SBI Cards & Payment Services Limited

Q4 FY2022 Earnings Conference Call

April 29, 2022

MANAGEMENT:
MR. RAMA MOHAN RAO AMARA – MD & CEO
MR. NALIN NEGI - CHIEF FINANCIAL OFFICER
MS. APARNA KUPPUSWAMY - CHIEF RISK OFFICER
MR. GIRISH BUDHIRAJA - CHIEF SALES & MARKETING OFFICER
MR. PRADEEP KHURANA - CHIEF INFORMATION & DIGITAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to SBI Cards & Payment Services Limited Q4 FY2022 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 this conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rama Mohan Rao Amara - Managing Director & Chief Executive Officer of SBI Cards. Thank you and over to you, Sir!

Rama Mohan R Amara: Thank you Stanford. Good evening, everyone, I extend a warm welcome to all of you. Thank you for attending the earnings call for Q4 FY2022 and financial year 2022 today. We are grateful for your presence and continued support. I hope you and your loved ones are safe and healthy. As you are aware India's GDP grew at 8.9% in FY2022 which points towards the sharp economic rebound.

It is also important to note that RBI’s consumer confidence survey for March 2022 showed continued recovery with contact-intensive activities including travel regaining traction. Domestic consumption also improved over the previous year.

Owing to many factors digital payments have seen a substantial growth and along with growing digital payments, credit card adoption and usage. This is evident from the healthy growth witnessed by the industry in credit cards volume and spends over the past one year, with some new milestones being set:

In February 2022, credit card base reached to 71.7 million. The month marked the highest growth in past 21 months on YoY basis at 16.3% when it comes to new card addition.

Card spends also saw healthy growth crossing the pre-COVID-19 levels during FY22. In October 2021, spends crossed Rs 1 trillion mark which was a first in terms of monthly spends. As per RBI, in February 2022, card spends stood at over Rs 86,000 crores.

Despite the strong growth shown by the credit cards industry, the penetration in the country still has immense growth potential.

In fact, the year was marked by several progressive steps introduced by the regulators to further increase the penetration of digital payments and enhance safety for users, for example, extending digital payments to feature phones and permitting card-on-file tokenization to enhance security and convenience.

Let’s now look at SBI Card’s Business Overview in FY22

I am happy to share with everyone that even amidst uncertain environment SBI Card was able to emerge with robust business performance and stronger financial health in FY22.

Please allow me to take you through just three among many key aspects of our business to corroborate this:

Ensuring strong & consistent performance

- Our new accounts registered 33% YoY growth in FY22 as we added over 3.5 million new accounts. In Q4 FY22, we added over 1 million new accounts with over 27% growth over Q4FY21.
- SBI Card's cards in force has grown to over 13.7 million, after having crossed 12 million and 13 million milestones during FY22. The market share in terms of cards in force stood at 18.9% in FY22.
- Overall card spends reached at Rs 186,353 crores, having seen increase of 52% YoY in FY22. In Q4 FY22, card spends grew by over 50% vs Q4 FY21, standing at Rs 54, 134 crore.
    - Retail spends at Rs 146,457 crores have seen a growth of 43% YoY in FY22. In Q4 FY22, retail spends reached at Rs 41, 872 crores with a growth of over 40% vs Q4 FY21.
    - Corporate spends have also grown by 99% YoY, standing at Rs 39,895 crore in FY22. In Q4 FY22, corporate spends were at Rs 12,263 crores and saw a growth of over 100% vs Q4 FY21.
    - Online spends have also grown significantly in FY22 and its proportion in the overall spends is well over 54%.

Focusing on sustainable growth

- Our profitability has consistently grown in each quarter throughout FY22.
- In FY22 our receivables have grown by 25% and our GNPAs remain low at 2.22% as at end of Mar'22.
- With sustainable growth as a goal, we have been calibrating our credit filters for new customer acquisition, to address the uncertainties of the times.

Leveraging changing consumer trends to strengthen product portfolio

- Our customer-centric approach has always been our guiding light.
- In line with this approach, during the year, we introduced products like SBI Card PULSE and FabIndia SBI Card, that have been designed keeping in mind consumers' changing lifestyle spends requirements and interests.
- We also partnered with Nature's Basket to roll out first of its kind credit card for gourmet lovers, a segment fast growing in India.
- Further, I am pleased to inform you that we have also strengthened our presence on Rupay platform with the roll out of our popular cards BPCL SBI Card and Yatra SBI Card in FY22.

Lastly, as a responsible company, we ensured to be compliant with the new regulatory changes during the year.

- We successfully switched to new mechanism for recurring payments as per the deadline mandated by RBI.
- We are also ready with CoFT (Card-on-File-Tokenisation) implementation and will roll out the same as per the RBI's deadline of 30th June 2022.

Please allow me to take you through the financial performance:

- The company has achieved the PAT of Rs 1,616 crores in FY'22, a growth of 64% over FY21. For Q4 FY22, the PAT stood at Rs 581 crores which is 231% higher than Q4 FY21.
- In Q4 FY'22, receivables stood at Rs 31,281 crores with a growth of 25%.
- Revolve balance as of Mar'22 is 25% of overall receivables, as in the month of Mar'22 spends increased by over 3,000+ crores over Feb'22. While this Rs. 3000 Cr form a part of denominator they have not had the opportunity to revolve yet.
- Our total revenue stood at Rs 11,302 crores and has grown at 16% in FY22 over FY21. In Q4 FY22, our total revenue stood at Rs 3016 crores with 22% YoY growth.

On asset quality:

- Our GNPA has come down to 2.22% as compared to 2.40% at Q3 FY22 and 4.99% at Q4 FY21. Net NPA for the period is at 0.78% as compared to 0.83% at Q3 FY22 and 1.15% at Q4 FY21.
- Overall RBI RE book stands at less than1% of total receivables as against 2% in Q3 FY22.
- ROAA for the quarter ended March'22 is at 7%, which is higher by 192 bps as compared to 5% for Q3 FY22; and ROAE is over 30%, which is higher by 914 bps as compared to over 21% for Q3 FY22.
- Our liquidity position continues to be strong and capital adequacy is at 23.8% for the period ended March'22.

So now we are open for questions. Stanford!

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: Thank you for the opportunity. The first question relates to the asset mix. We have seen revolver declining to 25%. Every quarter, we believe that the revolver has bottomed out and we see a decline in the next quarter. So how should we see this number, is this more structural in nature? Secondly is this a SBI Card specific phenomena or do you have any feedback from other portfolios, maybe the bank side they are seeing the same thing happening in their portfolio as well?

Rama Mohan R Amara: I think you are right. The revolver which was at 27% as of December came down to 25%, but when we look at the internal analysis, the revolve rate has been marginally increasing from October 2021 to February 2022; that is the amount of spends that get converted into revolver. Of course, we have a payments and revolvers, etc., overall that rate is either stagnant in some of the months or otherwise slightly increasing in a couple of months. When it comes to March 2022, we did run some special campaigns, which has resulted in around the 3500 Crores of incremental spends as compared to February 22 and these spends will take some time, some part of it may get converted into revolver.

It is an industry phenomenon. We know that a lot of customers who have revolved in the past and talking about the vintage customer's; bulk of them got restructured and then most of it is resolved and now, our portfolio is hardly at 1% of that. Only a few of them are actually interested to take the card and again start using the card, bulk of them have been very circumspect in terms of again activating the cards. In the last two years, the first year I mean 2021, if we talk about it was more of a containment, 2021-2022 obviously we have recalibrated the trade filters, we have been slowly allowing a kind of segment like a self-employed and a Cat C kind of customers in a calibrated manner as and when we are confident about the credit cost declining, we were doing it. This we are not doing it blindly; we are consuming some alternate data and with that benefit only we are doing. In fact, in terms of the sourcing when we look at it, the self-employed sourcing has increased at least by 2 percentage points quarter-on-quarter which shows our increased appetite for this segment. But it will take some time. It is taking a longer time than what we have expected, but it is an industry phenomena, everyone is looking at it and making attempts to improve the revolver.

Anuj Singla: The second question relates to opex, there was a sequential decline in opex. is it more seasonal in nature or we have taken some steps consciously to cut that? And if I may, the third question is on master directions on credit cards, is there any impact on our relationship with the co-brand partners given the new stricter data sharing regulations around that.

Rama Mohan R Amara: I will answer your last question that is on master direction. As I reiterated, this is more in terms of enhancing the consumer protection etc., and our internal preliminary analysis indicates that we are largely compliant. Obviously, some changes will be required in the system to exactly comply with this and anyway we will be complying it by the deadline. In terms of co-branding partnerships, our partnerships are exactly in compliance with the guidelines, so we do not anticipate any impact or anything because there is no sharing of data in a reverse way it is a co-branding partners. Second one in terms of opex, typically Q3 opex is higher because the spend based cost. When we launch a lot of marketing campaigns like during Q3 the spend based cost will be higher, marketing cost, cash back kind of component will be higher that has reduced in Q4. Mr. Nalin would you like to add any other stuff.

Nalin Negi: As Sir said, one is obviously the spend based cost on a quarter-on-quarter basis has come down and that is typically the seasonality factor and associated with the spend based cost because it is during the festival time this cost spends to be on the higher side, but we have also been taking steps. On the other side we have been looking at our acquisition costs and other costs and sequentially all other cost basis the cards are coming down. There is greater focus on the acquisition cost side as well and going forward as well, we will be focusing a lot more on the digital initiative to improve our cost of acquisition. So yes, it is both the things one is the seasonal factor and company is also taking steps to ensure that costs are concerned.

Anuj Singla: Thank you very much, Sir. All the best.

Moderator: Thank you. The next question is from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.

Bhavik Dave: Good evening, Sir. Thank you for the opportunity. Couple of questions; one is similar to that of previous participant. On the cost of acquisition, when we see newer players' cost of acquisition wherein, they go fully digital, is almost half or 60%, 70% of our cost. Is there a lineup side that we can improve our cost of acquisition materially over a period of next two to three quarters or a year wherein we become equally competitive in terms of cost of acquisition? That is question number one.

Question number two is on the 30-day active card rates where we were at 52 now it is 50 what is changing here? How do we make it like back to that 52, somewhere around 53-54 that we were before COVID? How do we reach there? What are the steps that we are taking to keep the customer more active that is the question?

Last question is on the tier III customer segment where we have added reasonably higher number of cards in that geography, if you could explain how the economics work there? How does the spend behavior pan out? How much time does it take to breakeven or when does the inflection point come in those customers on the spend front? These are the three questions. Thank you, Sir.

Rama Mohan R Amara: With regard to cost of acquisition we have been taking a number of initiatives particularly. We have shared during the last analysts' meet also around having an intuitive digital journey for existing customers where somebody want to offer an upgrade or whether if somebody is asking for an additional card the journey is completely end-to-end and that too only just a fraction of the normal acquisition cost. We also showed like we are also working on creating the digital journey for new to SBIC customers and the pilot has been completed. So, we are actually rolling out on a full-blown way in the production, but it will be calibrated and only a few products types will be available initially and then it will be ramped up because we need to fine-tune the configuration etc., but this entire thing is expected to stabilize by end of the current quarter that is the June quarter.

Bhavik Dave: That will get the acquisition cost like down reasonably like a good.

Rama Mohan R Amara: As compared to a completely manual process as and when we digitize the certain journeys actually part of the journey is we were actually able to get the benefit. So the moment is completely end-to-end digital and that to originated by the customer definitely the cost of acquisition will be much lower.

Coming to tier III customers, broadly this segment we acquired through the Banca channel and mostly through the Shikhar program which you are aware is a pre-qualified program where the cost of acquisition of Banca is generally lower than that of open market. Nowadays when we look at the customer behavior etc. I think tier 3, tier 4 customers are also equally savvy at par with the tier 1 and tier 2 customers. We are also seeing that the online share of base spends is actually more than 60% that way there is no difference, slightly yes, if you are giving a card, to the NTC kind of customer or NTCC customer it will take longer time for them to start using the card and accelerate the spends. To that extent there can be a delta in terms of the break-even period etc., but otherwise not a very great difference between a tier one, tier two customers, and tier three customers.

Bhavik Dave: Sir on the activation rates?

Girish Budhiraja: On the activation rate what you see here is the number that is the average of January, February and March. January was impacted minorly for some period of time by Omicron, February is a 28 days month but by March the number is around 51% plus back again on an exit basis because March spends, total retail spends were almost 15800 Crores plus which essentially means that this was the highest that we have done in the lifetime of the organization. So it was even higher than October, so March was a very strong month coming back, a couple of reasons further were that travel which was picking up in Q3 suddenly got impacted in the month of January and again came back in the month of March. While the 30-day active rate is at 50% the some steps that we take are essentially in three buckets, reiterating the product value propositions to people who are not using the card, giving them the right credit line or the right product as per their requirement, thirdly the kind of offers that we do which is either in terms of cash back offer or segmented offer, so if the customers in their categories where they are spending or where we want them to spend he gets special offers. So these are some four, five steps broadly that we take for keeping the customers active. So, for example if a customer is inactive with us for 90 days, we would give him an offer after looking at his past behavior so that the customer starts spending on the card. If I look at a 365-day period more than 90% of our customers are either spend or balance active.

Bhavik Dave: One last question is when you give out the card, there is RBI guideline which talks about activating the customer within 30 days. how do you think about that clause in those guidelines for us? Because we have cards where we are taking an annual fee so, how do we incentivize them to start activating or is that an area that we need to work on? Or do you think that it does not matter because the customer generally starts activating the card online within 30 days. How do you think about?

Girish Budhiraja: You are right. We will have to do certain set of changes. First point is in terms of the definition of activation, which we will have to work with the regulator because that is not defined. Activation can be when the customer comes online and switches on the online spending switches or international switches or does some other activity. Typically, from the date of the issue, on an average it takes anywhere between 5 to 10 days for the customers to receive the card, so 30 days is a very less period of time at this hour and this is across the industry. So, from a definition perspective work is required. RBI here is looking at the safety and security of the customer that, it should not happen that the customer is giving the fee where the customer does not have any intent of using the card. So that means we need to work with RBI in that sense. Even in present state, what we do is that we are giving the customer, as soon as the card is approved, in a certain set of segments where we feel safer, we send e-cards to the customer, which are utilizable from that instant itself. So that is one initiative which is very much in progress and there we have seen that the activation rates are very high because customer delight is there, but you cannot do it to all you have to do it with safety and keeping certain things in mind.

Bhavik Dave: What percentage of 1 million if you could take the gross addition that we have per quarter, what percentage of it would be with these e-cards roughly and a board range would help?

Pradeep Khurana: The details of e-card we issue for all the customers now so the only check that we do is whether the mobile and the e-mail is validated so by default an e-card is sent as soon as the card is generated, the link is sent and using that the customer can generate the e-card online and then subsequently on a physical plastic is also dispatched. So, we do this as a norm in our business.

Bhavik Dave: Thank you so much.

Moderator: Thank you. The next question is from Dhaval Gada from DSP. Please go ahead.

Dhaval Gada: Sir, congratulations on good set of numbers. I had three questions, the first one is for Aparna so on credit cost this quarter we have seen that reversal of 76 Crores provision that we created last quarter and if you look at the annualized credit cost it is around 6.5% give or take few percentage points. So should we expect this level to sustain and improve in FY2023, this is a similar level that we used to see pre-COVID so just trying to confirm that part. The second question is for Girish, so on the revolve book if I look at the incremental sourcing in the last two quarters, directionally it is moving towards more customer segment where the revolve rate should be much better compared to the stock and even the self-employed segment share is increasing. So just trying to understand when one should expect this incremental sourcing to get reflected in a better revolve rate and revolve book growth being much higher. Any like two quarter down the line, three quarter just indicatively how much time it could take, and last question is for Rao Sir in terms of ROE for the year we have ended at about 23% ROE in FY2022. Do you think 25% plus ROE for next couple of years on a sustainable basis is doable or any challenges that one should be cognizant of? Those were the three questions. Thanks.

Aparna Kuppuswamy: Let us start with the credit cost first. so specifically, the 76 Crores was the discretionary provision we had taken last quarter, just to be able to see that if there was any impact on wave three. Since we did not see any deterioration in our collectability or flow rate or whatever we have released that provision. Now as far as the overall threat also so if you see the number for this quarter, the number is 5.2%, on a full year basis we are at 8.3% and like we have been saying in the past, you are seeing a sequential decline of that number and even with like I said wave 3, we have not really seen any impact. So as far as the credit cost issue is the majority of that has gone, if you look at our ECL rate also if you remove even the existing 51 Crores of management reserve that we still carry we are at a 3.3% which is broadly in the range of where we used to be pre-COVID in fact slightly lower than pre-COVID level.

Girish Budhiraja: Dhaval, on the revolve as MD Sir was mentioning we have seen from October in the month of November, December, January, February the revolver as a percentage of assets remaining at around close to 27% or so. In the month of March, we did a program with Flipkart, and we have seen very good spends coming back in the month of March and that too in the nature of discretionary spends which are essentially travel, lodging, restaurants, coming back. This spend in February versus March the difference was almost 3500 Crores which has got added into the denominator but that spend has not got an opportunity to decide whether to revolve or to payback or to get some part of it has already got converted into EMIs and that trend we are already able to see. Regarding the new customer sourcing, yes, you are right we have already started moving towards some of those segments where we have seen better revolve rates in the past. Those segment percentage in the new acquisition mix has increased; however, these segments take as we have mentioned earlier also anywhere between 9 to 12 to 15 months to mature and some of these segments are only three to six months, because the earliest data that we have is from November month onwards, we see a slight uptick compared to what we were doing earlier in those segments which is a very minor thing but it has to be on a weighted average basis we will have to see the total as to how much impact it will have in the overall revolve asset balance. So that is where the state is as of now as we see more data and information around these segments and how they are behaving now we will keep everyone posted.

Rama Mohan R Amara: Dhaval, with regard to your query around ROE what will be the level in a year or so, I will not be able to give a number, but the philosophy wise we will be looking at sustaining core performance. By core performance what I mean is knocking out for any extraordinary items (One-off items) like GST refund what we got during the year or otherwise the kind of credit cost levels of what we have seen whatever is the core operating performance the attempt is to continue and sustain that operating performance but one thing one or two things we need to really look at as things pan out. Funding cost wise we have seen the bottom, no way it can go down further rather the bias is upwards actually like given the kind of interest rate environment what we are seeing and the kind of inflation going up the funding cost is likely to increase particularly when we are also increasing our share of long-term resources to reduce or address interest rate sensitivity obviously that will also elevate the funding cost etc. But we will be like the way we have increased the share of EMI loans or close ended loans, quarter-on-quarter the attempt will be to improve it further to the extent possible. I am not factoring in any positive benefit on account of revolver or anything, but these things actually overall will help us and of course the second lever will be the acquisition cost. As I said earlier, increasing the percentage of digital sourcing is the target area and, in that initiative, we have couple of strategic initiatives, already there. We are hopeful of reducing the cost of acquisition which can compensate for any other headwinds. So, at minimum we will be attempting to sustain the core operating performance.

Dhaval Gada: Thanks, and all the best.

Moderator: Thank you. The next question is from Nitin Aggarwal from Motilal Oswal Securities. Please go ahead.

Nitin Aggarwal: Thanks for the opportunity. Couple of questions, the question is around the composition of spends. If I look at slide #11 across apparel and jewelry, has come down sharply and probably due to the volatility in gold prices and at the same time the revolve rate has also dipped so just trying to understand if there is a correlation here as in the customers who spend on jewelry typically have a higher propensity to revolve. Is that the case?

Girish Budhiraja: No correlation.

Nitin Aggarwal: Secondly on the ECL provisioning. Now for stage two we are seeing a decline in ECL provisioning for last few quarters and while it seems to have settled down for stage one and three. So where do you see this now and trending into FY2023 and how do you see the gap between the credit cost and ECL now?

Aparna Kuppuswamy: Stage two decline to a large extent is driven by the runoff of the RBI RE, so that is why you are seeing that shift. All of RBI RE is less than 90 days and was sitting in stage two that is why you are seeing the decline. I think the number to look at like I had mentioned earlier is the overall ECL rate and on that slide, we actually see on slide #18. You see how the ECL rate is dropping we are now at a 3.3% overall ECL rate, and this distribution also is now pretty much close to 89% of the book is sitting in stage one so both of these trends are actually pointing towards the increase in the asset quality. So, if you look at how it is going it is much better, we are back at pre-COVID level.

Nitin Aggarwal: Lastly any thoughts on change in MDR, is that still in process things, any discussion with the regulator on this?

Rama Mohan R Amara: We have not heard anything from the regulator because the announcement was more around coming out with a discussion paper by RBI, so we have not seen any discussion paper in the public domain.

Nitin Aggarwal: But that possibility is still open despite of these recent circular that has come around the credit card, that possibility is still open.

Rama Mohan R Amara: We do not know actually. I cannot comment, it was an announcement in December, so we do not know the thought process.

Nitin Aggarwal: Thanks so much.

Moderator: Thank you. The next question is from Param Subramanian from Macquarie Capital. Please go ahead.

Param Subramanian: Thank you for the opportunity. My question is again on the revolvers. So, I wanted to ask, if there is any change that you are seeing behaviorally in the customer base, compared to pre-COVID for this decline and revolvers because this is clearly, and it is a sticky issue. Is it that there are more alternative products say in flexi loans for example or our customers getting more prompts from say digital medium to make repayment on time is there any particular change you are seeing behaviorally from customers so that is my first question, and I will come back for second?

Girish Budhiraja: Param, you are right, there is some changes that we see. That is why even in our previous commentaries we stated that in near-term, we would not be going to see 33-33-33 which we used to be pre-COVID so that change is there. There is definitely a preference towards planned purchases moving to EMI because that growth we are already seeing in our portfolio also and that has become more popular. However, the revolve as the stability remains, it has been seen across the world in all places and we have also seen over a period of last 20 years that as the stability continues and the people continue to spend on the card over a period of time, when they have some amount of comfort with respect to their incomes spending patterns; the short-term lending needs of the customers, they fulfill through revolve. So that continues that it does come back over a period of time, it does take time. As we said we are also adding more self-employed, some of those segments which we saw earlier had the higher propensity to revolve so both the mix is now moving in that favor. As well as the existing customers, once they see the stable environment, they also change some of their behavior.

Param Subramanian: Is it being led by, say the availability of alternative products example flexi personal loans which are a cheaper way to revolve than revolvers or is it prompt from digital media say Cred for example for making the payments on time are all these playing a part or is there any sense that this is a bit of a structural or a sticky issue or do you think that they should bounce back quickly?

Girish Budhiraja: Some of these payment options were always available to the customer. A credit card customer since 1990s has been the most premium customer in the industry. So, people were always had options of PL and other kind of loans and they were taking all of these options. So, it is not that those options are not available, yes, more proliferation has happened as of now so ease of availability is also there so some of that might have an impact, but basic consumer behavior does not change that fast.

Param Subramanian: My second question was on the credit cost. Now that the revolvers are low, the NPAs are also very low and the restructuring is also very low, does it mean credit cost should undershoot even the pre-COVID levels or any sort of guidance that you are giving over there? Those are my two questions. Thank you.

Aparna Kuppuswamy: I do not think we are in a position to give guidance on the credit cost. Actually, you are seeing that number coming down quarter-on-quarter. For this quarter we are actually at 5.2% and for the full year we are down to 8.3%. As we said last time, we are in the business of taking risk. I do not think the plan is to keep bringing that down. There used to be a band in which it used to operate pre-COVID, and the idea is we will optimize the credit cost. We are not targeting to bring it down absolutely. The numbers to look at is if you look at our ECL rate, we are now at 3.3% ex-management reserves which is largely on account of the RBI RE, that is a good number to look at because that is the kind of number at which we will be operating at in the future also.

Param Subramanian: Perfect. Thanks Aparna. Thanks team. All the best. Thank you.

Moderator: Thank you. The next question is from Nilang Mehta from HSBC. Please go ahead.

Nilang Mehta: Thanks for taking my question. Most of my questions have been answered. Just one is on competitive landscape and while we have seen some marginal dip in our market share, and you have seen a revival of few of the banks also at the margin improving their market share and one large bank gaining a lot. So, could you give a context on how does management think about market share and is there a relevant metrics to focus on or we think that will be just an outcome and not something we are targeting?

Rama Mohan R Amara: Yes you are right, there is action by the existing players and there is also entry of new players which has expanded the card issuance on a monthly basis when we look at it has expanded it almost by 80%, 90% from a stable scenario what we used to see like a 0.85 million, 0.9 million we used to see per month kind of issuance but now which has increased to 1.9 million. Yes, in terms of retaining the market share that will call for existing players will have to increase the issuance, but one has to look at what is the kind of customer segment we are looking at, what is the opportunity, what is the cost of execution, what is going to be manifested, what is the value of the customer life cycle etc. and what are the internal profitability metrics. So that way our approach has always been a calibrated approach. We would have seen like we have ramped up our issuance in fact for a large part of the time we have been the largest issuer, but we had some kind of attrition that way that net growth is slightly lower than the overall issuance. So, our aim will be to look at opportunities. Of course, we have a good partnership with parent bank SBI through the Shikhar program where we acquire the customers of even tier 3, tier 4 towns without having a physical infra, at a much cheaper cost, that we will continue to leverage. The digital "new to SBIC" channel, is expected to be fully operational very soon, that will also help us, and partnerships of course we had a very good partnership. We continuously to look for opportunities. So overall approach is to ramp up in a prudent way and which can give us a sustainable growth.

Nilang Mehta: Thank you for that and one last bit so how are we doing on YONO app of SBI so in terms of market share there or trend if we could give some color there it would help?

Pradeep Khurana: We have given two sets of servicing on the YONO app, so we as a business tightly integrated with the YONO app. What it means is that existing customers of the bank who come onto YONO, can seamlessly apply for the SBI Card so that is on the acquisition side. Now one other set of features that we have given on YONO is around the servicing part. So what it means is that once you have on-boarded and you have gotten a card from us through a YONO route or even I would say outside of the YONO route any of our existing customers can go on to YONO and avail a set of full services on YONO app, which includes seamless ability to pay from your bank account, you can seamlessly view your credit card statement, you can view the bill and you can make a payment. In terms of integrating and embedding ourselves in the YONO ecosystem, we do already have a very, very strong integration. I think Sir also mentioned previously that our focus for the coming year is going to be on digital. We have put a digital journey for which pilot has been completed. A couple of products on our website are already there for an end-to-end digital acquisition. Similar roadmap, have been put on digital transformation slide in the investor deck, is being thought for the YONO end-to-end digital journey. So that is our play on YONO.

Nilang Mehta: Thank you Sir. Thank you so much.

Moderator: Thank you. The next question is from Mahesh MB from Kotak Securities. Please go ahead.

Mahesh MB: Add on question to what the previous participant highlighted. This year we have grown the overall card base by about 17%. In your assessment how are you looking at for the year 2023?

Nalin Negi: We did not really understand the question. Can you repeat that?

Mahesh MB: I was just trying to understand what is in your assessment target growth that you are looking at in terms of cards for next year?

Rama Mohan R Amara: More than the topline what we are looking at is attrition. The determining factor will be improving the net addition, that we have been improving over a period of time. We used to be around 180,000-190,000 net growth per month, now in the month of March, we have taken it to around 240,000. The idea is to increase it to at least 300,000 over a period of time.

Mahesh MB: Just one additional question when you are looking at spends of your customers, are you seeing more traction where existing customers are increasing limits and increasing spends or are you seeing more traction with new customers coming in and increasing their spends?

Girish Budhiraja: Good question. This year was very interesting. We have seen both coming in. The average spends per customer, which is there on slide #9, in last year Q4 was around 123k, that has gone up to 161k. So, not only existing customers have started spending more and this is what we have been stating in earlier discussions that a lot of new categories have come in for the customer to spend. The existing categories which had gone out, travel is slowly coming back not fully, restaurants slowly coming back, railways is coming back. There is still a whole lot of room to catch up on these ones, so both have happened in this year.

Mahesh MB: One last question, how many of your total card base of about 15 million, how much should be today taps and pay cards?

Girish Budhiraja: 100% of our issuance that we do can do tap and pay transactions. So, all cards issued by SBI Card can be used for tap and pay. Of the point-of-sale transactions, one fourth of the transactions are coming at tap and pay.

Mahesh MB: For you, tap and pay customer is lot more active as compared to a customer who dips the card?

Girish Budhiraja: You are absolutely right. It is that customer is more active and that customer's number of transactions in a month, is higher.

Mahesh MB: That is my last question. I was just trying to understand is there any if we see the success of the tap and pay card is much more. Is it possible for you to increase penetration by replacing existing cards through the tap and pay?

Girish Budhiraja: With the tap and pay customer a lot many more low value transactions also start to come in because tap and pay now works with less than Rs.5000, earlier the limit was Rs.2000. What we have seen is that the tap and pay ticket size is less than four-digit number. So, it remains in that degree, so you will have more transactions, but spends wise the difference is there but not very high.

Mahesh MB: Thanks a lot.

Moderator: Thank you. The next question is from Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you for the opportunity. My question is basically on the competitive intensity per se. Do you feel that the competitive intensity of the industry relative to the last four or five years is possibly now at its highest level and the context in which I ask this question is the number one player is now back in the game, the number two player in spends continues to be very aggressive and the number four player just did an acquisition and if I look at their last quarter net ads it is almost equal to us in terms of number of cards. So, none of these happen together anytime in the last four or five years, so is it fair to say that the competitive intensity is probably at its highest and in that context, what is spends market share aspiration that we can have?

Girish Budhiraja: You are right. Competitive intensity is amongst the highest that we have seen, and it is not only within the players, or within the industry. It is from some of those prepaid players giving OD limits on the card, whether you call it neo banks or a low-ticket size BNPL kind of a player. So, there is competitive intensity within the industry and outside the industry. As was stated earlier, we will continue to follow profitable growth. We have been in this business for more than two decades; we know how to play this even amongst all these changes we have continued to sustain our market share. We will strive to grow it, but we will want to do it in a profitable fashion. For example, we have increased our corporate card spends but we have not taken it to a level which was possible but at an impact of either a cost to income or in terms of profitability. So, we will look at growth but also keep looking at profitability and sustainability in the long run. Competition is good. It gives us more opportunities it also enables us to be nimbler, it also enables us to cut costs at places where we can do it. We will also go more digital as was stated earlier so all these actions we will continue to do and stay sharper in the market.

Karthik Chellappa: Just one clarification that the Q-on-Q decline in the income from fees despite the strong growth and spends is that due to the March promotion campaigns?

Nalin Negi: Income from fee if you look at it the spends have on a quarter-on-quarter basis spends are lower so that impacts the interchange fees; however, our membership fees are higher because we have been sourcing a million cards on a quarter-on-quarter basis those have gone up. The interchange fees purely because festival spends were higher, so interchange accordingly was also higher.

Karthik Chellappa: This is very helpful. That is all from my side. Wish you all the best. Thank you.

Moderator: Thank you. The next question is from Ravi Singh from Motilal Oswal Asset Management. Please go ahead.

Ravi Singh: My question is about co-branded cards. Are you expecting any major impact because of the clarification from the RBI in their recent master directions on the cards businesses? How are you expecting industry practices to change or any impact on your co-branded cards? Can we also use this opportunity to just share some numbers on co-branded cards, I mean, what percentage of your open-source cards are co-branded card assuming Banca cards are mainly core cards, maybe as a percentage of spend. How the industry evolving assuming that bulk of the major merchants were already having some partnerships so how do you expect this product to evolve and what role SBI Card will play? Thank you.

Girish Budhiraja: Three parts to your question. First is co-branded cards, as per the new regulation can only be a distribution partner, can sell those products to their customers, but there has to be no data around those customers spending patterns and other things to be kept with these co-branded partners. In the industry, this practice of some co-branded partners having the data, started with some of these online co-brands. Before that with offline co-brands or fuel co-brands, this kind of practice was never there because there the co-brand was used as a tool for building loyalty. However, some of these online players use some of these data for further cross selling their own products to some of these customers. That practice will have to stop, as per the new guideline. That data cannot be shared. Co-branded partners will remain very, very keen especially going further in the digital environment as newer customer acquisition will go digital having those partners so that customer purchases the card in the path of purchase journey, is very critical. Some of these partners also have lot of data which can be used as alternate data for underwriting at all stages so co-branding will continue. I think it will continue to grow. It is already with some players they either do their bank cards or some these co-brands, while we do co-brands, bank cards as well as open market so this is how it is going to continue.

Moderator: Thank you. The next question is from Prakhar Agarwal from Edelweiss. Please go ahead.

Prakhar Agarwal: Just couple of data keeping questions and then probably I have a follow-up. What were the reward provisions for this full year FY2022 if you can give that number?

Nalin Negi: You are looking at the quarter number?

Prakhar Agarwal: Full year number.

Nalin Negi: **For** Full year, I will give you the specific number but in the beginning of the year, there was hardly any accrual, because the spends had not started coming in. During the course of the year, we made the provision of approximately 100 Crores. But this is increasing on a quarter-on-quarter basis. So, do not go by what has happened during the course of the year. But over a period of time this will increase, and this is a good cost because this means that the customers are doing the spends and are using the cards and are also redeeming the reward points.

Prakhar Agarwal: Just in terms of your fee income so while I understand the fact that you said that your spends has increased that is why your spend base fees has increased but when I look at from a year-on-year perspective when I look at that MDR as a percentage of average spend that number seems to have gone up and substantially. What explains that so MDR or interchanged fees that we probably charge on average spend basis for FY2022 that number seems to have gone up?

Nalin Negi: You are saying the interchange fees have gone up sorry I did not get that?

Prakhar Agarwal: Yes, so if I look at your spend based fees which is as a percentage of your average spends that number has gone up from FY2021 to FY2022 what explains and that by materially so what explains that?

Nalin Negi: Because the spends have gone up so the number has also gone up. Because interchange fee is earned on the spends and a little bit of forex markup is also coming back and since we are having higher sense the network incentives etc. some of the milestones will also kicked in and that is the reason why the interchange fees or the spend based income is going up.

Prakhar Agarwal: Just one last data keeping question what was the write-offs that you did for the full year FY2022 gross number?

Nalin Negi: It will be in the region of 2400 Crores; 2500 Crores I will give you the exact number.

Aparna Kuppuswamy: ~2800 Crores.

Prakhar Agarwal: Thank you so much. That is helpful.

Nalin Negi: ~2800 Crores including the settlement losses.

Prakhar Agarwal: Thank you so much. That is helpful.

Moderator: Thank you. The next question is from Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Good evening. My first question is that the share of new cards sourcing from tier three locations has gone up from 19% to 30% Q-o-Q. What really explained that and correspondingly the share of SBI Bank in the sourcing has gone down and this seems a bit counterintuitive because I thought SBI was more for the tier 2, 3 locations. So, have we started open market sourcing in tier 3 to get more revolver type of customer?

Rama Mohan R Amara: Besides SBI we also have partnership with some of the banks, so that will also give us actually foothold into tier three, tier four. Yes, you are right, during the month of January, our SBI sourcing has slightly come down that got reflected in the lower numbers for the month of January but that was partly compensated by posting from the partner banks.

Piran Engineer: No, but in that case the Banca share should go up right it has gone down 300 BPS or so?

Nalin Negi: The Banca is pure SBI sourcing. The co-brand banking includes part of the open market.

Piran Engineer: Okay. Got it. Just one other question and this may be a bit silly but through credit bureaus would you come to know if your customer is using another credit card more often?

Aparna Kuppuswamy: Yes, we do get, and it is used. Some people report limits, we do a quarterly bureau pool for most of our customers, for some we do monthly also, so you do figure out whether they have other cards, whether they are building balance in the other cards and all of that information is actually consumed not just from a credit perspective, that information is also used by the marketing team to design appropriate offers, run activation offers and things like that.

Piran Engineer: Got it. That is it from my side. Thank you and all the best.

Moderator: Thank you. The next question is from Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra: Thank you for the opportunity. Just wanted to check what was the cost of collections in FY2022 and how do we look at the cost of collections as a proportion of opex going forward as the situations normalize in FY2023 and 2024. Second, we offer Encash, just wanted to clarify we offer Encash only to the transactors or is it offered across the board to revolvers as well and what is it as a proportion of the receivables?

Girish Budhiraja: I will answer the second question first. Yes, we offer Encash to transactors primarily. To some revolvers, low infrequent revolvers, we do offer Encash. We do not offer Encash to continuous revolver or people who have been sustainably revolving. The rates are different, basis the way that we look at risk profiling of some of these customers. We have not declared the Encash number separately, in our term balances but as you can see that the term balance on an overall basis is now almost 34% of the total overall assets so there is a substantial growth that we are doing on the Encash assets.

Nalin Negi: The cost of collection is about 2% of the rupee collected and rupee recovered, and we do not see that this cost is going to go up now that we are stabilizing, and we are out of the COVID period so it should be around this number or maybe improve that is how we see this.

Shubhranshu Mishra: 2% of what is the I could not figure it?

Nalin Negi: Of the rupee recovered and rupee collected.

Shubhranshu Mishra: Great and it remains same in business as usual?

Nalin Negi: Yes.

Shubhranshu Mishra: One last question if I can squeeze in just a data keeping question what is the NUNP, Never Used Never Paid proportion of our cards?

Girish Budhiraja: We do not have the number at this point of time. But what we do is that if a customer is a NUNP customer and he flows into 90 days we automatically reverse all the charges of that customer and block those customers, and over a period of time period of 12 months we exit them out of our portfolio. So, it is not that we will continue to keep NUNP customers with us forever on a constant basis.

Shubhranshu Mishra: Thank you. Best of luck.

Moderator: Thank you. The next question is from Rahul Jha from Bay Capital. Please go ahead.

Rahul Jha: Sir my question is the employee cost number has come down significantly this year so what is it related to and how can we build it going forward?

Nalin Negi: Employee cost is more or less stable.

Rahul Jha: No, as a percentage of income I am saying?

Nalin Negi: That is the beauty of it that we do not have to employ that many people to increase, as the business increases. But, on a year-on-year basis one thing that you have to keep in mind was that we have the ESOP cost which is always front loaded so in the initial year the cost is higher and then because ours was a fixed options that were given at the time of IPO so those in the subsequent years come down and that is also impacting this. We do use a lot of outsource staff also for certain specific activities and as the volume of business grows it is not necessary that we have to hire employees. We use technology as well as outsource staff to manage the operations.

Rahul Jha: Second thing I have noted that over the years from Q3 to Q4 generally the receivables go down but this year that has not been the case despite revolvers being a lower as a percentage of total receivables. So why is that happened this year some spending differences or something else?

Girish Budhiraja: Actually, that is what I was trying to explain. In the month of March spends came back very strongly. If you see month-on-month movement March, we did almost 15,800 Crores plus spend on retail, which was higher than even the October season month. So, a whole lot of that has got added into the denominator that you see as an asset at this point of time. In the denominator or the balance, the asset does increase, the increase is not that high, so in the JFM quarter compared to OND there is usually an increase it does not go down, but it is a marginal increase usually.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Rohan Mandora from Equirus. Please go ahead.

Rohan Mandora: Thanks for the opportunity. Just two data keeping questions one on revolve; how has the average quarterly balance moved to Q-on-Q between Q3 and Q4?

Nalin Negi: On an absolute basis the revolver balance has actually increased although in the percentage terms you see it has declined. It is more as was explained earlier that towards the last week we had a campaign which led to increase in spends and that is why percentage wise has dropped, but however in absolute terms the revolver balance has actually increased from Q3 to Q4.

Rohan Mandora: Can you quantify the increase quarterly average?

Nalin Negi: Quarterly average in the sense, are you asking from the revolve rate?

Rohan Mandora: No, revolve balances for October, November, December average?

Nalin Negi: Q3 to Q4 the revolve rate has been stable. It has not moved. It is the same.

Rohan Mandora: The second one if we look at the slide there is a sharp dip in the cost of funds by around 50 basis points?

Nalin Negi: This is a little bit of play of averages. We have always stated that our daily cost of funds has been around 5.3%-5.4%. As towards the end of the quarter if you increase the spends and increase the NEA, the cost of borrowing seems to be on the lower side. So, that is the reason why you are seeing at a 4.9%; however, on a daily cost of fund basis between somewhere around 5.3% and 5.4% and throughout the year that has been stable. Having said that as was pointed out earlier, the interest rate environment has changed, the cost has started increasing, and so would be the case for us also, the cost of funds would go up. The numbers, that are presented here is the averages of receivables, so that is sometimes it is misleading.

Rohan Mandora: Just lastly as the interest rates are likely to go up, we will look to increase the yields that we charge on the EMI portfolio, or will that remain a function of the competition?

Girish Budhiraja: At this point of time, we look at both the cost of funds as well as the competitive rate. Whatever we give to our customers is at fixed rate. We are not giving loans on variable or floating rates; it is only on fixed rate. We review this every quarter, and if it is required, we will increase rate looking at both the scenarios. Competitive scenario is also as critical, while it has to be above the benchmark rates, we will look at competitive scene also to build the balance.

Rohan Mandora: But hypothetically in case the competition does not move then we will also not move that would be fair assumption to take?

Girish Budhiraja: Yes.

Rohan Mandora: Thanks a lot.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Rao - MD and CEO of SBI Card for closing comments.

Rama Mohan R Amara: Thank you, Stanford. I must thank all my colleagues in SBI Cards who have worked spiritedly and tirelessly while helping SBI Card to navigate through the volatile environment. I would also like to thank our shareholders and business partners who showcased continued faith on us, and they supported us throughout our journey. I would like to reiterate that as an agile and adoptive organization, we will take all measures to safeguard our business while pursuing sustainable and profitable growth. As I conclude I will request everyone not to lower their guards and continue to take all measures to stay healthy and safe. Thank you all and have a good evening.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of SBI Cards and Payment Services that concludes this conference. We thank you all for joining us. You may now disconnect your lines.