"SBI Card & Payment Services Limited Q1 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to SBI Cards & Payment Services Limited Q1 FY2023 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 "*" 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 Rutuja. Good evening, everyone! I extend a warm welcome to all of you. Thank you for attending the earnings call for Q1 FY'23 today.

Our immediate environment continues to be dynamic owing to geopolitical issues and its consequences. Increase in energy prices have driven up inflation globally.

In India, RBI has been taking relevant measures including hiking interest rates to contain inflationary pressures. Amidst all this, according to industry experts, India stands at a better position currently, in comparison to other economies in the world. RBI expects India's GDP growth to be 7.2% in FY2023. The consumer confidence showed continued recovery, as per RBI's Consumer Confidence Survey.

Credit cards spends have also followed the suit with monthly spends having stayed above Rs 1 lakh crore consecutively. The credit card industry, which has shown consistent growth despite changing economic environment, is undergoing a positive shift with many conducive regulatory changes being introduced in the past few months. As per new RBI Master Circular, some changes are already in force from 1st July 2022, and some have been deferred to 30th September 2022. All the guidelines issued by RBI are progressive and basic ethos is cardholder convenience and protection.

At SBI Card, we are compliant with all guidelines which were to be implemented on 1st July 2022. We have already sent relevant communication to inactive cardholders in line with RBI guidelines through various channels. For us, the percentage of such customers in our portfolio is low. Moreover, we expect a large percentage of such customers to be retained.

i. With respect to the guideline on 30-day activation for new customers, implementation deadline has been extended by three months and hence the same will be rolled out by 1st October. Further, RBI has given multiple options for considering a customer to be active.
ii. Overlimit changes (OVL) that will come into effect from 1st October 2022 will also be basis customer choice. This change is similar to online transactions

switching activation. There is a possibility that initially customers may find it difficult to adapt to the change, but as in the case of online transactions, we expect that the change in OVL may stabilise over a period of time.

iii. Another change introduced by RBI is enabling RuPay credit card transactions on UPI. Discussions are going on with various stakeholders in this aspect. We are working on tech integrations while NPCI is in discussions with all the stakeholders on the MDR. This is expected to be resolved shortly. As the industry evolves and grows, SBI Card continues to be one of the significant contributors of this growth.

Let's now look at SBI Card's Business Overview in Q1 FY23.

We were able to deliver a healthy business growth with strong financial performance during the quarter. Before I proceed with details of the business performance this quarter, I would like to share two key recent honours with you that we have received as an organisation.

i. I am happy to share that SBI Card has been certified as a 'Great Place To Work' for March'22-March'23, a key milestone for us because our employees are our most valuable asset. It is a testament to our efforts in creating a healthy work culture focused on integrity, respect, transparency, and trust which is conducive to the growth of our employees as well as the company.

ii. As a brand, we continue to be recognised in the industry for our initiatives and efforts. We have recently been recognised as 'Best BFSI Brands 2022' by The Economic Times for the third consecutive year.

As you can see, we entered this fiscal year on a positive note, and the same is reflected in our business indicators for the quarter as well.

i. In Q1 FY23, we achieved the milestone of 14 million cards in force and contribute 18.4% of market share in the industry. This milestone is a marker of our consistent growth trajectory. This quarter we have sourced over 900K new accounts which is a bit lower than 1 million mark. However, the small drop in the last quarter is due to cyclical Banca sourcing variation. We have already started working on fresh set of leads in Banca and the July numbers are much stronger.

ii. Our overall spends continued to see a healthy growth and has grown by 79% YoY, standing at Rs 59, 671 crore in Q1 FY23 vs Rs 33, 260 crore in Q1 FY22. Our spends market share stood at 18.6%. Retails spends stood at Rs 45, 488 crore in Q1 FY23 vs Rs 27, 098 crore in Q1 FY22, an increase of 68% YoY.

iii. Online spends continue to grow consistently and these now contribute to over 55% share in overall spends, as of Q1 FY23. Noticeably, it is heartening to see that key spend categories have crossed the pre-COVID levels, including travel and entertainment category. While categories like Departmental Stores, Health, Utilities, Education, Consumer Durables, Furnishings have seen a steady growth of 7%; travel and entertainment category has seen a growth of 31% in total spends in Q1 FY23 vs Q4 FY22. Corporate spends are at Rs 14,183 crore in Q1 FY23 from Rs 6,162 crore in Q1FY22. However, in the month of Jun'22, we have reviewed and reduced some B2B spends on certain low margin corporate accounts. This is in-line with our continued focus on sustainable and viable growth. Most importantly, our spends per average card has seen a significant growth. It has risen to Rs 1.7 lakh in Q1 FY23 from Rs 1.1 lakh in Q1 FY22. This is a good indicator of customers' growing preference for SBI Card as a payment option. It has been driven by various attractive and relevant discounts and initiatives that we have offered to our customers.

iv. Our revenue streams remain healthy and diversified. The Revolver mix has grown to 26% in Q1FY2023 from 25% in Q4FY2022. EMI mix has also grown to 35% in Q1FY2023 from 34% in Q4FY2022. To further improve our revolver mix, we have been recalibrating our risk appetite.

v. During the quarter, we continued to bolster our product offerings to our customers and expanded our co-brand portfolio with the launch of Aditya Birla SBI Card, one of the most rewarding lifestyle credit cards, in partnership with Aditya Birla Finance.

Please allow me to now take you through the financial performance in Q1 FY23:

i. All the positive business indicators have supported our financial performance. Our resilient business model embedded on strong fundamentals have helped us deliver healthy financial growth.

ii. During Q1 FY23, our revenue performance continued to be led by healthy interest income and strong fee growth. The company has achieved the PAT of Rs 627 crores in Q1 FY'23, a growth of 106% YoY and 8% QoQ.

iii. In Q1 FY'23, receivables stood at Rs 33,215 crores with a growth of 36% YoY.

iv. Our total revenue stood at Rs 3,263 crores and has grown at 33% YoY during the Quarter.

v. In spite of 25 bps increase in COF, our NIM remained constant as the interest income yield also improved. In the rising interest rate scenario, we are hopeful that the impact of the same may be partly mitigated through higher Interest Earning Assets.

vi. On asset quality, Our Gross credit cost percentage has considerably declined to 5.6% from 10.4% in Q1FY22 and net credit cost percentage has also declined to 3.8% from 9.0% in Q1FY22.

vii. Our GNPA has come down to 2.24% as compared to 3.91% at Q1 FY22 and 2.22% at Q4 FY22. Net NPA for the period is at 0.79% as compared to 0.88% at Q1 FY22 and 0.78% at Q4 FY22.

viii. ROAA for the quarter ended Jun'22 is at 7%, which is higher by 247 bps as compared to 4.5% for Q1 FY22; and ROAE is over 30.8%, which is higher by 1217 bps as compared to over 18.7% for Q1 FY22. Our liquidity position continues to be strong and capital adequacy is at 24.7% for the period ended Jun'22.

In conclusion, as mentioned earlier, prevailing external environment poses some challenges. However, thanks to the domestic consumption story, India is seen as a strong contender to be the world's fastest growing economy over the next few years. India's digital economy is going to play an instrumental role in this growth and is expected to reach around $800 billion by 2030. Notably, digital payments in India are expected to reach $10 trillion in value by 2026 from around $3 trillion now. This presents a strong potential of growth for credit cards industry. As we continue with our preparations to make the most of this opportunity, we remain vigilant in the current situation. I would like to reiterate that, at SBI Card, we have built a robust, reliable, and resilient business and we are committed towards delivering value to our shareholders, employees, and customers.

Rutuja, now we are open to questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: Good evening, everyone and thanks for the opportunity. The first question is with regards to the sourcing mix on the new accounts. So, we have seen a very dominant presence of Open market. You did talk about some issues on the banking side as well as some recalibration of risk appetite, can you please elaborate on that? Are we consciously going slow on project Shikhar? And secondly, what does it imply for the credit cards going forward.

Rama Mohan R Amara: Yes, the share of Banca has come down in the months of June quarter. Generally also, the Banca's contribution, particularly in the month of April when it is a busy audit period for the branches, the gateway branches which actually play a critical role in terms of sourcing, they are preoccupied with audits. The month of April is always like that, where contribution is low as Shikhar version works at certain intervals, and branches dashboards are operated with the data. In the cycle there was a delay which has actually resulted in slight slowdown in terms of sourcing, but the position got rectified in the month of July. So, now we are seeing a usual run rate, a usual contribution from Banca channel. So as a strategy, there is no change. We continue to look for a 50%-50% contribution from both Banca as well as Open Market. Rather, when we were faced with a situation of slightly delayed or a kind of lower contribution from Banca, we were able to ramp up the open market channel which shows our resilience in terms of maintaining a monthly run rate of 300,000 which we always articulated. So, there is no recalibration of risk as such, it is only like a tactical move and quarter two will reflect most probably the same contribution mix as we always envisage.

Anuj Singla: Okay got it Sir. The second question is regarding the cost of funding. Obviously, we have started the impact; it has started to flow through in our P&L, when we look for the next three quarters what kind of cost increase should we be factoring in?

Rama Mohan R Amara: As you know, 60%-65% of borrowings are short-term and when we call it short-term, we have a different frequency at which they get reset. Our understanding and our estimation says that a bulk of the impact will come in Q2 and unless and until again the external benchmarks that is repo rate changes, there may not be further impact of the same degree in the subsequent quarters. We feel that Q2 will reflect the full impact of increase in the cost of funds. But at the same time, you would have seen the shift in the composition of assets, where we are consciously increasing the share of EMI loans which has been steadily increasing. The revolver has also started responding albeit in a very small way. We are hoping that the share of interest earning net assets will continue to increase, and this will help us to take care of or mitigate whatever the negative impact is there on account of increase in the cost of funds.

Anuj Singla: Okay got it, any quantification Sir, second quarter what kind of increase we can build.

Sanjeev Khurana: The full re-pricing impact will come in Q2 and it will be in the range of 5.6% to 5.8%.

Anuj Singla: Thank you very much.

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

Dhaval Gada: Sir, congratulations on good set of numbers. I had three questions, first was relating to the net card additions. So, we talked about your aspiration to have a 3 lakh net monthly card addition. I just wanted to understand when do you see this sort of run rate achieving and sustaining, any color that you can provide? Are we two three quarters away? any color around that would be useful.

The second question is relating to revolver share. So, we have seen an increase in this quarter. Just wanted to understand, so in terms of the sort of bottoming out of revolve share is that behind us and given our incremental sourcing moving towards potentially higher category of revolver customer base, do you see it gradually increasing quarter-after-quarter. some color around that? your confidence on this upward shift that we have seen in the quarter?

And last question is relating to spend based fee. We have seen the T&E sort of spends come back. I was hoping the spend based fee as a percentage of the spend also to start to move up. They have been around 1.4% level, pre-COVID we used to be approximately 1.6% level. If you could give some perspective around this? is it the new normal or we should see that increasing? and what could drive that? Those are the three questions. Thanks.

Rama Mohan R Amara: As I said earlier, our initial idea was that the gross card issuance of minimum 300,000 per month, that was always there and then gradually increasing within the risk appetite what we have, and the capacity of the channels. Our intent was evident till the last quarter where we ramped up the gross card issuance where it crossed 1 million. So, that effort will continue, despite whatever small hit we have seen in the June quarter. The effort on increasing the gross card issuance will be aided by the continuing expansion of the partnerships and the new digital channel that we have launched for the end-to-end the digital channel for sourcing, for NTB, this will also help. Of course, net growth is also a function of attrition, we are taking a lot of strategies in terms of addressing the attrition. In month of July or August, the master directions of RBI are coming into effect that can have some impact on the attrition. Once this impact is absorbed, then definitely again the net growth will be on a growth trajectory, that growth in the cards will be definitely increasing and the 300,000 net growth continues to be an aspiration, definitely it will be. After a quarter we will be in a better position.

With regard to revolver bottoming out, Girish can you talk about that.

Girish Budhiraja: With respect to revolver, we have seen not only an increase in the asset, but this asset has also come on account of number of customers. So, fundamentals look to be in place, from a percentage of asset on the revolve portfolio which gives confidence that this is going to sustain. The other good part is that we continue to see an increase on the term book which is now up at 35% of the overall assets. If you look,in the last quarter, the interest bearing asset has moved by 2% points up, to almost 61%.While we continue to get more interest-bearing asset on our part and also focus on the quality of customers that we are getting in, so that our future revolver book is built accordingly., Both the things are working in tandem, you can see that from both the data points. That was on the revolver share.

On the spend based fee, you are right, while it will not go back to the original number. Because during the COVID period, a whole lot of new categories of spends have got added, which are utilities, insurance payments, fuel have increased, some of those categories are at a lower interchange. However, from the point where we are, we are seeing the increase in travel, in fact, in our investor presentation, this time we have presented that the travel has also crossed the pre-COVID numbers. Travel, lodging, entertainment all those categories in Q1 have crossed that and they continue to show very good growth. So, we should see an upward trend from where we are, maybe not at the original number of COVID but somewhere in between it should lie.

Dhaval Gada: Got it thanks and all the best.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: Hi Sir, good evening and congratulations for the quarter. So, a few questions, in your opening remarks you said that you have recalibrated some risk metrics to get more interest earning assets. Can you just give some examples of what exactly you have done? That is question one.

Question two is on the co-branding with Aditya Birla Finance. Can you share some details in terms of, how it will work with respect to data sharing and what are the commercials of the tie-up and how do you expect this to scale up in the next two to three quarters in terms of let's say card issuances?

And finally on commercial spend. you said, you ran down some B2B accounts what does this mean? Is it a product that you are finding pressure on in terms of the profitability or is it a group of corporates which is not remunerative? Can you please explain that? Thanks, those were my questions.

Aparna Kuppuswamy: On the first point in terms recalibration, I think that is something we have been saying now for the last two or three quarters. As our overall credit cost has started coming down, the principle, we have been following is, to try and optimize our credit cost. Even on an ongoing basis we are constantly looking at segments where we believe we can recalibrate the risk appetite and that has been happening now, for the last two or three quarters and you would see that even in terms of the number of self-employed that has gone up in recent quarters. So, this is an ongoing exercise there is nothing specifically that we have done in this quarter. A lot of these actions do start to bring in that kind of customers, who have a higher propensity to revolve that's all. I do not think you can change the risk appetite and start getting in more revolvers, it is not that simple arithmetic.

Abhishek Murarka: But in your estimation, is there a lead time or what do you expect maybe two, three quarters and it could translate into some more revolve.

Aparna Kuppuswamy: It is a question of, what are the actions that we can take and there are two or three sets of actions that we have been taking. We have obviously reworked our risk appetite to start bringing in more self-employed, second-tier salaried customers. We have also tried to bring in some of the thin file customers with additional data because we now have rebuilt our models, we have access to alternate data so, we are bringing some of those customers. There is a lot of other activity that is happening on the marketing side, to induce spend, try and get more of the discretionary spends and things like that. So, it is a set of actions, we have to wait and see how that pans out.

Girish Budhiraja: On the Aditya Birla Finance, we tied-up with them and the model that we are going to use there is, because they are also a regulated entity so, we have done a very detailed DRE exercise with them, we have already qualified and selected certain set of customers where we can give the card without taking any documents. We are intending to use our newly launched straight through processing SBI CARD SPRINT that you would have seen, that journey for these set of customers. So that, we are able to give the offer to these customers and be able to get these customers. In this case it should be easier for us because Aditya Birla Finance, being a regulated entity, we do not need to collect another KYC of these customers so we are working at seeing whether in certain cases where we collect the KYC or where we would not so that make even life simpler for the customer. So, that is the model that we are going to use with Aditya Birla.

Abhishek Murarka: What is the profile of these customers?

Girish Budhiraja: They are basically asset customers of Aditya Birla Finance, which would have taken various kinds of loans, offered by the Aditya Birla Financial Services.

On the commercial spends that you asked, it is not a specific product. On the commercial cards, there are some corporates who do B2B spends or vendor payment spends or some kind of statutory payments. Some of these cases, these spends go through various aggregators and if the costing keeps changing or the pricing moves in a direction where it becomes non-profitable. On review of some of these cases and some of these spends, we saw that some of that spends was not in line with our expectations. For the time, we have curtailed some of that and reduced some of that because, it is not only about the topline we also intend to be looking at the profitability from these spends.

Abhishek Murarka: Got it. Thank you.

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

Bhavik Dave: Good evening Sir. Congratulations on a good set of numbers. Sir couple of questions, one is, you mentioned that the term loan book proportion is increasing. Just want to understand what would be the average tenure of this book, at this point in time?

Girish Budhiraja: There are actually three portions of that, one is, a kind of a loan which is given on top of the credit card limit, there the term is almost 33 to 34 months. On the spends which is converted into term product, there, it is almost close to eight and a half, nine months.

Bhavik Dave: And what would be the broad proportion if you are comfortable with? Of 35% , how much of it would be more than like couple of years or 30 months.

Girish Budhiraja: You can go through our ALM and have a look at that because there we declare that more than 12 months I think it is there but otherwise we have not declared these specific numbers.

Bhavik Dave: Perfect all right no problem. Secondly, I see that you have come up with sprint offering that is the end-to-end digital origination that we were planning, and we have started some bit for the Banca customers and now I think this is more for the open market. I just want to understand how the Banca experience has been and how do you think this can help us, by making the on-boarding journey more efficient and cost effective, so, anything on that, that you would like to highlight.

Pradeep Khurana: Sure, so you are spot on and this is Pradeep answering on behalf of SBI Cards., Basically, this new journey is a launch for the open market space as you are aware that for our digital sourcing with respect to State Bank we already have an existing integration on similar lines in the YONO App. Through the YONO App, accounts have already been coming for a while, and there, the whole architecture is designed in a way that once the customer consents, data is automatically integrated into our system., data gets picked up, automatically gets passed over to us. There is however a KYC leg that currently we do even for the Banca customers, that gets done on our side, but by and large the digital route for those customers already exist, that is on the integration with Banca. What we are going to do now is, since here we have integrated this whole app and launched it for the open market space, this new app gives us a lot more capability so the first and the foremost is that the user experience is pristine here, it is completely seamless, KYC is completely digital, what we have also done is the decisioning on the account is real time as well as all the checks and balances in terms of photo match which is done using artificial intelligence, we also do our spot checks which are also completely online and net-net in approximately four to five minutes in one single journey the customer can get a card online. Numbers have started coming in on this new app, and some of the features here, which we are in an early stage on the open market side, we will also bring on to the YONO platform, that is the separate effort once the success is proven in the open market place. Some of these features that we like will also get rolled out on the YONO side. In a nutshell, what I want to say is that the path for our company moving forward is going to be digital centric this the new account acquisition strategy is going to have a digital first approach and this digital first approach, we will adopt both on the Banca side as well as on the open market side.

Bhavik Dave: Sure and last question is on the sourcing. I see that sourcing from tier three and above, it is incrementally adding to almost 50% of our incremental sourcing which used to be 25%, 30%. Anything that we have seen here? Are the customers better? we have discussed this previously on the type of spend that they do and the kind of revolves that they can generate, but is there enough or is there lesser competition than the market? Do we have a more right to win kind of a proposition with these customers considering the familiarity with the SBI brand? or how does it work and what would be the economic like in the sense the cost of acquisition would be similar or will it be lower for a tier three, tier four kind of customer. That is about it. Thank you.

Girish Budhiraja: Three-four things, I will tell you about tier 3, tier 4. Yes, the cost of acquisition is lower because primarily we are sourcing through Banca channel in tier 3, tier 4, where the cost of acquisition, which we have earlier also stated, is lower. The second point is that in those cities State Bank of India brand is SBI Card brand, because SBI is mother Brand. SBI brand is very strong, so the brand attractiveness and the pull factor is very, very strong. On the consumer behavior side, what we have continued to see is that the online percentage even though the spend is slightly lower than tier 1 city, but the online percentage because of delivery of the large e-commerce players in the country is now easily there in almost all pin codes, we see this 55% is almost similar in tier 3, tier 4, that behavior is being seen. The spends at the Point of Sale (PoS), because the availability of Point of Sale as it increases in tier 3, tier 4 we believe, that should also help increase the spend further. That is some color on the tier 3, tier 4. The spend categories are usually the same, there is a bit of a difference in terms of travel and lodging where the travel spends are slightly lower compared to tier 1 cities, but if you talk about primarily utilities, fuel and other non-discretionary spends, it is broadly the same.

Bhavik Dave: And the average spend would be what, monthly spends would be like half of tier 1, tier 2 or like any proportion or any number that you would want to talk about like the reasonably seasoned customer who is spending x in urban or tier 1, tier 2 will be spending at least 40%-50% of them or lower.

Girish Budhiraja: We have not given the exact breakup, but it is what I would say anywhere between 60% to 90% of, depending on the city.

Bhavik Dave: Last question is the yields on the term book, or the EMI conversion book would be around 16%-17% or maybe lower.

Girish Budhiraja: We have not declared the yield number item.

Bhavik Dave: Okay Sir no problem. Thank you so much.

Rama Mohan R Amara: It can be calculated to the portfolio in overall transactor, revolvers, and its overall portfolio.

Girish Budhiraja: Actually, you can calculate it because you have the full base and we have given the transactor, revolver and EMI breakup. The revolver is at the product rate of 3.5% per month so the balance you can calculate.

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

Param Subramanian: Thank you for the opportunity. My question is on incremental card volume market share. From looking at card volume market shares, it is down about 100 basis points over the last 10 months odd. Is this something you are concerned about, and could this translate to spend going forward? Or do you think this is more of a low value spend card being added by the industry? This is something that we want to know.

Rama Mohan R Amara: One thing is, the gross card issuance of the industry has increased over a period of time. So, obviously that has an effect, but irrespective of what others are doing, we always maintain our stance of a kind of sustainable growth and looking at our return, risk appetite and capacity of the channels. But the kind of numbers what we said when responding to other questions around what the net growth target is we are aiming for, that should help us actually in terms of arresting this decline and actually start gaining the share. This may be a very temporary kind of situation, but we have plans to ramp up both the gross card issuance and address attrition also in a meaningful way because our attrition will definitely be slightly higher than the industry because we issue largely fee based cards as compared to competition. So, that factor is always there but that can also help us in having a better activation rate in the portfolio of cards. So, we will take all these things into account, but we will strike a balance between the market share gain versus ensuring the sustainable growth.

Param Subramanian: Got it Sir, thank you very much. If I could ask again related to that question, is there an aspiration to be the number one player on a volume basis for SBI Cards. So, you obviously have the parentage, the brand, the bank customer base, what is holding back SBI Cards from being the number one volume card issuer in the country.

Rama Mohan R Amara: As I said, we have a strategy and we are aiming for improving the market share, so, that is pretty much there. Definitely the kind of sourcing what happens from the Banca we also revisit and always look for opportunities of maximizing it. But we are also mindful of new master directive that puts a lot of responsibility on carding the right customer because if there is any kind of miscommunication to the customer that may not result in any activation of the card which anyway will have to attrite it after 30 days. So, we need to look at the profile and we need to do the starting under targeting the customer in the right way. So, definitely increasing the market share is on the cards, and we will do it in a calibrated way.

Param Subramanian: Got it Sir, thank you very much, all the best and congratulations on the performance.

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

Nitin Aggarwal: Good evening, Sir and congrats on good set of results. So, two questions firstly again around the borrowing cost and margins. So, in respect to that besides the mix of like revolver and EMI customers which has increased this quarter how much flexibility do we have to increase the interest rate for our customers, mainly the EMI customers so as to protect our margins?

Rama Mohan R Amara: As you know the EMI loans are fixed rate loans to the extent there is a healthy disbursement so, it gives us an opportunity for each disbursal to price it appropriately. Of course, we will look at our cost of funds and we will look at what is ideal pricing, and of course we also look at what are the offering from the competition, but it offers an opportunity with each new disbursal to pass on some increase to the extent market absorbs. The other effort will be to increase the share of interest bearing NEA overall, while ensuring that the revolver does not reduce from the current level that will also help us in terms of increasing the portfolio.

Nitin Aggarwal: And secondly like on the subscription based fee, if I look at on a per card basis this is trending downwards though not any major decline but for last two years also there is a down trending, that is there on the subscription based fee. So how do you really see this playing out in the medium-term, and any new products that we are looking to launch to counter this trend?

Sanjeev Khurana: Subscription based fee is primarily our membership fee and that is linked to the new accounts which we are sourcing and on a per card basis it would be stable.

Nitin Aggarwal: Sorry Sir I missed you hear; can you repeat that please.

Sanjeev Khurana: Subscription based fee generally includes our membership fees, and on per card basis it will be stable.

Nitin Aggarwal: Maybe I see a small decline, a single digit though but it has been around like if I look at Y-o-Y, it is a 4% decline, and in prior year very marginal decline is there. Is it to do with the mix where you are originating more from the tier two, tier three cities?

Sanjeev Khurana: So that is linked to, there are spend based reversals as well for our customers, as they touch the spend based limits they do not get to pay the fees. So, the spend based reversal percentage keeps going up as the customer profile improves as the membership fee on the renewal side will start coming down.

Nitin Aggarwal: Right got it. Thank you Sir, thanks so much.

Moderator: Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Good evening Sir, do you think RBI allowing credit card on UPI rails to benefit to the industry.

Girish Budhiraja: RBI has allowed RUPAY Credit Cards to be used on UPI. As of now if we look at it, we have almost more than 1 million plus cards already on a RUPAY platform and we are one of the largest issuers of RUPAY cards in the industry. So, we believe that there are three, four benefits which are very clearly there. One is, the whole acceptance fees of credit cards into the P2M space for UPI merchants that should increase and these are the merchants where if the acceptance happens we would get incremental spend from the same customer. One can get more share of spending which the customer is doing on UPI, can shift on credit cards specifically for rewards because rewards another value proposition benefits are there. Market penetration increases we also as was being mentioned earlier in tier three, tier four cities UPI is already very well penetrated and, in those cities, we are very strong and we are issuing RUPAY cards there. So there the customer starts using cards we should be able to see increased spending patterns there. And also in any case, if the customer has one payment mechanism and he uses it for all the areas to make the payments that increases its loyalty also. We believe that these are the three, four areas where the benefit is there, there is obviously a discussion around what would be the commercials, what would be the interchange and MDR which would be there, so that discussion NPCI is already having, that discussion with all the member banks and you would have read the interviews also of NPCI CEO and MD. So, they are already in discussion, and we believe that something which is right should happen in due course.

Moderator: Mr. Agarwal there is a lot of background disturbance which is coming from your line may I request you to mute yourself when management is answering your question.

Pankaj Agarwal: Somewhere it was mentioned that on small value transactions there might not be any kind of MDR. So, in that context do you think that there would be some cannibalization where merchants shift some of the credit card transactions to UPI. You know, India is a Jugaad country, right? where merchants can play their game.

Girish Budhiraja: You are right, and these are the topics of conversation which are actually precisely happening with NPCI that, how the mechanism has to be done, if there are benefits which has to be given to the merchants for certain categories, which are smaller merchants, how will that be monitored what will be the control mechanism to what level what ticket size that transaction should be allowed. There are these questions which are there, and I think that is what NPCI and other banks are discussing before they come to the final decision.

Pankaj Agarwal: One last question, in the last cycle your cost of funds had gone up to 8%, somewhere between 8% to 9%. Do you think it can go back to those levels, or structurally your liability makes the change so that it will remain around from the current rate.

Rama Mohan R Amara: Difficult to predict the trajectory of interest rates. While as of now there is upward bias definitely, because of inflationary pressures, but over a period of time what we have done is and you would have seen that we have been increasing the share of long-term so we have been looking for opportunities to lock into long-term at a right stage. So, this journey will continue, even though it is slightly costly as compared to short-term, so this will help. And of course, to the extent even if there is an increase in the cost of funds to the extent we are able to increase the share of overall the interest bearing NEA and to the extent the revolver helps and I think that can act as a mitigant.

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

Karthik Chellappa: Thank you for the opportunity Sir and congrats on the quarter. My question again is on this UPI on credit cards for which the negotiation is still underway by NPCI. I am just trying to get a sense maybe this is a bit of a theoretical question. how much of the unit economics actually hinges on the MDR, is that something which the industry is quite particular on. Or to ask it in another way if the MDR were to be lower would you still go ahead with the product and tinker other cost elements to keep the unit economics the same? or do you still feel that you need a certain degree of MDR for the product to be successful?

Girish Budhiraja: You need MDR and there are three reasons for it. The first reason for it is, credit card is a up to 52 days of credit free period product. So, there is a cost of funds which is when the customer spends on an average there is a cost of funds which as an issuer we incur. The second thing is, a customer uses credit card, also because of the rewards and the benefits and the value proposition which the customer gets. So, there is a cost of value proposition and there is a cost of rewards also. You can tinker with it if there is a high premium end of it where you get higher interchange then you can give higher rewards to those customers. At a lower end you can give lower rewards and you can tinker with that, but not having rewards at all and having a just a base payment product will not encourage the customers to have either loyalty or spend large ticket items on the product. That is the second piece which is critical. Thirdly obviously it is a credit product so there is a while the credit loss you can still look at in terms of from the interest income and other things but there is a set of fraud loss also which happens which is borne at the initial stages, even though that is very low because of the RBI guidelines of second factor authentication and generally a very secure environment of chip and pin. It is very low but there are those costs which are different in credit card compared to any other simple payment product where the money is going from your bank account.

Karthik Chellappa: Got it. Just one clarification to the point that you made earlier to a question on incremental market share, which has actually slipped quite a bit. What do you think will take for SBI Cards to possibly reach a 400,000 or a 500,000 cards issuance per month? Do you think it is a technology back end which you still need to strengthen in terms of capacity, or do you think it is underwriting appetite which will improve as the economy actually improves because the inherent demand seems to be very high?

Rama Mohan R Amara: It is the combination of everything, and we have been making efforts. Of course, declining credit cost which we have demonstrated over a period of time definitely gives us the maneuverability to experiment more with some pilots, which we have been doing. We also talked about having the ability to consume alternate data for underwriting NTC and NTCC customers definitely that is helping. And of course, technology-wise NTB journey is already there, this is only for the organic inflow, this platform has to be extended now to the entire partner ecosystem. That will also help us in terms of ramping up the numbers but at the same time at a reduced cost as compared to the current business model. It was a conscious move, I mean technically you can even get those numbers even in the current business model, but the cost of acquisition will be high and the incremental returns may be less so that is the reason we are making calculated moves.

Moderator: Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: Thank you and good evening, everyone. Just to start with, first on the spends per card. In retail which we understand is about Rs.130,000 per annum which seems to be the highest that we have seen. Just wanted to understand, where can these spends go from here particularly in context of the income that your customer would be earning? So that is question number one. Question number two is, again going back to the market share point, if the market share is incrementally coming under pressure then what levers do we have to keep increasing the spend, if in case these spends per card starts to kind of plateau out. So those two our question around just to understand the movement forward in terms of spends market share.

Girish Budhiraja: You are right. First of all on the spends per customer. Now, we have been stating that the spend per card or spent per customer has actually been increasing over a period of time. During COVID it went down because certain categories were not available, but we had stated at that time also that those categories have come back and the new categories, the existing categories like travel, lodging, hotels, they were bound to come back at some stage when the normalization happened and now, they have come back. So, we are seeing that increase spend which is happening. The second thing is this digitization process is actually picking up further steam. You see more and more new categories coming up into the fore. There are school and education as a category is fairly decent now, rentals which were not there let us say a year or year and a half back, is a fairly large category now, the utility bills, insurance payments, so you will have deeper penetration because when these categories come, the first thing, is that not everybody picks up those. Of 14 million customers that we have, not everybody is spending on all the categories. We keep increasing the depth of categories within our customer base to get their spend increase. So, this is a standard-segmented-offers & campaign that we continue to do to get that piece. On your question on market share, you are absolutely right. If the market share on cards does not increase over a period of time, it will put pressure on the market share on spends also. Because both of them typically are in tandem and overall spend share will work on number of cards and the spend per card, it is a standard mathematical formula. So, the first step here is to get the market share on the card space to increase, and that is what we are working on. As stated by our MD Sir, that while we are working in a calibrated fashion, but the numbers now have a straight through processing, which we have launched for our open market. We are also trying to link it to our Banca sourcing so that we are able to get benefits there. This should be completely incremental, new co-brands is completely incremental which is going to come and in the existing piece we are working on a lot of productivity increase measures and efficiency increase measures so that we are able to source at a lower cost or at least keeping the cost same get the productivity up and be able to source more number of cards. So those things are in progress and we are seeing very good results in the month of June and we believe that those should continue further growth over a period of time and this growth of market share should come back to us, that is on the cards piece. While on the spends piece of it, there is a corporate card piece which we have always talked about we want to be very careful where we go there because there are those two portions there. Retail has been running strong. We want to continue to keep the corporate card also in the play but still at a profitable and at least a marginal profitability level should be maintained. So, these are the two portions on which the work is happening.

Rahul Jain: Thank you so much that was very helpful. Just to follow on, one is in terms of the spends. When you look at these spends vis-à-vis the income that your customers/spenders would be earning, what would that be any sense? can we get what would the average annual income of your typical customers, who is spending 130000?

Girish Budhiraja: Connecting everything to income here does not work because, the income is important, for example in tier one cities it is actually the consumption spending pattern which is more critical. when we look at the customer database or when we look at some of the customer profiles while credit limit which is being set on the basis some bit of income estimation and increased or decreased, the income estimation done by the credit team. Spends in various categories, for example everybody today spends on fuel especially if they have a credit card they will spend on fuel whether it is a two-wheeler or a four-wheeler or otherwise the quantum will be different. You approach it from a spend category perspective, and as we have earlier seen, we look at it from a non-discretionary and discretionary. Non-discretionary spend people will do, people will go to departmental stores and buy their regular groceries whether they buy it on the card or cash is a choice which they have. We have still not reached that level that is the monthly income the spends is crossing the monthly income by a large margin that those things have not happened.

Moderator: Thank you. The next question is from the line of Adi Jain from Ampersand Capital. Please go ahead.

Adi Jain: Sir, congrats on a good quarter. I just had a question on the NIMs. I noticed that our net interest margin has fallen from 15%, 16% pre-COVID to currently 13%. I just wanted to know what could be the reason for that? One thing I noticed was that our revolver share has fallen. So is there any particular change in consumption pattern or customer behavior towards revolvers are you noticing any of that and what could be a sustainable NIM range for the medium-term.

Rama Mohan R Amara: You are right, the decline in NIM is mainly attributable to lower share of a revolver but the way to look at is, how we have been managing the cost overall even when the revolver is at 25%, 26% still we are able to generate a return metrics of return on average assets of 7% and ROE of 30%. The revolver to consumption, Girish, is there any linkage, if any?

Girish Budhiraja No.

Rama Mohan R Amara Of course, there will be some tendency like when they are buying a consumer durable item or otherwise make a big ticket purchase like a travel etc. there is a better propensity to revolve. But barring those categories linking it directly to consumption is difficult. The revolver is more to do with the ability to pay in full, if it is not there, obviously the customer will choose an option of, if it is a short-term kind of cash flow mismatch the customer will think like a month or two they will rollover and they will pay or if they are comfortable paying over a period of time they will opt for EMI kind of loan.

Moderator: Thank you. The next question is from the line of Deepak Sonawane from Haitong Securities. Please go ahead.

Deepak Sonawane: Thank you Sir for the opportunity and congratulations on a good set of numbers. Just wanted to understand the profitability of online spends versus offline, that is spends at POS. If you compare the profitability in terms of net profit per spends. On blended basis, we are reporting around 0.8% to 0.9% and if you split that profitability base between the online spend and offline can you give us some color on this?

Girish Budhiraja: Profitability from the category of spends does not vary, it is dependent more on the category of customers that we are getting. Premium customers with high spends are more profitable. On MDR front, the interchange that we get, whether it is online or offline, it actually depends on the kind of spends. For example travel, if you buy it from a Point of Sales or you buy it online, we get the same interchange, the variation is not there. So, from interchange perspective, there is no difference in profitability. It is actually more customer dependent rather than online or offline.

Moderator: Thank you. The next question is from the line of M B Mahesh from Kotak Securities. Please go ahead.

M B Mahesh: Good evening Sir. Just two questions, one, how much of your incremental cards or outstanding cards would be on the base of a secured credit card, backed by a fixed deposits or any other lien-based instruments.

Rama Mohan R Amara: There are numbers, but it will be insignificant. It will be very small.

M B Mahesh: We have seen some competition introducing this, it being a very good source of getting into customer segments which are tougher to crack from an income segment, what is your sense of this as a product?

Girish Budhiraja: We did this product for two, three years, the attrition rates are very high even within the first year because customer is marginal and his need for breaking the FD can happen at any point of time, between three months to nine months. We saw a whole lot of them wanting to break their FD after six to nine months. The life of the customer with the product was not very long hence automatically the profitability gets impacted majorly because you incurred a good acquisition cost upfront and if the customer does not stay longer with you, the opportunity to have revenue from that customer is limited.

M B Mahesh: Perfect, and second question Sir, this is to Aparna madam. Madam, the 450 Crores of provisions that you are doing there, this still continues to remain of customer base which are pre-COVID or these are a business as usual kind of a credit cost, that we have hit now of the incremental spends that is coming in.

Aparna Kuppuswamy: Now the credit cost is largely BAU. If you look at our ECL rate that we have given out, it is at 3.3%, which is actually lower than the pre-COVID rate. RBI RE book is almost finished, we have got 150 Crores of that left. There is just 31 Crores of discretionary reserves, so whatever you see now is BAU.

M B Mahesh: In a sense these are customers who have originated let us say pre-COVID or these are let us say customers who are still coming out of the incremental book that you are originated I am just kind of going in that direction of the question.

Aparna Kuppuswamy: I do not think it is the question of whether they have been over pre-COVID. This is the standard expected credit loss model that we have, that looks at seven year data, and we are able to project what would be the losses. For the high risk segment, specifically the RBI RE, we had made specific provisions, that is now finished. Whatever you see is a standard provisioning model now. Some of them could be in recent times, some could be older but this is the BAU model now.

M B Mahesh: Thank you for this.

Moderator: Thank you. The next question is from the line of Saurabh Mehta from East Lane Capital. Please go ahead.

Saurabh Mehta: Thanks for the question. I have two questions, First thing is, I wanted to understand volume wise the mix of the corporate and retail spend. How much percent of our cards are corporate and retail? And follow-up to that was, what is the retail spend per card and how long do you think our retail customer could reach let us say a 2 lakh spend and what will be the driver for that?

Girish Budhiraja: In corporate, the number of cards is very minimal, we would not have more than 50000, 60000 or so. It is basically a large spend coming on one product. When we say 14 million plus cards it is essentially retail cards that we are talking about. We have declared the retail spends also on quarter-by-quarter basis and the average spend you can calculate. You talked about a particular number, all we can say and mentioned earlier also that different new categories have come up. We have seen the increase in the customers spend per card, and if we go by vintage analysis, newer customers take some time to build their spend. The Spend of some of the older vintages would be closer to that number. As we are adding more cards, those new cards initially their spends are lower, they build up over a period of time, in a period of 18 months to 24 months. So this is a continuous cycle, because customer also gets comfortable with the product, we also educate them, we also tell them about various offers and various categories, once they become start using the product, they use it with multiple categories, it is a progressive exercise that happens. If you see customers who were pre, say 2015 or so, a whole lot of those customers would have already reached that number. So, it is average, is more about how weighted average move. What you today as a number, is the weighted average of the overall portfolio.

Moderator: Thank you. Ladies and gentlemen this will be the last question which is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Good evening Sir, thanks for the opportunity. A data keeping question that I had was, in terms of the new categories which have come up post COVID what would be the contribution and total spends from them? Or where the use cases where the spend momentum has improved.

Girish Budhiraja: If I take rentals, insurance bill payments and utilities, these categories can contribute anywhere between 10% to 20%. On a month-on-month basis, there will be variation because certain categories like insurance is more skewed towards March versus some other month. So monthly variations will be there but that is the range.

Rohan Mandora: And what will be the difference in the spends for active card in Banca versus non-Banca and also the revolve rate.

Girish Budhiraja: Spend per active card in Banca versus non-Banca is almost similar. In Banca, we have to work slightly more towards getting the activity percentage of the customers active to be higher. As the customer starts using the card, fortunately starts using at almost the same level. It is about getting more number of customers to start using the card and use it fully, and use it continuously in a month, because we want our customers to use the card every month.

Rama Mohan R Amara For the revolve rate in Banca, it is slightly lower as compared to open market. But you also have benefits basically by way of having access to the operating account, so for collection and recovery, you do not spend that kind of cost and automatically you will have a benefit of lower delinquency/credit costs. We need to look at overall basis, while it may not revolve it will also not lead to complications downstream and in terms of collection and recovery.

Rohan Mandora: Sure, and lastly this spends which are getting converted into EMI what will be the average ticket size in that like what kind of spends averages gets converted into EMI some ballpark range.

Girish Budhiraja: It is around 20,000 to 25000.

Rohan Mandora: Sure Sir, thanks a lot.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Rao, MD & CEO of SBI Cards for closing comments.

Rama Mohan R Amara: I would like to thank my colleagues at SBI Card who have been the drivers of our success and have helped us achieve growth and innovation, irrespective of the environmental conditions. I would also like to thank our shareholders and business partners for their continued faith on us and their staunch support. I would like to reiterate that as an agile and adaptive organization we will take all measures to safeguard our business while pursuing sustainable and profitable growth. Stay healthy and safe. Thank You!

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