



**Active and confident**

**Jasuja: turnaround man**

**Catering to the young and affluent, SBI Cards rapidly builds its credit card base**

**A**mong the many banks that are building their credit card portfolios, none are as active in the market as SBI Cards & Payment Services, a subsidiary of SBI group, India's leading public sector bank. With a total loan portfolio of ₹15,000 crore – double since two-and-half years ago, SBI Cards is adding half of all new customers in the industry with every passing quarter. Over 10 years, its distribution reach has expanded from 20 to 100 outlets – not including the vast SBI branch network.

SBI Cards has 4,000 employees on its rolls. But another 20,000 are enrolled with vendors working exclusively for the company and acting as feet on the street, selling cards and collecting and fulfilling associated documentation.

“We were at 15,000 just four months back,” says Vijay Jasuja, managing director and CEO, a career SBI veteran, who has led the turnaround at the company and will retire in February. Customers are being sourced from both the open market as well as SBI's 400 million customer base that remains largely untapped.

Last fortnight, after negotiations that lasted two-and-half years, private equity fund Carlyle group picked a 26 per cent stake in the company, which was earlier owned by GE Capital. Negotiations initially took time due to a bidding process that attracted as many as 25 participants.

In a decision taken at the headquarters by the seller GE Capital, the company decided to exit financial services globally, and focus instead on its core business around aviation and electricals. In a bilateral joint venture with the SBI Group, GE owned 40 per cent in SBI Cards and 60 per cent share in GE Capital Business Process Management Services since 1998. In the deal that closed last fortnight, SBI has increased shareholding in both companies to 74 per cent. Carlyle's 26 per cent purchase is said to have been valued at around ₹1,100 crore.

Both partners wanted to retain 50 per cent share, but that would have created confusion in management. At 74 per cent, SBI group is clearly in charge of management at SBI Cards. With 26 per cent stake, Carlyle is a partner in the business instead of just an investor.

Carlyle has made investments in financial services companies across

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the globe, and brings to the table its expertise including risk management and strategy. In the US, it has invested in three companies that offer unsecured loans up to \$5,000. As an NBFC, SBI Cards has to maintain 15 per cent capital adequacy ratio – and that takes off some pressure from the parent group in terms of recapitalising its subsidiary.

Credit card sales in India have seen ups and downs, after a crash in 2008 when even the foreign banks were caught off-guard with rising delinquencies and faltering personal loans. Credit card bureaus, with track records of individual financial behaviour, were non-existent back and aggravated the situation.

SBI too (with its erstwhile partner GE) got caught in that storm – with accumulated losses in excess of ₹500 crore. Those losses wiped out in 2014, and profitability has risen 60 per cent year on year albeit on a small base.

#### Making a dent

SBI Cards posted a net profit of ₹390 crore in 2016-17, up from ₹284 crore the year earlier. “We are the highest return on equity NBFC in the country,” says Jasuja. Barring BobCards, none of the other NBFCs are credit card companies. Credit card companies can leverage capital up to 1:7, and while SBI Cards is well capitalised at the moment, the idea of a listing on the stock markets is at the back of the mind.

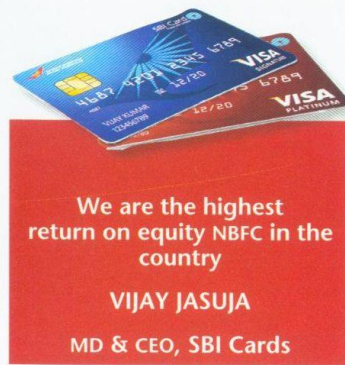
The market leader in credit cards in India is HDFC Bank with a base of 9.6 million cards, having survived the crisis due to a focus on its own customers – where it could assess a customer’s spend and financial stability. SBI Cards, with 5.3 million customers, is a distant second.

SBI Cards, however, is the only public sector bank in India that has made a dent in the space – and is growing faster than all players. BoB Cards, which launched in 1995, has 134,000. Central Bank of India, which was among the first players in India to offer credit cards to customers, has a base of 283,000. In a nation of 1.3 billion people, till September 2017 only about 30 million credit cards have been issued in total.

Jasuja says part of the problem has been the public sector construct – that

is unsuitable to quick decision-making. “When a festival is around the corner and you have to decide on a cash-back programme or a value proposition, you are talking to 20 merchants and you have to take a call on the spot. If you go back and follow processes, you lose business,” says Jasuja.

PSBs are subject to Central Vigilance Commission enquiries – including the process of on-boarding vendors, running programmes and are subject to a series of protocols that must be followed. Moreover, because of the PSB



structure, the bank cannot go to the market and pay market rates to get the best talent. Through SBI Cards, which is a private company, the parent has no such limitations. There is an arm’s length maintained with the subsidiary, where the management has full discretion to make decisions.

SBI Cards is today expanding through various channels, including online sales. The market is shifting to digital acquisitions, with about 15 per cent of all new acquisitions through this route. There are cost efficiencies in digital acquisitions, but all customers need at least one offline visit at least once prior to enrolment – to collect signatures as well as to follow RBI’s know your customer guidelines. Not paying a visit means a customer having to be categorised as high risk, and therefore subject to limited services.

But new technologies are creating new avenues for customer convenience. Cards are being enabled for Bharat QR code, so wherever Bharat QR code acceptance infrastructure is available, a plastic card is not required to be swiped. Plastic emulation technology

– SamsungPay – allows any card to be hosted on a smart phone, and used at contactless point of sale terminals.

But, can the market turn again, and is there a bubble building in retail in India? Too often in the past, bankers have got caught on the wrong side of the fence when a bubble has burst – be it in lending to companies or to individual retail consumers. SBI Cards gets its confidence from the aspirational, young and affluent – in the age group of 24 and 37.

Jasuja points at a consultancy firm PricewaterhouseCoopers’ projection that expects the industry to grow 18-25 per cent for the next 15 years. “If you look at my generation, we were scared to take a loan. We would pay in time, and skipping a payment was considered taboo. Today, income levels are high but wealth is low. The aspirational want the best of living today, though they have earnings but they do not have accumulated savings. So debt levels rise,” he says.

While credit cards do offer higher returns, they are low on priority when it comes to repayment. Customers under financial stress are more likely to pay home and auto loans first, than a credit card. It is not first delinquent product since if the card gets blocked, the customer will not get a new card.

Growth at SBI Cards will thus depend on the behaviour of the portfolio, going forward. Eligibility is less of criteria and more of priority in terms of delinquency. About 36 per cent of all existing customers at SBI Cards are from within the SBI customer base, about 10 per cent from co-branded cards, and the rest have been acquired from the open market. With a confidence that comes from records at the credit bureaus, SBI is the most active player in open market acquisitions. Pre-approvals for eligible SBI customers is also on the rise.

And, while small payments are likely to move to the wallet service providers, Jasuja sees customers returning to credit card payments for higher ticket items like consumer durables. The plastic card too will stay for some more time, says Jasuja. “It’s a time-tested product, where the security is high,” he adds.

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