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We are confident of keeping the credit costs below 6%: Rama Mohan Rao Amara, SBI Card

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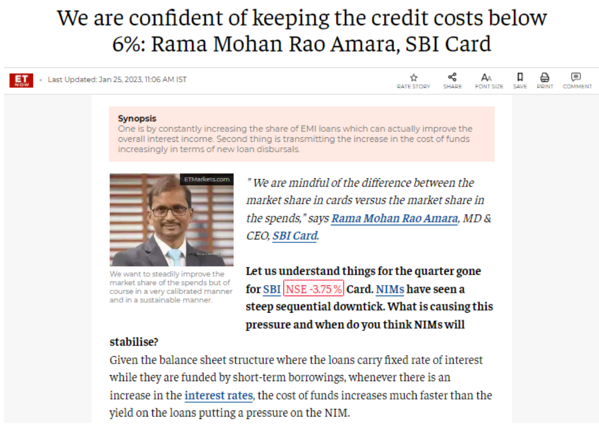

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Synopsis
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" We are mindful of the difference between the market share in cards versus the market share in the spends," says Rama Mohan Rao Amara, MD & CEO, SBI Card.

Let us understand things for the quarter gone for SBI NSE -3.75 % Card. NIMs have seen a steep sequential downtick. What is causing this pressure and when do you think NIMs will stabilise?

Given the balance sheet structure where the loans carry fixed rate of interest while they are funded by short-term borrowings, whenever there is an increase in the interest rates, the cost of funds increases much faster than the yield on the loans putting a pressure on the NIM.

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So, we guided in the past that in Q3 we are likely to see compression to the extent of 50-60 basis points. But we have seen, I mean in our portfolio when we look at the kind of repricing that happened, we are very confident that in the next quarter the impact will be limited to 30 to 40 basis points in terms of further increase in the cost of funds which can be mitigated through two actions.

One is by constantly increasing the share of EMI loans which can actually improve the overall interest income. Second thing is transmitting the increase in the cost of funds increasingly in terms of new loan disbursals. So broadly we are expecting a kind of stabilisation of the NIM in the broad terms in the next quarter.

Your receivables are up 2% when cards in force are growing at a healthier clip. How should one look at receivables going forward?

It has to be looked at from two aspects. First thing is like whenever we get a new customer, it takes time for the customer to get used to using the card. We have seen over a period of time, two to three months, they take in terms of actually using the card in a big way. So, the utilisation of the limit happens over a period of time. So that way the acquisition will not result in a corresponding increase or immediate increase in the NEA. Second thing is during the month of September, particularly during the last week, we have clocked in more than Rs 2500 crores of festive spends so this has gone into NEA. When we compare the Q3 NEA with the Q2 NEA, we are comparing with a higher base. So that is the reason why the sequential growth appears to be muted. But overall when we look at on a year on year basis we are confident of maintaining a growth of around 23% to 25% over a period of time.

But even though your market share of cards in force is rising, your market share of spends and transactions is falling. So if I understand right, is this a lag of a quarter, no concern really in the long term for you?

We are mindful of the difference between the market share in cards versus the market share in the spends. Particularly in the past also we alluded to the market share in the spends to some extent which is coloured by the play of the corporate card spends. Depending upon which player is clocking more corporate card spends the market share volatility will be there.

So our stated objective has always been to reduce this gap between the share of the cards in force and the spends through increased engagement efforts by working with the existing customers, making right offers and of course, playing in the game of corporate card spends also in a calibrated way. We want to steadily improve the market share of the spends but of course in a very calibrated manner and in a sustainable manner.

Your credit costs have risen in the first or rather second quarter you had suggested it was momentary. How would you view the credit costs this quarter and how do you see them going forward?

For the record, credit costs in Q3 have come down as compared to Q2 so Q3 credit costs is at 5.6% as compared to 6.2% in Q2. So there is an improvement there of almost 60 bps particularly where when we look at the ECL which is a better indicator of the portfolio quality that is at 3.3%. So it is a slight improvement by around 3 bps as compared t o previous quarter. It indicates the portfolio quality particularly the stage 1 share when we look at in the NEA it has crossed 91% which is our VTD based. So we are confident that the credit costs, I mean, if we ignore the quarter to quarter variances it will be largely range-bound and we are confident of keeping the credit costs below 6%.

How should one look at SBI Card and NPA ratios because the fact is it has gone up in the second quarter as well. Why should it be that the shareholders and the analyst community at large should not see this as a red flag?

I think in sequential terms perhaps when we look there is a few basis points increase in the GNPA but this is much lower than the pre-COVID level and at these NPAs also we have ways means of resolving these NPAs and recovering the money. So here also it will be a kind of range bound perhaps maximum 2.4% to 2.45% kind of GNPA one can expect given the profile of the customers what we deal in. So current level is not a concern because ultimately, we look at the overall credit costs which is well under control as of now.

For the period and the quarter that is under review if you look at the opex that has gone up 8%, I am doing a quarter on quarter comparison. The cost to income has also and if I am looking at it remains elevated. What can we expect from SBI Cards in the quarters to come when it comes to capex as well as investments, is this going to go up?

Yes, during the quarter Q3 revenues increased by 16% and opex increased by 15%. Opex increasing to this degree in Q3 is not completely uncharacteristic because Q3 is marked by a lot of festivals so we make a lot of cash back offers.

Traditionally, Q3 has always been elevated in terms of cost to income. But if we look at the other factor it is around the increased customer acquisition as in Q3 we have clocked in around 1.6 million new customers which is almost like a 60% growth as compared to one year back.

So this is more like an investment for future, building a scale for future where the benefits will accrue over a period of time in the next few quarters. So this has actually created a kind of increase in the cost to income. But as I said about the seasonality Q4 generally is much better as compared to Q3 in terms of cost to income. So we are very confident that the cost to income overall will be lower than 60% in Q4.

Understanding your rollover mix last time when we spoke it was stagnant and continues to be under pressure. How would you assess and how are you resolving this?

The current level of revolver is 24% which is the same level as Q2 which when we compare with pre-COVID levels it was around 60% to 65%. This is in line with the industry trend. We are taking a number of measures in terms of attracting more of younger customers, self-employed customers who have a better propensity to revolve. But at the same time in line with the changing preferences of the customer where the preference is more for availing EMI loans, we have also steadily increased the share of EMI loans. So each quarter we are seeing a kind of increase of 2% in the share of EMI loans. This is helping us to optimise the revenue while creating a right environment for the build-up of the revolver. So the pace at which it will increase is not at the desired pace. I will say but we are confident over a period of time it will come back.