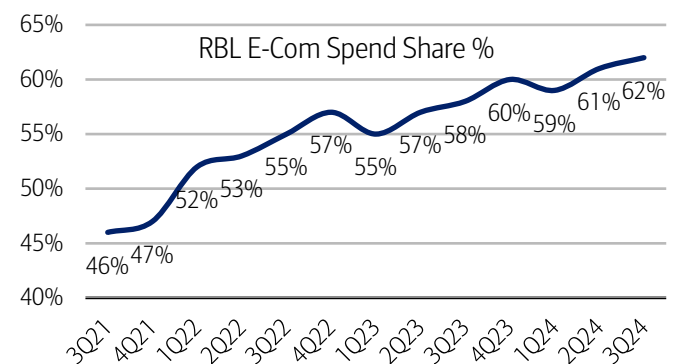


Source: BofA Global Research, company

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Exhibit 16: RBL E-Com Spend Share

RBL's e-commerce spend share rose in 3Q by 100bp

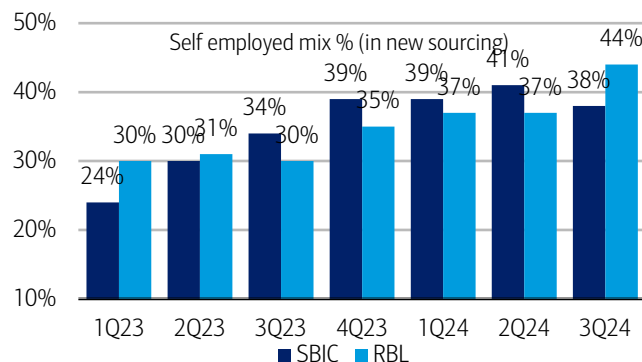


Source: BofA Global Research, company

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Exhibit 17: Self-employed mix in new sourcing

SBIC's self-employed share in new sourcing declined by 300bp in 3Q, while that for RBL rose to 44% (vs 37% in 2Q)

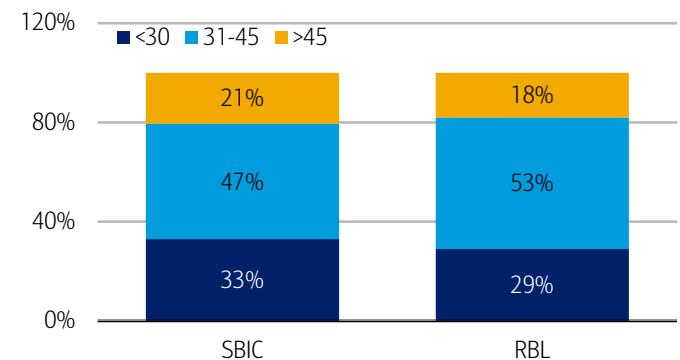


Source: BofA Global Research, Company

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Exhibit 18: Age group mix in new sourcing

SBIC has slightly higher exposure in younger age groups where it tends to benefit from their rising incomes and stickiness.



Source: BofA Global Research, Company

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HDFBF	HDFCB IN	HDFC Bank	Rs 1454.65	B-1-7
IBN	IBN US	ICICI Bank	US\$ 24.22	B-1-7
XLORF	ICICIBC IN	ICICI Bank	Rs 1016.4	B-1-7
IDUBF	IIB IN	IndusInd Bank	Rs 1526.8	C-1-7
XWIUF	KMB IN	Kotak Mahindra Bank	Rs 1822.9	B-2-7
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Source: BofA Global Research

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Underperform	N/A	≥ 20%

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