

SBI Card wants more of its customers to go for the EMI option

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In an interview with CNBC-TV18, Abhijit Chakravorty, MD & CEO of SBI Cards and Payment Services spoke at length about the company's strategic direction for the upcoming quarter, emphasizing a concerted effort towards bolstering corporate business segments.



By Nigel D'Souza ✕ | Sonia Shenoy ✕ | Prashant Nair ✕
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Costs are rising at SBI Card, one of India's top five credit card sellers (by market share), and any further increase will be passed on to the customers to protect profit.

Abhijit Chakravorty, MD and CEO of SBI Cards and Payment Services, told CNBC TV18 that the credit cost may remain at around 7% in the near term. "We closed the year around 11.3% (net interest margin). So, we expect that it should remain around these levels because whatever increase, if it is there, we will be able to pass it on," he added.

In the case of SBI Card, net interest margin is the difference between the average lending rate and the average cost of funds. The company's NIM has shrunk 90 basis points to 11.3% in FY24 compared to a year earlier.

How do credit card companies make money?

- Fees from cardholders,
- Transaction charges from vendors that accept credit card payments,
- Interest on easy monthly instalments (EMI),
- Higher interest rates from people who roll over their dues over months. This is also called the revolver credit line.

SBI Cards' Chakravorty wants more customers to convert their dues to EMIs or roll over their payments. "We encourage both and that is why our total interest-earning assets have been growing and, year-on-year, it has grown by 4% and it continues to remain steady at around 62%," he said.

Segment	Contribution to loan book	Jan-March 2024 growth (QoQ)	Jan-March 2024 growth (YoY)
EMI	37%	1%	25%
Revolver credit	24%	4%	25%

Source: Kotak Institutional Equities

Revolver credit used to be a lot higher during the pandemic, at 40% in 2020 and 28% the year after. However, since 2022, it has remained roughly around a quarter of all SBI Cards' receivables.

Here's an edited transcript:

Q: Two-part question. One, the corporate spending, has seen a sharp decline, was it by design, or was it due to demand. Second, the revolver, percentage has finally moved up, even though it's only around 100 basis points, at around 24%. Where do you see this number headed?

A: Corporate spending is a bit by design. After the Reserve Bank of India (RBI) guidelines in mid-February, we saw there is a compliance requirement on part of the vendors to be onboarded as merchants and till that was happening, we wanted to be on the right side and went slow on that business. During Q1, we will be building up that book again and Q2 onward, we will be back full stream. So, that was definitely by design.

Coming to revolvers, it has improved, and will be a function of the quality of the customers that we have and there is a tendency of the customers to go for EMI best payout rather than continue to revolve over a prolonged period.

So, we encourage both and that is why our total interest-earning assets have been growing and year-on-year (YoY) it has grown by 4%. It continues to be steady at around 62%. Our total interest-bearing book is steady and constant, and the revolver will continue to prevail around this rate.

SBI CARD		
Asset Quality	Q3FY24	Q4FY24
Gross NPA	₹882 cr	₹945 cr
Net NPA	₹764 cr	₹819 cr
Gross NPA Ratio	2.64%	2.76%
Net NPA Ratio	0.96%	0.99%

Q: You don't see it move up closer to around high 20 because that is a trigger for the stock market perspective. Investors would like to see the revolver contribution moving up.

A: We will be looking at a higher number but if customers prefer to move over to equated monthly instalments (EMIs), we will encourage that also.

Ultimately, it's the overall interest income that matters to me. My loan book and my interest-bearing assets from my overall receivables should be on a stable path, on an increasing path. Revolver is a mixed part of it, we will be watching it closely.

Q: What is the share of spend via bill payment service provider (BPSP), that the RBI kind of intervened on earlier, what is the share of that as a percentage of total spending?

A: That will be around 15% because my retail spends constitute the larger share of our spending and we have grown over 25% on the spending YoY. It's a retail spend which is constant and we will encourage it and build up further.

Q: So corporate spending was about a quarter percent of the total, right? You are saying that this particular segment was about 15%?

A: It will be around 15% all taken together. Largely, it will be back in the coming quarters but as I said the retail spending will continue to be around 80%.

Q: What about credit costs? What should we expect because there has been a bit of stress? Give us some guidance for FY25.

A: We have taken corrective actions. We find that our acquisitions over the last year are behaving much better than their peers in the previous years. So, the overall mix is going to improve.

While there will be slightly elevated credit cost for the near-term quarters, but over next year it will taper down and remain above 7% but will come down from the current levels.

Q: Two questions. One on net interest margins and the other on asset quality. The asset quality pain continues for the longest time. Any update on how things are going to move from here?

A: Asset quality, we saw the stress on the portfolio, which was largely because of the overall ecosystem where the constituents who had taken part from us in the earlier period, went into concurrent borrowings, and they developed various credit lines of, and they somehow have limited capacity to pay.

In the current scenario, the stress is going to remain for some time.

On the margin front, after RBI intervention post November, the cost went up by 20 basis points, but it has regularised and with the rate cuts that were expected not coming in, we see margins remaining stable. Even if there is a marginal increase in the coming quarters, we will be able to pass it on.