The Economic Times

Confident that SBI Card NIM will stabilise over the next two quarters: MD

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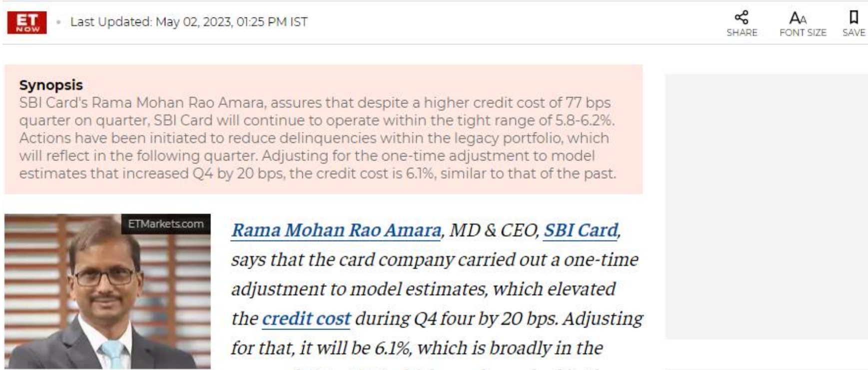

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Synopsis
SBI Card's Rama Mohan Rao Amara, assures that despite a higher credit cost of 77 bps quarter on quarter, SBI Card will continue to operate within the tight range of 5.8-6.2%. Actions have been initiated to reduce delinquencies within the legacy portfolio, which will reflect in the following quarter. Adjusting for the one-time adjustment to model estimates that increased Q4 by 20 bps, the credit cost is 6.1%, similar to that of the past.

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Rama Mohan Rao Amara, MD & CEO, SBI Card, says that the card company carried out a one-time adjustment to model estimates, which elevated the credit cost during Q4 four by 20 bps. Adjusting for that, it will be 6.1%, which is broadly in the range of 5.8 to 6.2% which we always had in the past.

Rama Mohan Rao Amara, says we identified a small segment of the legacy portfolio, which was showing higher delinquencies. We have initiated portfolio actions to reduce the kind of flow rates and also improve the write off kind of performance. These actions will be showing the result in the days to come. But the latest sourcing that we have done since 2020 is holding good.

While your operational metrics look quite decent, your credit cost has gone up by 77 bps quarter on quarter. Understandably, there has been an up move overall with respect to the rate hikes but could you explain what we should expect on the cost of funds going forward?

Credit costs for entire FY23 stood at 5.9%, which is a 230 bps improvement over the previous year. But Q4 had a different trajectory where we ended with a credit cost of 6.3%. We carried out a one-time adjustment to model estimates, which elevated the credit cost during Q4 four by 20 bps. Adjusting for that, it will be 6.1%, which is broadly in the range of 5.8 to 6.2% which we always had in the past.

We identified a small segment of the legacy portfolio, which was showing higher delinquencies. We have initiated portfolio actions to reduce the kind of flow rates and also improve the write off kind of performance. These actions will be showing the result in the days to come. But the latest sourcing that we have done since 2020 is holding good. It is behaving as per the expectations in terms of delinquencies. The actions initiated by us will start showing the result after a quarter.

I just want to know the outlook on credit costs. Where are they likely to trend and where do you think we could see it trending towards the lower end of your guidance?

Normalising for this one time adjustment, it is at 6.1% for Q4, which is broadly in line with the 5.8-6.2% what we have guided in the past. We analysed the problem at our end, we looked at the segments of the portfolio which are showing higher delinquencies as compared to the portfolio average. We undertook a lot of actions on this portfolio. It will take a quarter for the credit cost to start declining. We will continue to operate in this tight band of 5.8-6.2%. Maybe we will be at the upper end of this band for a quarter, before we start showing improved credit cost performance.

Is the higher cost attributed to older customers or the customers acquired post 2021?

The latest vintages are what we call the sourcing done from the Covid period and is behaving normally as per our expectations in terms of standard delinquency band that we used to observe. The problem is with a small segment of the portfolio from a pre-Covid period. We identified, we sized up the problem and initiated actions. These actions will start reflecting in phase two.

Given that the industry has been seeing a lower revolver mix, how is that looking like in terms of your credit costs? Will the mix start showing better results going forward?

At SBI Card, the revolver behaviour is broadly in tune with the industry. We have been taking a number of steps to encourage or get customers who have a higher propensity to revolve. We are permitting a higher share of self-employed, even new to credit card, kind of customers who have a higher propensity to revolve. We are permitting a higher share of self-employed, even new to credit card, kind of customers who have a higher propensity to revolve.

For the first time in this quarter, we have seen the revolver portfolio growth in tune with the general portfolio growth. That is the reason it stabilised at 24%. It will be difficult to say what will be the trajectory, when it will improve but we are taking the right type of steps.

Even though your market share of cards in force is rising, your growth of cards in force is not as quick as spending growth. Is that a concern?

As you know, the spend is a play of both the retail as well as the corporate card spends. During FY23, our retail spends have increased by 41% year on year at a very healthy rate. We have seen improvement across the broad categories. Our per card retail spends have increased by 9% despite the card base increasing by 22% during the year.

So this is because of our constant efforts to improve the customer engagement and deliver a better customer experience. These are helping us to keep the retail spends at a healthy clip. But overall market share is a function of both corporate card spends and retail spends. We guided in the past that corporate card spending is more of a top playing game. It will be less accretive to the bottom line. We want to play in this space in a calibrated way.

We have guided in the past that we would like to keep the corporate card spends in a narrow range of 22 to 25%. We continue to do so. While we will look for efforts to ramp up the spends, we will also be mindful of the bottom line impact. So the efforts that we have undertaken so far will help slowly bridge the gap between the costs in post market share and the spends market share.

At the end of the last quarter, you suggested that your net interest margins will improve. But given that the pressure continues, what is the outlook for FY24 on NIMs?

Last quarter, that is, in the March quarter, the cost of funds increased by 39 basis points. Predominantly, the funding happens through short-term working capital lines that we have from the banking system. 65% of the funding happens through short-term liabilities, while 35% is funded through long-term libraries.

But we were able to transmit this rate increase largely in terms of new disbursals which helped us actually absorb this cost of fund increase and that is the reason we were able to maintain NIM at a stable rate of 11.5% which is only 5 basis points lower than the previous quarter. We are confident in the kind of steps we are taking in terms of transmitting the rate increase for new disbursals. We are confident that NIM will stabilise over the next two quarters.

On the cost side as well, the fees and commission expense has gone up quite sharply. What is causing this sharp rise? Will it continue in that direction going forward as well?

We talked about the robustness in the retail spends which adds to the fee income or the interchange income. Similarly, increased corporate card spends will also add to the fee income. Last year, from October 1, when the regulatory directions had some adverse impact on certain revenue lines, we found a couple of opportunities to partially supplement our fee income. We levied a fee on the rental. We revised it again in March. We increased the processing fee in respect of EMI transactions.

All these have helped us keep the share of fee income and commission income at a robust level. We are expecting robustness in the spend to continue in the years to come. So will be the case with the fee and interchange income as well.

What is the outlook given that there is now talk of credit through UPI? Will that affect the business for SBI Card or will a new revenue stream be built around this?

Industry already offers various products, particularly through the digital means. Banks and NBFCs offer unsecured loans, BNPL, etc, through digital means completely end-to-end digital. Banks also offer debit card based EMI programmes. So, that way, this is not a dramatic change, accepting the fact that it is a convenient way to avail the credit. So, it is a better user experience, better way of availing credit, but it is not going to change the game dramatically in terms of competitive intensity.