

SBI Card experiences pressure on spends, but asset quality is a relief

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SBI Cards and Payments Services Ltd reported a mixed bag of metrics for the June quarter. While the company was able to manage asset quality, there were ample signs of deceleration in spends.

On a sequential basis, the company added fewer new customers in the June quarter and its card spends, too, dropped slightly. Specifically, retail spends that make up for most of its portfolio showed a 9% drop quarter-on-quarter.

Online spending on essentials was the only segment that showed sequential growth. The sharpest drop was seen in discretionary spends, registering a 48% fall. A month-wise split, however, showed that spends have recovered in June after a slowdown in April and May.

Note that April and May witnessed regional restrictions across most states in the country in the wake of the second wave of covid-19. SBI Cards was able to claw back to growth once the regional restrictions began to be eased across states. Nevertheless, the second wave seems to have taken a toll on growth with average spends coming down. The company hopes to see recovery in spends in the coming months as restrictions ease further.

The company also allayed fears over impact on growth from the regulatory ban on Mastercard. The share of Mastercard in outstanding cards for SBI Cards is low. Furthermore, the share of Mastercard in co-branded cards, wherein the

tie-up is with only one card company, is low at 2%.

On asset quality, SBI Cards saw stress decrease with its gross bad loan ratio coming down to 3.91% of its total assets. Furthermore, its restructured portfolio remained under check and the

management indicated that requests for easier loan terms have reduced in July. "We don't see a situation where we may see an increase like last year on restructuring," said Rama Mohan Rao Amara, managing

director and chief executive at SBI Cards and Payments Services, in a call with analysts on Friday.

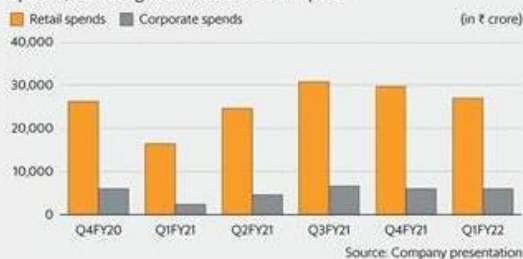
In short, the company has managed its asset quality deftly despite the second wave impacting borrowers. The fact that incrementally the company has added more stable salaried customers augurs well for asset quality in the coming quarters. That apart, the company has tightened loan rules in cases where signs of potential stress were visible.

Shares of the company have gained a mere 3% since April, weighed down by the concerns surrounding the second wave and the ban on Mastercard. Stable asset quality and a continued push towards non-discretionary spends would ensure that investors warm up more to SBI Cards,

The sharpest drop was seen in discretionary spends at 48%, but online spends showed sequential growth

Second hit

SBI Cards and Payments Services witnessed a sequential drop in spends, reflecting the second wave's impact.



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