"SBI Cards & Payments Services Limited Q4 FY'23 Earnings Conference Call"

April 28, 2023

MANAGEMENT: **MR. RAMA MOHAN RAO AMARA – MD & CEO**
MR. GIRISH BUDHIRAJA– CHIEF SALES AND MARKETING OFFICER
MS. RASHMI MOHANTY – CHIEF FINANCIAL OFFICER
MS. NANDINI MALHOTRA – CHIEF CREDIT OFFICER

Ladies and gentlemen, good day and welcome to SBI Cards and Payments Services Limited Q4 FY '23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rama Mohan Rao Amara, MD and CEO, SBI Card. Thank you and over to you, sir.

Rama Amara: Thank you, Yashashri. Good evening, everyone! I am pleased to welcome you to the Q4 and FY23 earnings call. I really appreciate your presence today.

As you would know, while global economy remains uncertain due to many factors, including geopolitical ones still persisting, it seems to be inching towards improvement with IMF predicting growth rate bottoming out in 2023 to 2.8% before rising to 3% in 2024.

Amidst this, economic activity in India remains resilient. The real GDP growth expected to be 7% in 2022-23, as per RBI. Both PMI Manufacturing and PMI Services remain robust in March 2023 at 56.4 and 57.8, respectively. Aggregate demand conditions remained resilient in Q4 2022-23. According to RBI's recent Consumer Confidence Survey, consumer confidence continues to improve. Most importantly, the survey showed that household spending was buoyant on the back of higher essential and non-essential spending. And, more than a third of the households expect a rise in non-essential outlay over the next year. This is a good sign for consumer demand and discretionary spends.

Apart from its comparative economic resilience during these times, India is also being hailed as a frontrunner when it comes to digital payments. This is true when we look at aspects like innovation in payments, the pace of its adoption amongst populace, and the vast user base. According to a recent industry report, India's digital payments market will increase from $3 trillion to $10 trillion by 2026.

Credit cards too continue to ride this digital payments' growth wave. Credit cards base grew from over 73 million in March 2022 to over 85 million in March 2023. This is despite the closure of around 12 million inactive cards by the industry. Card spends have also increased significantly by 28% from Rs 1.07 lakh crore in March 2022 to Rs 1.37 lakh crore in March 2023 – the highest ever monthly spends for the industry. Cards spends continue to remain over Rs 1 lakh crore for last 13 months with e-commerce contributing to a significant share in spends. It is interesting to note that in FY23 the industry saw highest ever annual card spends at Rs 14 lakh crore plus. In FY23, the industry saw the highest festive season card spends during October at Rs 1.29 lakh crore and a strong winter holiday season added to increased travel spends. This clearly demonstrates the robustness of the demand and usage for credit cards.

In fact, the past year has been a pivotal year for the industry, with many significant changes to the business model that have set the tone for future of credit cards industry. The industry has largely adjusted to and incorporated these in a seamless manner during the past six months and is now ready for the next level of growth. I would like to reiterate my confidence in India's credit cards market potential. The significantly underpenetrated market offers ample growth opportunities.

Let's now look at SBI Card's Business Overview in FY23.

I am proud to say that SBI Card was successfully able to navigate through the year and register a robust business performance demonstrating the resilient and sustainable business model that we have built over the years. As always, we continue to create value for our stakeholders and am pleased to share that we declared an interim dividend of INR 2.5 per equity share for FY23, in the month of March 2023.

Throughout the year, we put focused efforts on three aspects: Strengthening acquisition channels and acquisition quality, enhancing sustainability of the business, and ensuring an engaged and active customer base.

As a result, during the course we have achieved some new benchmarks. We added 5,202,000 total new accounts in FY23, which has been the highest ever during a financial year. In FY23, our new accounts grew by about 46% vs FY22. During Q4 FY23, we added 13.71 lakh new accounts, at a growth rate of 37% YoY. We continue to focus on adding about 900,000 to 1 million cards per quarter on net basis and in line added ~900,000 cards in Q4. Our cards in force stood at 1.68 cr in Q4 FY23. We continue to be the second largest credit card issuer in the country and our CIF market share improved by 100 bps to 19.7% during FY23. Our spends have also seen new heights in FY23. SBI Card saw the highest-ever retail spends in FY23 at over Rs 2 lakh cr, which is a 41% increase over FY22. Our card spends in Q4 FY23 stood at Rs 71,686 cr with 32% YoY growth and this is the best-ever quarterly spends at SBI Card. Out of this retail spends contributed over Rs 55,500 cr with 33% YoY growth in Q4 FY23. Again, the best quarter for us in retail spends. It is noteworthy that our retail spends per card has also increased by 9% YoY in Q4 FY23. On that note, I am pleased to share that we are no. 2 position in the spends market share.

During Q4 FY23, spends growth, on QoQ basis, have been driven by growth in categories like departmental stores, health, utilities, education, consumer durables, furnishings & hardware, etc. Travel, entertainment & restaurant category also saw good growth. In fact, Q4 FY23 has been the first quarter in last 3 years to surpass the travel spends momentum seen in Q4 FY20. Online retail spends continued to grow in FY23 reaching at 56.9% share of total retail spends. Our continued robust business momentum also helped us register healthy financials in FY23.

Our total revenue stood at Rs 14,286 cr and has grown at 26% YoY during FY23. Our revenue from operations has seen 28% YoY growth in FY23. Our receivables continue to increase steadily. Receivables at 40,722 cr. have grown by 30% March 2023 as compared to Rs 31,281 cr in March 2022. The share of interest earning assets has improved to 61% in March 2023 as compared to 59% in March 2022. In FY23 SBI Card has achieved a PAT of Rs 2,258 cr, registering a significant 40% growth over FY22.

SBI Card undertook some significant initiatives on the product side during FY23:

We further expanded our core card portfolio and added CASHBACK SBI Card, a clutter-breaking product. Since its launch, the card has seen very encouraging response from the consumers. We launched a new co-branded card Aditya Birla SBI Card in partnership with Aditya Birla Finance.

We have been working on several initiatives in strengthening our acquisition channels and enhancing customer experience. Technology has been playing an important role as we bring these to fruition.

SBI Card SPRINT roll out - SBI Card SPRINT an end-to-end digital acquisition channel, has been a significant initiative to be launched during the year which has made enrollment for customers easier, seamless, faster and instant. This allows the customers to get a card in just 5-7 minutes.

Digital KYC enhancement - We have launched several initiatives to digitize the KYC process across the customer journeys to enhance security and convenience for our customers. Multiple modes, e.g., Biometric eKYC, Digilocker, Video KYC etc. are used for customer ease. It is noteworthy many such efforts are helping us in rationalizing the cost of acquisition, thus bolstering the business fundamentals.

We are excited with the opportunity from the linkage of Rupay cards with UPI. Access to a larger merchant and hence customer base is good for the industry players. We plan to roll out the UPI and Rupay linkage over the next few months.

Speaking of business viability, it is important to note that a higher customer spends active rate is vital and at SBI Card our spends active rate has always been healthy at 50%, including FY23.

We continue to have a full-strength and highly capable senior management team to lead the company towards new phase of the growth journey.

I am proud to share that this year too, our all-round efforts have been duly recognised. SBI Card has earned various prestigious recognitions in different areas. For instance, ET Best Brands 2022 award, Stevie Award for Customer Service, and Golden Peacock National Training Award for excellence in training & development initiatives.

Coming to the financial performance in Q4 FY23 & FY23.
Our total revenue in Q4 FY23 has been at 3,917 cr. registering a growth of 30% YoY. In Q4 FY23, our revenues from operations have been at Rs 3,762 cr with 32% YoY growth.
In Q4 FY23, our PAT grew at Rs 596 cr. registering a 3% YoY and 17% QoQ growth respectively.
In FY23, as expected, owing to consecutive interest rate increases, our cost of funds has also witnessed significant increase. As we communicated last quarter, our COF increased by 39 bps in Q4 over Q3. We were able to minimize the impact on NIM and our NIM for Q4 is only 5 bps lower at 11.5%. Our Cost to Income for FY 23 was at 58.9%. We saw an improvement in Cost to Income ratio to 58.1% vs 61.9% in Q3 FY23, with spends expenses being lower this quarter.

On asset quality, Our NPA increased marginally in Q4. GNPA stood at 2.35% as of Q4FY23. Our Gross Credit Cost increased to 6.3% in Q4FY23. We revised the model estimates this quarter which resulted in a one-time impact of 20bps on the credit cost. Adjusted for that, our gross credit cost would be in the range that we have shared always – 5.8 to 6.2%. We have identified a subsegment from the legacy portfolio that has contributed to higher slippages in last

few quarters impacting the NPA and write-off numbers. We have taken portfolio action and expect that with actions taken, we will be able to address the issue. The new acquisition from 2020 vintage onwards is behaving as per expectations in terms of delinquency.

Our profitability ratios also continue to improve. In FY23, Our ROAA increased to 5.6% vs 5.4% in FY22. In Q4 FY23, it has been at 5.4%. During the year, our ROAE has also seen an increase, reaching to 25.3% vs 22.8% in FY22. In Q4 FY23, ROAE has been at 24.6%.

In Conclusion, India remains resilient, and the domestic consumption remains encouraging. At SBI Card, as always, we have maintained an agile approach and taken well-calibrated measures to ensure that the company remains on the sustainable and profitable growth path. Interest rates remain elevated; however, these have been factored in, and are likely to stabilize from here. With such growth momentum and most key policy measures too now largely in place, the credit card industry is likely to witness sustained growth momentum. I would also like to share that this year SBI Card will be celebrating 25 years of its immensely successful journey. We look forward to celebrating this with all our stakeholders. While we look at the last 25 years journey with pride, we believe that the future is much more promising.

So now we are open for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question.

Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have a first question from the line of Mahruk Adajania from Nuvama. Please go ahead.

Mahruk Adajania: Good evening, sir. My first question is on credit cost. You already explained that there was a one-time impact of change in ECL assumption. If you could elaborate on the change. And also, in general, for the industry, the revolve rates have come down a lot post-COVID. So why are credit costs still sticky? Is there a scope for Credit Cost to come down because if the revolvers are declining so much, then credit costs should also be lower, is the general sense?

Rama Amara: This one-time adjustment with an impact of 20 basis points is in terms of strengthening the ECL model where we stress the model and based on the current macro-economic factors, we further modified the model which has resulted in around INR20 crores kind of impact in a quarter. In annualized terms, it works around 20 basis points. In fact, if you adjust the credit cost for this 20 basis points, it's around 6.1% which is at a higher end of the spectrum what we have given. I talked about a broad range of 5.8% to 6.2% credit cost which takes into account the current composition of the asset, the current share of revolver, transactors, EMI loans, current economic conditions, the kind of environment in which we are operating and the recovery culture, all that stuff. So, we are at a higher end of the spectrum. As I communicated earlier, we have identified the segment very clearly, we have been taking portfolio actions, we are expecting that credit cost will have a trajectory of coming down in the next few quarters. It will come down.

Mahruk Adajania: Okay, sir. Thank you so much.

Moderator: Thank you. We have our next question from the line of Karthik Chellappa from Indus capital Advisors, Hong Kong Limited. Please go ahead.

Karthik Chellappa: Two questions from my side, sir. Over the last few quarters, you have seen a very good recovery in our Card Volume Share, which is at about 19.7% But if I look at the difference between our Card Volume Share and Spend Share, which is almost close to 1.5% now, that's almost at a nine to ten quarter high. So, given that we have got really good momentum on the volume side, why is it not reflecting in spends yet? Is it a reflection of the quality of customers that we are getting either geography-wise or self-employed and salary-wise? And at what point of time do you think this difference narrows down?

Rama Amara: While I will respond to your query, Girish also can supplement. One thing is, you know the spend comprise, both retail and the corporate spends. So, we have seen the kind of volatility in the market share in terms of the spends. Whenever the corporate card spends move from one place to another, it has a significant bearing on the spend share. So being mindful of this and also being mindful of the fact that it is only a top line, it doesn't add much to the bottom line, but it can potentially bring a risk. We have been playing a very calibrated game here. That's the reason our corporate card spends is actually range bound, its 22% to 25% of our overall spends. But with regards to new issuance, you have also commented about robustness in the volume. As you know, it takes some time for the customer to start using the limit fully. They may start with their smaller transactions to begin with, but the moment they experience the benefits of using the card, they will start using it for discretionary spends, etc. And then you can see a large-ticket transactions. In as much as the volumes have come only post-COVID, after 2020, I think there is a catch-up here. In terms of being equal to the portfolio, it will take time for the new intakes. Anything you want to add, Girish?

Girish Budhiraja: Karthik, in the new customer acquisition that we are doing, these days because of the RBI guidelines, you have to keep the customer active. And if the customer is inactive for more than 12 months, in any case, that customer gets taken off your portfolio. What we are seeing is that all the new customers that we are getting, their average spend actually is coming out quite better and higher than the earlier vintages that we are getting at the same point of time, so which is a good sign. The second thing which is also visible in the portfolio is that these customers' active rates are also higher in terms of let's say two months, three months, four months active rates, so they are also higher. So, we don't see an issue there. As Sir was mentioning, the issue on the market share primarily is because of the mix that we are targeting of retail versus corporate spends. So, there will be some banks which will target a higher corporate versus retail mix. So, the shares will look very, very different. When we check, because there are other sources through which we check, we see that average retail spend of ours is similar to the industry number.

Rashmi Mohanty: These details are given on the slide number 8 in the deck. You can see that our Q4FY'22 average retail spend was INR124,000 and it has gone up to INR136,000 for Q4FY'23. So, there is an increase that you can see already in the retail spend per average card. Since a lot of sourcing for us has happened in the last one and half year, two years, there is a bit of catch up as well which should start reflecting. But already we are seeing the benefit of the spend going up in metric on spends per average card.

Karthik Chellappa: Got it. This is very useful. My second question is basically on the new RBI direction on pre-sanctioned credit lines through banks using UPI. Now although the details are yet to be unveiled, is there any thought process on how it is going to be impacting credit cards?

Girish Budhiraja: As you rightly said that there are guidelines still fully yet to come. But these kinds of products are already available. So, people were already giving, because UPI is essentially in a way if you see for a debit card to make a transaction online, that model is there. And OD limit on the bank account or debit cards are always there. So, we will also see as to how it goes further. But this is just a different version of the earlier product which was available.

Karthik Chellappa: Got it. Okay. That's it from my side. I will come back in the queue for more questions. Wish the team all the very best for the next year.

Moderator: We have our next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Good evening, sir. Thanks for the opportunity. I just wanted to understand the nature of slippages that have happened in this quarter. What is the vintage of the customer and is it coming from salaried or self-employed, some colour on that? Second is that if you look at the originations, they have picked up in a self-employed category in the last two to three quarters. So, if you can touch upon, what is the customer profile of these customers and what is the origination channel for this. And lastly, if you could share some guidance on NIMs and cost of funds for FY ’24? Thanks.

Rama Amara: With regard to the vintage, as I clarified in my speech as well, the new vintages are holding good in terms of whatever expectations we had, in terms of every broad delinquency band and an ECL kind of assumption, they are behaving normally, there is no issue around that. But in the legacy vintages, we did identify a small customer base, which was showing a higher delinquency. Obviously, that was resulting in a higher flow rate and then higher NPA and eventually leading to higher write-offs. This segment was identified. There is nothing than can be pointed out, this is all across in terms of geographies and the nature. So, we are taking portfolio actions, that are required. So, we are confident that actually as the weightage for the recent vintages increases and the actions taken on this particular segment shows the results, actually the credit cost will trend lower.

With regard to cost of funds, I will ask Rashmi to answer that.

Rashmi Mohanty: On the cost of funds, we saw that the RBI actions on rate hike taken until Q3 resulted in the cost of funds going up in quarter 4. There has been one more action by RBI, which is a 25 basis points increase in February. On account of that, we do expect that the cost of funds for Q1 FY ’24 will be higher by about 10 basis points to 15 basis points. It seems, from the statement that RBI has made so far, while the Governor did mention, it's a pause and not a pivot, I do not expect any further rate hike from the RBI. If that is the case, I would expect that, the cost of funds would stabilize for quarter 2 and maybe start to inch down in the second half of the year. On the NIM, therefore, the corresponding impact will be that, while we have been able to maintain the NIMs in quarter 4, very marginally dip from quarter 3, we do expect that the NIMs to stabilize over

quarter 1 and quarter 2. And any benefits coming in from the cost of funds and also any actions that we have been taking, which we took in quarter 4 and we will be taking further in quarter 1, on the customer yield, will help us, strengthen the NIMs in the second half of the year.

Rohan Mandora: Follow up on the first reply, the earlier vintage, which one, we were seeing a delinquency, are these pre-pandemic originations, just to confirm? And also on the self-employed originations, if you can just touch upon, that question is pending.

Rashmi Mohanty: Yes, the portfolio that Mr. Rao did mention, is a pre-pandemic portfolio. It's a sub-segment that we identified, which was originated pre-pandemic. And your question on self-employed, the answer is, it's a mix of self-employed and salaried. But we've taken corresponding portfolio actions based on whatever further sub-segmentation that, we can do on that.

Rohan Mandora: Sure. Thanks.

Moderator: Thank you. We have our next question from the line of Bhavik Dave from Nippon. Please go ahead.

Bhavik Dave: Hi, good evening, sir. I hope, I'm audible. Two questions. One is on your cost of acquisition, in the sense that, when we see our incremental card that, we are adding, in the last four or five quarters we've been adding card in the tier 3 tier 4 regions. I just wanted to understand, if the cost of acquisition is similar, when we do metro acquisitions versus tier 3, tier 4 acquisitions. That is point number one. Point number two is, when we see quarter to quarter, the operating expenses haven't fallen that, we've seen last year. So, in time, what would be the logic or what has led to this cost of other operating expenses being flat? Within that, the fees and commissions have increased by 5%, 10%, quarter-on-quarter. Just want to understand, what exactly is happening there. To that, just want to understand going ahead, can operating expenses come out lower as a percentage of our income considering, we are doing this online channel that, we've opened up incrementally. So just want to get a sense on that. Thank you.

Girish Budhiraja: Cost of acquisition on a year-on-year basis, we have seen a downward trend. It's actually 10% plus downward trend that, we have seen in the cost of acquisition. You mentioned metro versus tier 3, tier 4, while we do not look at it from that perspective, but we can tell you that Banca cost of acquisition is lower than open market cost of acquisition. And for the natural reasons that, in the Banca scenario, there is a kind of leads, which is available from the customer. Apart from this, there is a constant effort on the digital side of things, to bring the cost of acquisition down. As going further, as we go more digital and as MD sir mentioned that we have launched the SPRINT journey, where you can get the card within five minutes to six minutes, in your hand. As more number of customer pass through that and we are able to generate more volumes there, the cost of acquisition will further trend downward, in that direction.

Rashmi Mohanty: Your second part of the question was that the operating costs has been flattish quarter-on-quarter. Is that what you're asking?

Bhavik Dave: Yes. And last year, same time, third quarter to fourth quarter, there was a dip. Just want to unwind up. If you see this quarter versus last quarter, the number of cards that, we added, the gross additions were lower, right? Like a million card versus 9,00,000 cards, this quarter. Just

want to understand like, why are, we seeing like the cost of other expenses going down quarter-on-quarter?

Rashmi Mohanty: So, the reason for the cost to be flattish quarter-on-quarter between quarter 3 and quarter 4 are certain IT expenses that we've done, certain projects that we have kick started in quarter 4, and the cost of that has come in. So, while as Girish explained that the cost of acquisition quarter-on-quarter has been coming down, the overall operating cost is higher due to certain project costs, taken up in quarter 4.

Bhavik Dave: Sure. This cost of acquisition going down should benefit us in FY '24, right? The cost should not, except our rewards and promotional expenses that we do, except that, the other part of the cost structure should trend flattish or lower, right? Is that a fair assumption?

Girish Budhiraja: On a quarter-on-quarter basis, there can be some variation because in our model of acquisition, there is, if we acquire through digital, then the cost is very low. But otherwise, if you do through manpower, there is a set of fixed costs and then there is a set of variable costs. There is usually, some amount of variation and that happens, on a quarter-to-quarter or a month-to-month basis. But on an annualized basis, we will be trending downwards.

Bhavik Dave: Yes, sure. This is the last question. How much is the Sprint journey contributing to our 9,00,000 cards? And how is it trending? That's the last question. Thank you.

Girish Budhiraja: So as of now, Sprint does not contribute much, large percentage into it. It's a very small percentage. The reason primarily is that as of now, we have kept it only for purely digital and for cashback card customers, in that sense. We are slowly integrating it with our partners. So as of now, the process of integrating it with our co-brand partners is on. One is already done. The other partners are in progress. We also want to integrate the Sprint journey with our Banca with YONO, along with the internet banking. So, these are the things, which is in progress. So once that happens, more number of customers suddenly can express and use the Sprint journey, on a regular basis. So, we expect this to rise rapidly. Now that we have tested that, it works absolutely fine, and the customer can be given a card within five minutes.

Moderator: Thank you. We have our next question from the line of Bhavesh Kanani from Ask Investment Managers. Please go ahead. Mr. Bhavesh Kanani.

Since there is no response, we'll move on to the next question from the line of Alpesh Mehta from IIFL AMC. Please go ahead.

Alpesh Mehta: Sir, two questions. First is on the yield on loans. We are seeing the substantial improvement, in the yield. So, what has been the increase in the percentage

Moderator: I'm sorry, sir, we can't hear you again. Mr. Mehta.

Since there is no response, we'll move on to the next question from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.

Shubhranshu Mishra: Good evening. Thanks for the opportunity. Two questions. One is, given the fact that the revolvers are still range bound, what are the new revenue line items that we are looking at or we want to develop? That's the first. Second is, what is the margin contribution difference between retail spends and corporate funds?

Rashmi Mohanty: You have to repeat the first question, Shubhranshu. We got the second one. What was the first one?

Shubhranshu Mishra: So, given the fact that revolver as a proportion is lower or range bound, so the interest income is therefore getting mitigated. So, what are the new revenue line items we are looking at or focusing on, which can be incremental to the top line of funds?

Rama Amara: we have stated in the past that we will be looking at the revenue optimization through the cross sales. We have various products like EnCash, FlexiPay, we have Balance Transfer, and the subvention products are there. Of course, we are also adopting a risk-based pricing, to be more competitive offering in the market. We are also looking what are the other risk mitigations that are available to expand our base that is eligible for availing these products. So, that way we have steadily increased the share of this interest-bearing NEA, if you look at overall revolver plus EMI, it has increased by 2% points for a years' time. So, this endeavor will continue. But, of course, we will also be looking at the fee income, whatever the other ways and means of supplementing some of the revenue lines that got evaporated particularly after some changes have come into effect from 1st of October. We did notify the market and the stakeholders. We have introduced two types of fees. So, we will continue to look for kind of avenues to augment our current state.

Rashmi Mohanty: Second question is the margin contribution in retail spends and corporate side.

Girish Budhiraja So, on the corporate spend, the margin contribution is very minimal because whatever we earn as primarily interchange, gets passed back to the customer in the form of a pass back or an offer. So, on the corporate side, the contribution is fairly minimal. On the retail side, while we get interchange, but we have to give customer rewards points so, there is an element there. And we also give up to 52 days of credit free period. So, these are the two major things. After that, there is a margin which is still left. We also make money from fee and charges also from interest income. So, there are multiple other sources in the retail scenario. Whereas, in case of corporate, because the customer pays 100%, so there is no interest income.

Shubhranshu Mishra: Thank you for that. If I can slip in one last question, what kind of spend growth are we looking at in 2024 and 2025? Thanks.

Girish Budhiraja: So, as per industry sources, we believe that the spend should grow anywhere between 22% to 25%. We will try and keep an alpha on top of the industry numbers.

Moderator: Thank you. We have a next question from the line of Alpesh Mehta from IIFL AMC. Please go ahead.

Alpesh Mehta: Okay. Just two questions. Sir, firstly, on a sequential basis, we have seen around 30, 40 basis points improvement in the yield. So, what kind of pricing action you would have taken on to the EMI segment? Because the mix is largely stable on a Q-o-Q basis?

Rama Amara: I said in the past, we adopted a kind of risk-based pricing, which permits like a kind of transmission of the rate whenever the funding cost increases or whenever the other costs increase, we also can transmit back to the customer, so, that is a strategy that was adopted. Last quarter when we revised the prices for some of these loan products, I talked about EnCash, talked about FlexiPay and other loans. So, we were able to successfully transmit the rates for the new disburses. Because unlike the kind of others in the industry, where the entire portfolio gets reset because they are linked to the external benchmark, in our case mostly the loans carry fixed rates. So, the opportunity to transmit the rates is only with respect to new disbursals, which we were able to do successfully last quarter.

Alpesh Mehta: Okay. And there is no change on to the revolver yields? Or Revolves yields remains the same?

Rama Amara: There is no change in the ATR. Revolver remains the same and the share in the overall asset also remains the same. So, obviously, there is no change in the revolver contribution.

Alpesh Mehta: Perfect. And just the last one, if you can throw some light on to the instance-based fees and the others, because that contribution has gone up sequentially. So, any major line item that would have contributed more in this quarter?

Rashmi Mohanty: The instance-based fee was higher largely because, if you recall, we introduced the fee on the rental and we also increased that fee from INR99 to INR199 in the month of March. While of course, the impact of that increase is minimal in Q4 given that the number of days that it was effective for was less, but a significant portion of that increase has come from the rental fee. And there are some other elements as well, but this was a major contributor.

Alpesh Mehta: Perfect. And lastly, the 20%, 25% increase into the spend growth that you are factoring in, does that include any action on the rental payment side as well?

Rashmi Mohanty: Sorry, the 20%, 25%...

Alpesh Mehta: Growth on to the spend side that the industry is expecting, since now on the rental there are no rewards, and some fees are also introduced on that. So, do you expect that to be stable or that could be, that could see some drop in the spend growth?

Girish Budhiraja: No, should not, because in between Q3 to Q4, as Rashmi was mentioning, in the mid of Q3, we levied INR99 as a fee and in March we increased it to INR199. We have not seen any drop on a month-on-month basis from Q3 to Q4 on the rental spends. So, while absolute growth might not be similar to industry level growth, but it will still remain stable or marginally equable.

Moderator: We have a next question from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: Yes, sir, thank you for the opportunity. So, firstly on the NPAs front, which we have gone up quarter-on-quarter and our credit cost also have gone up, where you said that the ECL provisions

has revised. But just want to check like whether these NPAs have come, or the stresses come primarily from the monitorable or the identified stress pools or this was all of a surprise that basically came through in this fourth quarter. And if you have the typically do the exercise of identifying the stress, then is there any pool that you can talk about that you identified or that you monitored?

Rama Amara: I think you will have to repeat the question. Most part of it was not audible.

Anand Dama: So basically, sir, one is that the NPA flow that you saw during the current quarter was basically out of the identified stress pool or basically, this was all of a surprise that we saw in the fourth quarter?

Rashmi Mohanty: The question is that the NPA increase that we have seen, is it largely from the identified stress pool that we called out or this is a surprise?

Rama Amara: I talked about the small segment having a higher delinquency. It means you do expect a kind of contribution from the legacy portfolio, some new vintage and everything, but this segment, what we identified has a higher propensity to become delinquent. we have seen the recovery efficiency or collection efficiency in this segment, we noticed that there is actually stress there. That was the reason we have taken some portfolio actions there in terms of minimizing the cross sell or not offering the cross sell and other portfolio actions that are available. We have taken a few and some more are on the anvil, but again, as a matter of repetition, the latest vintage is behaving exactly as per our expectations. So, we expect that these actions will eventually result in a kind of lower credit cost over a period of a couple of quarters.

Anand Dama: Okay. But going forward, like running into the first quarter, do we have any kind of stress pool that we have identified already and if yes, if we can quantify that?

Rashmi Mohanty: Quantify for the next quarter?

Rama Amara: As I said, it is a work in progress, but some of these things will also take time. While we are very confident that it will have a downward trajectory, I think a quarter will be a kind of stabilization period before it actually starts evidencing a kind of real drop in the rate. But of course, this one-time kind of thing what happened is not expected to repeat in the next couple of quarters because it is purely a model related adjustment. So, we are confident that the overall credit cost will maybe, it will not cross the upper band whatever we have given. That confidence is there, but actions will take time. But over a couple of quarters, it will definitely come down.

Moderator: We have a next question from the line of M.B. Mahesh from Kotak Securities. Please go ahead.

M.B. Mahesh: Hi. Two data keeping questions and one qualitative question. The first is to Rashmi ma'am. Can you just explain, what explains the sharp increase in business development income and also, how do you account for recovery from previously written off accounts? Does it go to the non-interest income line or is it adjusted against the provision?

Rashmi Mohanty: So, the business development incentives are basically the milestone, the kind of milestone incentives that, we get from our partners. These are part of, these are basically contracted, slab

rates in a way, in terms of the number of cards that we issue on a particular network and also on the spend that, we do on those cards.

M.B. Mahesh: Yes, in a sense, what explains this jump, for the quarter?

Rashmi Mohanty: The jump is explained basically by the sourcing of cards that, we did in quarter 3 and quarter 4 and also the higher spend, we saw in quarter 3 and quarter 4. While most of it, was seen around December or so, but the impact of that has come in in quarter 4 only, largely.

M.B. Mahesh: Okay. And recovery from written-off?

Rashmi Mohanty: Recoveries from written-off, go into our other income as bad debts recovered.

M.B. Mahesh: And this gets clubbed under instance basically, right?

Rashmi Mohanty: It gets, sorry, it's part of the…

M.B. Mahesh: Where would you club this income, in the non-interest income line? Which line item?

Rashmi Mohanty: It goes into the other income line. So, if you look at our financial statements and if you pick up the other income line, there would be other…

M.B. Mahesh: INR154 crores.

Rashmi Mohanty: As bad debt recovery.

M.B. Mahesh: Okay. And the qualitative questions are to brief probably, this question. If you look at your card book today and you look at the, let's say the below prime segment, how has been that spend category set of customers kind of, where are they in the journey of recovery post-COVID right now?

Rama Amara: So, Mahesh, after the, let's say, customers with vintage, which was pre-COVID, on their spend journey, they have all recovered back. In fact, they had recovered back long, I would say, almost a year back, they have recovered back. New customers, which we acquired during COVID, they were showing some bit of depressed spend, in the year 2021. And it is that catch up as Rashmi was mentioning, which is now happening. And it has, we have seen that, this has happened this year.

New customers acquired during this last, I would say 15 months to 18 months are showing very good spending behavior, very good activation rates. We have, as you have been seeing, we have been focusing on more younger customers, where the activity rates are far better. So, from a spend perspective, on an overall basis, we have, it is already caught up. There is only one category of spend, which is international spend, where I believe that, there is still more opportunity. The balance has broadly reached higher than COVID. In fact, on the travel side, we have declared some of the numbers also. So, this is the first quarter in Q4 after FY '20 that, we are indexed at almost 140% of what we were in COVID on the travel, specifically on the domestic travel.

M.B. Mahesh: In a sense, the choice of spends that, they seem to be taking still seems to be overwhelmingly on the EMI side rather than to work. That journey has still not happened from that segment.

Rama Amara: I would state that, if I look at spend conversion to EMI that, spend conversion to EMI, if I take out the rental spend, because rental typically is more of a transactor spending in nature. If we take out the rental spend, our spend conversion to EMI, actually that percentage has become higher. So, that number has gone up compared to, what it was pre-COVID number. And that trend is fairly visible across segments. And when I am looking at conversion to EMI, it is either at the point of sale or after you have spent and before payment due date, you have converted to EMI.

Moderator: We have a next question from the line of Gao Zhixuan from Schonfeld. Please go ahead.

Gao Zhixuan: Thanks for the opportunity. So, just follow up on the Cost of fund comments, so, basically, you are saying that, because of repo hike last quarter and then the first quarter, we will see 10 basis points to 15 basis points increase in Cost of funds. And then after that, because RBI had a pause, we should not see any increase in cost of funds, right? I'm just a bit confused because if I look at historically, when RBI was cutting rates back in 2019 and early 2020, the repo rate bottomed about 4% at June 2020. But if I look at our cause of fund, it only bottoms about three quarters, four quarters later. So, there's a timing lag in terms of calculation of the time, when repo paused or bottomed to our cause of fund stabilize, right? So, just wondering, why this time, the cause of fund should immediately stop increasing, the moment RBI stopped hiking. I thought 25%, 30% of our funding is from NCD, which should be priced with a bit of lag, right?

Rashmi Mohanty: Your comment is that the cost of fund, why is it increasing, when the RBI has still paused?

Management: Why it should not increase?

Gao Zhixuan: Because you guys are saying that second quarter FY ‘24, cost of fund should not increase, right? Because RBI has paused. But historically, our cost of fund re-pricing, if I just look at most recent episode, where RBI was cutting rates, your cost of fund is still declining three quarters, four quarters after RBI stopped cutting rates. So, on the way up, shouldn't there be a re-pricing lag as well? So, our cost of fund should continue to increase a bit even after RBI paused because some of our funding could be priced with a lag?

Rashmi Mohanty: I'm pulling out the data for the 2008-2009 that you're telling me about it.. But just a few pointers in terms of how do we see, how does our portfolio get impacted. Number one, as we stated in the past as well, that the transmission of any market rate change happens in our portfolio with a lag. So, what we saw an increase in the cost of funds in quarter three and now in quarter four and what I'm talking about in quarter one is with a lag. The RBI started increasing rates in April of last year. So, April 2022 is, when we saw the first increase in the repo rate. We didn't see an increase in our cost of funds till quarter three. So, it was almost after about seven months to eight months that, we first felt the impact of an increased market rate, on our portfolio. The second point as to why did we see it after six months and why are we not immune to it for another 12 months, 24 months is because our liability portfolio, largely comprises of short-term borrowings and that's typically again to do with the kind of assets that, we have. If you look at the asset

breakup, almost about 39% odd is transactor. There is a revolver percentage, which again is short-term in nature. We don't really have too many chronic revolvers. In order to have an ALM and in order to have a match funding position with respect to assets and liability, we've also been borrowing short and which is, why every six months, every nine months, when the portfolio comes for a re-pricing is, when we're actually able to feel the impact of the market rate. So, those are the two characteristics that, I wanted to first lay out. As I said earlier, we've seen another rate hike in February. The impact of that will be felt as our portfolio comes, whatever portfolio, whatever amount of our portfolio comes for re-pricing in the first quarter, we've done some modeling around that and we expect that that increase is going to be about 10 to 15 basis points. I called out earlier and if there are no further rate hikes, we should see the cost of funds stabilize over the next two odd quarters. And if the market rates start to trend down from now onwards till the third quarter of this financial year, we will then see the impact of cost of funds where it starts to come down towards the end of this financial year. So, you're absolutely right, it is with a lag because our portfolio gets re-priced almost at about a six month to an eight-month kind of a frequency. This is how we felt the impact of the market rate.

Moderator: Thank you. Ladies and gentlemen, request you to restrict your question to only one at a time. You can join back the queue for follow-up questions. We have our next question from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Hi, good evening. Ma'am, if I look at your cost of funds, it used to be 8% before COVID and the policy rate was almost similar to the current year. It used to be in the range of 8 % to 8.5 %, right? So, what has fundamentally changed in your funding profile over the last three, four years so that your funding cost will remain below pre-COVID?

Rashmi Mohanty: I don't think we have mentioned that the rates are going to go up.

Rama Amara: His question is around with the policy rates remaining more or less at the same level, how are we confident about the trajectory being only limited to increase being limited only 10% at this point? I think if you're comparing the situation three years back or four years back, I think the share of long-term in our overall funding has increased over a period of last four years from a 9%, 10% to 15% to now 35% in the overall. So, that provides a kind of insurance against rate increases. So, we have been steadily increasing but of course, when the rates start to peak, obviously we are looking at what is the right timing and what is the right instrument. So, our endeavor is to continue to increase it in a meaningful way, in a very calibrated way. So, as we select. But of course, as Rashmi has also said, like we want to do the match funding and we want to get the opportunity of pricing it actually at the lowest rate whenever the market rates give. So, that's the fundamental difference between a four-year back scenario and a current scenario.

Pankaj Agarwal: So, basically duration of your liabilities has come down over the last three quarters?

Rama Amara: Duration of liabilities increased because the long-term share, long-term liabilities might be of NCDs of three years or otherwise subordinate bonds kind of thing, maybe of 10 years, what we rise. That way it has increased actually over a period of time.

Pankaj Agarwal: But then, I mean, if that is the case, don't you think then your funding cost can go back to 8% at some point of time despite the current policy?

Rashmi Mohanty: And what you also need to take into account is what Mr. Rao just mentioned that the increase in our long-term funding has happened in a scenario when the rates were lower. So, we have been increasing our long-term funds post-COVID and post-COVID the rates were low and we are benefiting from that.

Pankaj Agarwal: Okay. So, basically you logged in lot of funds at a very low rate, and they are longer duration.

Rashmi Mohanty: Yes.

Rama Amara: Yes.

Pankaj Agarwal: The reason I am asking this question is that generally, you know, there is a tenure premium, right? So, keeping everything as constant, if your tenure of liabilities are higher, the cost of funds should be higher. And as I said, at a similar repo rate, you will need to have 8% cost of funds three years back or four years back, right? So, ideally if your tenure premium, your tenure has gone up, then at some point of time at the similar policy rate, you know, your cost of funds can go back to 8%.

Rashmi Mohanty: I think we will have to go back and look at the numbers there. I mean, I do have the numbers for 2018-19, they are at about 7% or so. You also will have to look at the other things besides the repo rate, the credit premium, etc. as well. As to how much was the credit premium at that point in time for that AAA rated entity compared to where it is right now. So, we will have to look at all of those factors.

But as I said earlier that our modelling shows another 10 to 15 basis points, stabilization and beyond that, we will have to see as to how the market reacts. Now, if the credit premium go up, obviously even if the benchmark rates remain low, the credit premium will come and impact the cost of funds for SBI cards as well.

Pankaj Agarwal: Okay, fair enough. Thank you.

Moderator: Thank you. We have our next question from the line of Anand from HDFC Mutual Fund. Please go ahead.

Anand: Ma'am, I just wanted to understand on the spend based fee income, how should we look at that going forward? As most of the spend category, where the SBI are generally higher are opening up and we are seeing the action on that. Should we expect the spend based fee income to grow higher than the overall spend next year?

Girish Budhiraja: Spend based fee income is primarily the interchange that we earn from on the spending. It is dependent on the three elements as we have always been stating. The mix of the categories in which the spend is happening, which kind of products, whether it is a premium product which is at the higher end of network spectrum or at the lower end, which card person is spending and thirdly, whether it is a retail versus corporate mix. Because corporate typically, now even though

it gives you a higher interchange, but you have to do a pass back. So net margin as we have stated is very less. Over the last period of, during the COVID we saw this interchange rate going down because people's consumption in the discretionary items was going down and non-discretionary was stable where the interchange rates are typically lower. Now as you have seen, there has been a marginal stability and some marginal increase off late, as the travel has gone up, restaurants have gone up, last year those things have gone up. So, what we see is futuristically for the next year, we believe that this rate will remain stable. There are some headwinds and there are some tailwinds. There are both positives and negatives which are happening in these categories but broadly we expect it to remain stable.

Anand: Sir, on the instance-based fee income, this quarter we have seen a sharp improvement. Do you think as we keep on charging more and more FC avenue like fee on the rental, do we see this instance-based fee income to improve further or?

Girish Budhiraja: We levied rental fee of INR99 from November of last year and then we increased it from March 17, to INR199. So, half of the last quarter was positively impacted by that, but you have to also recognize that the OVL fee was completely not there, which is also an instance-based fee in Q3. In Q4, we have seen a full benefit of INR99 and almost 17 days benefit of INR199. These are in line with what the industry is charging. Typically, the industry rate that is charged is 100 bps on the transaction and we have seen that the average ticket size is around INR20,000 to INR21,000. So INR199 is almost broadly in that range. It is in line with the industry average. We have not seen, as I stated earlier a decline in the spend. Whether the spend will increase further or not, that is a matter of conjecture but those spends are stable at this point.

Anand: So, if I look at in terms of spend, instance-based fee income is approximately 1.2% of the spend this quarter. Should we assume this trend to sustain or to improve from here on?

Girish Budhiraja: It would not be on rentals; it will not be 1.2% because we get interchange on that also. It is not a zero-interchange category. There is an interchange also available and after that we are now charging INR199. So, the number is higher. We believe that should remain stable at least in this quarter.

Anand: Perfect. Sir, this year our operating profit growth was 17%. Despite the fact that we have seen significantly higher interest rate, we have seen lower revolve rate. How do you see this number going forward because interest rates will likely stabilize in the second half, and do you see some cost synergy also coming for us?

Rama Amara: I think you are talking about EBCC or operating profit the entire year, it is currently based at 17% but for the quarter alone, if you look at, as compared to year-on-year basis, it is at 22%. So that way, this quarter, last quarter itself Q3 itself, reflected a kind of, it observed the negative impact and put the pause, some of the regulatory provisions, which has impacted certain core and fee lines like OVL, etc.. Then Q4, whatever steps we have taken more or less it is reflective of what is the contribution from this new levy. and with a kind of direction what we are aiming, where we want to optimize the cost, continue to focus on digital, increase the share of digital channels for sourcing, this will improve steadily. Overall if you look at, slightly away from this operating profit, overall return matrix if you look at, the way to look at is, a quarter to quarter,

there will be fluctuation, even in operating profit, even in the ROE. But long-term averages, whatever we have like a 5% plus, 25% near about 25% ROE that, will be maintained. That is the minimum expectation.

Moderator: Thank you. We have our next question from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Hi, good evening. I have two questions., if you look at a new card sourcing, then over the past two years-three years, the mix of self-employed has risen to now 39%. It used to be in early 20s. And likewise, the mix of government employees has also reduced sharply. But the revolve rate isn't really picking up. In fact, it has only been like a downward trend. So, is there any threshold that you would like to adhere to while broadening the risk filters to boost revolve rate?

Nandini Malhotra: So basically, for the self-employed customers, a lot of the self-employed actually comes from our Banca channel, where we look at their saving account, current account behavior and we onboard them. So, it's a relatively better profile. We have a better visibility to the cash flow. So, in that way, I would say, it's a relatively a lesser risk, lesser risk in terms of self-employed because it comes from the Banca channel. In the open market also, we look at repayment performance in the bureau before we onboard self-employed customers. So, all those checks are done and in place and so we have a better idea about the customer's repayment potential, when you onboard self-employed customers.

Nitin Aggarwal: All right, ma'am, so today the number is like 61%, 39%. So, this number, like we are not looking to have any limit on this 39% self-employed, what we have reported this quarter.

Rama Amara: The way we are operating is like obviously, we look at what is the potential, what is the customer's choice obviously and what is the kind of channel, we are using, etc., we take it into account. Of course, delinquency does matter and the risk-adjustment profitability at the end of the day, finally that matters. So as long as all these metrics match and the acquisition is holding in terms of meeting all these expectations, we would like to continue. But to your question, the other question around the, however self-employed, because in as much as, we are acquiring more of these customers through the Banca channel, where we have an auto-debit and auto-swipe, kind of facility. The revolve propensity will be lower, for a self-employed acquired through Banca channel.

Moderator: Thank you. We will take a last question from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Yes. Hi. Thanks for taking my questions. Just one data question on like, if you can share how many rental transactions happened on your platform, over the last three months. And just to clarify on this instance-based fees of roughly INR830 crores, is there any one of element of seasonality or any reason, why it should dip next quarter, if spends don't dip?

Girish Budhiraja: I have already told you the average ticket size is between INR20,000 to INR22,000 and the weightage on spends is almost around mid-teen. So, you can make an estimate on number of transactions there.

Piran Engineer: Okay. Fair enough. And on the next, something on instance-based fees?

Rashmi Mohanty: On the instance-based fees as I called out earlier that, there is a provision of rental fees that come in, in this quarter, which should stay or should stabilize or should stay at these levels only for the next few quarters as well. There is some milestone incentive that, we have gotten. That will normalize over the next few quarters. So while, if I were to just look at from a BAU business perspective, this number should continue to grow. Will it see the kind of jump if between quarter 3 and quarter 4? The answer is no. You will see a more normalized increase going forward, quarter-on-quarter.

Piran Engineer: Got it. That explains. Thank you so much and all the best.

Moderator: Thank you. I would now like to hand the conference over to Mr. Rao for closing comments. Over to you, sir.

Rama Amara: First, let me thank our shareholders, investors and business partners for their continued trust and support to us. I would also like to thank my colleagues at SBI Card for their continued commitment to ensure the company's success. I would like to highlight that SBI Card's strong focus on sustainability has helped it emerge stronger past any market turbulence. While we cannot control the external factors, but we do believe that our strong business model, our agility as a business, and adaptive approach equips us well to keep fueling our growth in the future. Thank you.

Moderator: Thank you. On behalf of SBI Cards and Payment Services Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.