# "SBI Cards and Payment Services Limited Q3 FY24 Earnings Conference Call"

## January 25, 2024

**MANAGEMENT:**

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**Moderator:** Ladies and gentlemen, good day and welcome to the SBI Cards and Payment Services Limited Q3 FY24 Earnings Conference Call.

As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal the operator by pressing "*" and then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhijit Chakravorty – MD and CEO. Over to you, sir.

**Abhijit Chakravorty:** Good evening, everyone! I am pleased to welcome you to the Q3 FY'24 earnings call along with my senior management team at SBI Card.

Indian economy continues its sturdy growth pace. India's GDP is expected to grow at around 7% in FY'24, as per the National Statistical office's (NSO) and RBI's projections of 7.3% and 7% respectively. One indication of this resilience is the positive consumer confidence. In fact, as per some studies, India has emerged as one of the most optimistic markets across the world.

The credit cards industry has been experiencing robust growth, with outstanding cards reaching 97.9 million in December 2023 witnessing a 20% YoY increase. Growing usage and adoption of credit cards can be gauged from strong growth in credit cards spends. In October 2023, industry witnessed the highest ever monthly credit card spends reaching the value of Rs 1.78 lakh crore with over 23.5% growth YoY. As the industry continues to grow, during the past few months some significant measures have been introduced by the regulators that will be key in shaping the industry's course. Some key measures include:

- Increase in risk weightage for unsecured lending - This will ensure prudent growth and have a positive impact on good quality customer acquisition.
- Enhancement in UPI transaction limits for hospitals and educational institutions as well as increase in the limit for recurring payments for specified categories that include mutual fund subscriptions, insurance premium subscriptions and credit card repayments.
- Roll out of master direction on Internal Ombudsman Mechanism in regulated entities to further strengthen the customer protection and fairness.

Indian credit cards industry continues to hold potential. SBI Card is well-equipped to tap into the opportunities arising out of it and will continue to leverage its extensive network and experience for sustainable and profitable growth.

**Let us now look at SBI Card's Business Overview in Q3 FY'24**

In Q3 FY'24, SBI Card continued its growth track with a sturdy business performance. Our cards in force have grown 16% YoY and are at 1.85 crore, as of Dec'23. We continue on a steady path of new account sourcing. SBI Card's market share in cards in force stands at 18.9%. We added nearly 11 lakh (10.96 lakh) new accounts in Q3 FY'24. We remain focused on continuing the momentum to building a quality portfolio, deprioritising certain segments.

We have seen strong growth in card spends during Q3 FY'24, reaching the highest ever quarterly spends milestone. Overall spends have grown 41% YoY to Rs. 96,860 crore with strong performance in retail and corporate spends. Our market share in spends stands at 18.3%. Our retail spends have been strong with 35% YoY growth rising to Rs 73,519 crore in the quarter, with increase across all key spend categories. Our spends per card for retail spends grew to Rs 1,62,000 in Q3 FY'24 from Rs 1,42,000 in Q3 FY'23. (Ret+corp spend per card in Q3 FY'24 – Rs 2,13,000).

We rolled out around 2200 offers across 2700+ cities to enhance festivities of our customers. Reflecting our customer centricity, these offers were introduced across online and offline merchants at national, regional, and hyperlocal levels and catered to our millions of customers countrywide. The increased festive spends also improved our 30-day spends active rate to 52% in Q3 FY'24 indicating the success of our festive campaigns through strong engagement with our cardholders.

The UPI functionality on Rupay credit cards is fast becoming popular among our customers with about 25% of all RuPay cardholders already being enrolled for UPI usage. Our monthly average UPI spends per active account has increased to over Rs 12000 with average ticket size being around Rs 880.

Our receivables have grown to Rs 48,850 crore with a 26% YoY growth on account of strong spends. Our receivables per card have grown and are at Rs 26,438 in Q3 FY'24 Vs Rs 24,318 in Q3 FY'23.

Our share of interest earning receivables is stable at 62% QoQ in Q3 FY'24 while increasing from 61% in Q3 FY'23. The percentage share of revolvers in the receivables mix has reduced marginally and stands at 23%, however, it has been growing in absolute numbers. The share of term NEA is going strong and has increased to 38%. EMI volume was also positively impacted that led to 58% growth in Q3 FY'24 vs Q3 FY'23.

**Some of our initiatives during the quarter:**

- We have recently launched a new co-branded card in partnership with Reliance. This card is available digitally and through all Reliance retail stores.
- Another important development has been connecting our SPRINT platform with YONO. This now enables YONO customers to get SBI Card digitally end to end.
- Further, during the quarter, SBI Card went live on Bharat Billpay under credit card biller category. This adds to the various features that we have provided to our cardholders, delivering them greater convenience and flexibility.

**Coming to the financial performance in Q3 FY2024**

Our revenue and profit growth remain healthy. Our total revenue in Q3 FY'24 was at Rs 4,742 crore, registering a 30% YoY growth. In Q3 FY'24, our revenue from operations was Rs 4,622 crore with 32% YoY growth. Interest income has also grown by 29%, contributing 45% share of overall revenue from operations. Our PAT for Q3 FY'24 is Rs 549 crore with 8% YoY growth.

Our Cost of Funds (COF) has increased to 7.6% vs the previous 7.1% quarter. We had indicated last quarter that our cost of funds will be higher. The increase is on account of higher borrowing rates compared to the previous quarter and is also impacted by the RBI's action of increase in risk weights for banks on lending to NBFCs. Our cost of borrowing from banks is higher by about 25-30 bps post the RBI circular. We will see the impact of this increase for the full quarter in Q4 and, therefore, expect the COF to increase further in Q4.

RBI's action on increased risk weights on unsecured lending impacted our CAR like others in the industry. Our CAR for Q3FY24 is at 18.4%. While we are well capitalized and well above the regulatory guideline of 15%, we further augmented our Tier 2 capital through a bond issue this week. Our profits will continue to increase the CAR.

The yield has increased by 82 bps YoY to 17.2% in Q3 FY'24. I would like to highlight that we have been reporting all our financial metrics on a quarterly average number and hence for a festive quarter such as this, where the NEA book is volatile through the quarter, the quarterly average is not the right representation of the metric. A more accurate presentation of this metric will be on a monthly average basis and at that measure the yield and the NIM for the quarter were 16.6% and 11% respectively. As an annexure to our presentation, we have presented the financial metrics both on a quarterly average and monthly average basis. And in future we will provide all metrics on a monthly average basis.

**On asset quality,** As of Q3 FY'24, GNPA is at 2.64%. Our Gross Credit Cost is at 7.5% in Q3 FY'24. As per our conversations with the credit bureau, there is an increase in 30+DPD and 90+DPD for credit cards across the industry. Industry data also suggests there is a worsening in delinquency levels for unsecured exposures. This has been recognised by the RBI and has been factored into recent regulatory changes (e.g. changes in risk weights) and their guidance for increased adherence to their prudential norms with regard to unsecured lending. Since we have a 19% market share and are part of the ecosystem, these industry and macroeconomic trends also impact us, as was already stated in our last quarter call.

We have taken multiple actions over the last few quarters covering underwriting, portfolio and collections to address the stress in certain segments of the unsecured advances ecosystem. These actions include reduction in limits, restrictions on cross-sell and spend trigger based early blocking. As a practice we keep refining our underwriting policies based on portfolio diagnostics and bureau information. Our new sourcing continues to be better based on early delinquency trends. We will continue to fine-tune our policies and processes across the customer lifecycle.

While we have taken the actions, and the recent portfolio is displaying better quality, the stress in the certain accounts in existing portfolio due to multiple tradelines indicates that the credit cost will remain elevated around the current levels over next two quarters. However, our collection intensity and recovery measures will continue.

Our ROAA for Q3 FY'24 is at 4.1% due to increased cost of funds, increased credit cost and higher festive campaigns.

In Conclusion, we expect to maintain a healthy business momentum to continue, owing to positive consumer confidence and the healthy traction in discretionary spends including travel and entertainment. We remain committed to our shareholders, customers, and partners as we continue to create value for all our stakeholders through a growing and profitable business.

Now, we are open to questions.

**Moderator:** We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

**Mahrukh Adajania:** Sir, I just wanted to discuss more on credit costs. Basically, it's a general rise in delinquencies in the system; it's no particular cohort. And why would you think this is happening? Is it because of the seasoning? Is it because of inflation? What do you think? Or is it just because of aggressive lending by the sector, which affects all players then?

**Shantanu Srivastava:** It is difficult to give an attribution, but what is clear is that what we are experiencing is in line with the rest of the industry as well. Although this is not part of the presentation because we don't disclose it because we are not authorized to, there is data from the bureau that indicates that the stress is widespread throughout the industry in the unsecured assets space. While the overall consumer assets space is somewhat more benign, especially in the secured segment, the unsecured segment isn't doing too well in terms of the delinquency trends, as noted in the 30-day number or the 90-day number, which is measured on a quarterly and half yearly basis by the bureaus. And the quarter-on-quarter and 6 month on 6 month trends indicate that there has been a pickup to the extent of about 80 basis points in the 30-day number and about 40 basis points of the 90-day number, which is an appreciable increase of about 16% in delinquencies at the 30-day mark and the 90-day mark, both. This is specifically for the cards segment. What we are experiencing is in line with the rest of the industry. What might be causing it is more difficult to say but there is enough and more mentioned in the mainstream media or the general media around macroeconomic factors and other environmental factors that might be causing it, but we don't have an attributable reason for this.

**Mahrukh Adajania:** Sir, my next question is on margins. You have given a monthly average of margins where margins seem to have declined by 25 bps. What kind of margin decline would you envisage in the 4th quarter then given that the cost of funds would rise even then?

**Rashmi Mohanty:** We have already said that we do expect the cost of funds to be higher in Quarter 4 and also gave you reasons as to why we think that the cost of funds will be higher. Already 1 month into the quarter, we are seeing the impact of the higher cost of borrowings from the bank. Obviously, our endeavor will be to pass on whatever we can of this increased cost to the customer. So, it is difficult to give you our stance on the NIMs. We will try to compress, make sure that the compression is as minimal as possible, but at this point in time, the guidance or the note that we can share with you is on the cost of funds. We will try to minimize the compression.

**Moderator:** The next question is from the line of Piran Engineer from CLSA. Please go ahead.

**Piran Engineer:** Sir, you mentioned some of the steps you all are taking to improve underwriting, but can you just run us through if you have an NPL account, once he pays his overdue, do you then block the limit? Do you restore it back to the original? What sort of actions are you taking here? And in that light, how should we think of credit costs over the next year?

**Shantanu Srivastava:** In terms of actions that we are taking, we can give you more color but the wider projection of credit costs, MD sir has already answered in his speech in terms of what the outlook might be.

**Abhijit Chakravorty:** You wanted to know about how we treat an NPL account to be specific. Did I understand it correctly?

**Piran Engineer:** Once the account turns NPL, you are obviously putting in all your collection efforts. Once you collect that, do you block that account? Do you remove him as a customer? Do you just give him a reduced credit limit? Do you reinstate the entire credit limit? How does that work?

**Nandini Malhotra:** When an account becomes an NPA and the customer pays all his overdue, while he gets out of NPA, in order for it to be assessed whether we should reinstate the limit, there is an assessment that happens. There is a policy that we follow. And we don't restore the entire credit limit completely. We follow a graded approach. It's not that all customers will get reinstated. We have a specific policy which includes looking at the credit bureau and looking at other factors before reinstating.

**Piran Engineer:** Can you give a sense how many such customers you all would have now just stopped, like fully cut the credit limit? I'm just trying to get a sense of because this is eventually a revolving credit, right? It's not a one-time loan. So, I want to get a sense of how much of the cleanup is done. That's my point.

**Nandini Malhotra:** Majority of the cleanup is anyway done once an account reaches NPA, which of course it is a hard block. And as I just mentioned, there is a reinstatement policy and a process that follows. It is not that we open the limit immediately, if that is your question.

**Girish Budhiraja:** You can also estimate it from the other side of the overall attrition because these customers we take them out of our books of the overall attrition. Close to 40% to 45% is involuntary, which is where we have taken the customer out of our books. On an annualized basis, which is where you can assess the numbers from.

**Piran Engineer:** And secondly, in terms of you all have been curtailing new card sourcing. How should we think of spends growth next year in that context?

**Abhijit Chakravorty:** I would just supplement it. We are not curtailing. If we were curtailing, we would not have done 11 lakh cards in this quarter.

**Piran Engineer:** You were doing 15 lakh cards 2-3 quarters back. So, relatively, it is curtailing.

**Abhijit Chakravorty:** That was Q3 December, and we did run various pilots at that time, which we came out of during later stages. I wouldn't say it is curtailing; it is restricting to certain geography and to certain segments. We will continue to have a robust business plan. We will continue to grow. It's not that we are going to curtail. I would supplement that we have not used the word curtail. We have done certain corrections on certain geographies and certain segments. That we have done. And compared to the previous years' certain periods when we were running certain pilots, we have come out of those pilots.

**Moderator:** The next question is from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.

**Shubhranshu Mishra:** The first question is on open-sourced customers and SBI sourced customers. When we onboard both customers, how many of them or what percentage of them already have a credit card or another trade line? That's the first question. And second is, what was the spend in the festive season for the 2,200 schemes that we just discussed? What's the absolute dollar value of these spends? These are my 2 questions.

**Girish Budhiraja:** First part, on the open market, 100% of the customers will have a trade line. We don't do new-to-credit customers through the open market. On the Banca piece on the NTCC which is what you are asking, which is new to credit card or new to credit if you take that people who do not have a credit line, that number keeps varying from month to month, but the range of the Banca customers will be anywhere between 10% to 15%.

**Shubhranshu Mishra:** 10% to 15% will have a credit card?

**Girish Budhiraja:** Will not have a credit line. These will be 10% to 15%. And these customers are assessed through their savings bank account data through which we are able to see the cash flows of the customer, and there are models which are run to be able to assess these guys.

**Abhijit Chakravorty:** And the relative mix between open market and Banca is about 50:50.

**Shubhranshu Mishra:** And the second one?

**Girish Budhiraja:** On the second one, which is the festival season spending, we have given you the retail spends for the quarter. The retail spend was close to almost around Rs. 76,000 crores for the quarter. Because this time the festival season started from 1st of October itself and it typically ended with 14th November, which was Deepawali, we saw October spending at the peak and then November and December were slightly lower than October. But month-by-month spends is already available on the RBI website. You can see the spends there.

**Shubhranshu Mishra:** I am asking about the OPEX. I am not asking about the spends. What is the OPEX that was there – the cost?

**Rashmi Mohanty:** We don't disclose the line item around the expense that we have incurred for the festive campaign, Shubhranshu.

**Moderator:** The next question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

**Shweta Daptardar:** Two questions. 1) Can we attribute NIM compression also because of continued increase in corporate spends? 2) You did guide on elevated credit cost sustaining for the next 2 quarters. I am referring to gross credit cost. Do you believe there will be a further spike in this number going forward? If you can give a range.

**Rashmi Mohanty:** Your question is that is the NIM compression happening because of corporate spends. The answer is no, because the corporate spends do not really add too much of the NEA. They neither give you any interest, nor do they have a cost of funds impact as well.

**Abhijit Chakravorty:** Regarding the credit cost part, we have given guidance, and we are anticipating that it will prevail around the elevated levels, and it will be around the current levels. And how do we do it? Somewhere we have done our portfolio analysis. We have seen how the stress is building up and specific accounts, how they are behaving, their behavior through the bureau. All taken together, we have seen there is a probability of certain accounts which will continue to remain delinquent, and based on that expectation, we are anticipating it to be around the current levels. That's how we are looking at it.

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

**Nitin Aggarwal:** Two questions; one is on the delinquency side. If you can share some color as to how you compare the delinquency between the EMI and the revolver mix? We have incurred 7.5% credit cost while the revolve mix is going down. How do you really see this trend? Because, if you look back, generally an increase in revolve is something to be correlated with the increase in credit cost, maybe on a lag basis. But here, the revolve rate has been sticky for so long. In fact, it has gone down a bit this quarter versus the credit costs are inching up. How do you see this disconnected trend?

**Shantanu Srivastava:** The first part of your question is about the relative quality of the revolver base versus the EMI base. The EMI base has indeed lower yield and also lower risk, as is intuitive, and I think we have spoken about it earlier as well. The other part of your question is around why the credit cost is going up and revolver is coming down. One part of the answer is that it's not really established in terms of empirical proof to what extent they are correlated. So, we can't really attribute movements in one direction versus movements in the other direction in an empirical sort of way. But yes, it is somewhat anomalous, but the answer lies in the changes in the credit quality as evidenced in our flow rates. And that is part of the reason why we are projecting elevated credit costs over the next few quarters.

**Nitin Aggarwal:** One more if I may. It's on the capital side. Because of the risk rate impact, the capital levels have come down. Any plans to support or beef up the capital ratios over the coming quarters?

**Rashmi Mohanty:** We are actually very comfortably placed on the Tier-1 capital. There, we can augment our overall capital through Tier-2 issuances. We have done 1 bond issue this week itself and will continue to explore to do more.

**Moderator:** The next question is from the line of Amey from Tata Mutual Fund. Please go ahead.

**Amey Sathe:** Just one question. On the credit cost, how much was the standard asset provision for the quarter and how much was the loan loss provision for the quarter?

**Shantanu Srivastava:** The breakup that we give you is in terms of write-offs and provisions only. Out of the increase of Rs. 140 odd crores in the credit cost, there is a breakup between increase in provisions and delta in write-offs that's evident in our presentation deck as well. Rs. 100 crores and Rs. 40 crores are the breakup.

**Amey Sathe:** Because your loan balances also have gone up, logically, your standard asset provision also would have been quite high this quarter?

**Shantanu Srivastava:** Yes. In the deck, the disclosure is made in the deck on the right-hand side of the deck.

**Amey Sathe:** On the margin side, once this 4th quarter increase in funding cost is done, logically next year onwards, should we see at least stable margins from that point on?

**Rashmi Mohanty:** I hope I had a glass where I could foresee where the rates are.

**Amey Sathe:** Assuming the rate stay as it is?

**Rashmi Mohanty:** I would say that even if we see a bit of an increase in the cost of funds in quarter 1 of next financial year, it will be a very marginal post which we should definitely see a stable scenario on the cost of funds.

**Moderator:** We have the next question from the line of Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead.

**Roshan Chutkey:** I just wanted to understand if there is any color in terms of vintage curves. Which vintage is hurting us? Or is it broad based? Any further dissection to this gross credit cost by some cohort which is useful to learn, sir?

**Abhijit Chakravorty:** We continue on the same lines which we stated in the previous call also that as of now, there are no cohorts. We see it right across the portfolio. Specifically, we look at what is happening in their bureau behavior. The common thread is, wherever there is a multiple trade line, all the delinquencies what we are seeing and the probabilities, the common thread is having multiple credits.

**Shantanu Srivastava:** Just to supplement on that, while we can't call out any particular cohort in the manner that we did 2 or 3 quarters ago, we do continue to monitor our portfolio through various factors like vintages, like geographies, like city tiers, like self-employed versus salaried, like age, like category of employers, etc. And we do both univariate and multivariate analyses of our portfolio and wherever that shows up, areas of stress, appropriate portfolio actions are taken.

**Roshan Chutkey:** One other question here. Basically, how should I get comfort that we are close to the end and what does it take for one to believe that we are at the bottom of the cycle here?

**Shantanu Srivastava:** It is difficult to say that. That's also evident and subsumed in the answer we gave around projection for credit cost. We can't call the top or the bottom.

**Roshan Chutkey:** Any leading indicators here? Anything that you are doing from your end? Sourcing, portfolio actions which will help us get better outcomes later?

**Shantanu Srivastava:** Yes, we take actions through the life cycle of the customers, starting from the underwriting stage right through portfolio management including our marketing efforts and cross-sell efforts. All of those are informed by the insights that our portfolio insight team comes up with and also off-us a bureau performance data as well.

**Moderator:** The next question is from the line of Anuj Singla from Bank of America. Please go ahead.

**Anuj Singla:** The first question is with regard to credit cost. I think you mentioned it's going to remain elevated for the next 2 quarters or was it a few quarters? Do we have the visibility that it can normalize towards the end of next year?

**Abhijit Chakravorty:** Everything will depend on how the ecosystem improves based on the corrective actions taken by RBI. So, somewhere what we are looking at is our own portfolio that has been impacted by multiple trade lines where there is a delay in payment by certain accounts. There is a delay cum inability of the payment because of multiple trade lines. Once we have seen it, we are looking at it for the next 2 quarters. It's very difficult to say how it will come out after 2 quarters or so, but then what we can see as of now, we have shared.

**Anuj Singla:** And the second question sir, I think we had articulated a target or the sustainable credit cost guidance of 5.8 to 6.2. Will it be fair to assume that's likely to be too conservative in the current scenario and this could be a new normal where the credit cost could remain high for an elongated period of time versus that guidance?

**Abhijit Chakravorty:** In the last quarter also, we had stated that if anybody asks me for an aspiration, I will still say my aspiration will be around 6%. Why should I not aspire to be that? But then, if in spite of our best of our models and best of our sourcing, if there is a multiple borrowing subsequently and inability to pay compounded with various factors impacting the borrowers, this will continue in the short run. But left to me, I would definitely aspire to be at 6%. But as I said, for the next 2 quarters, at least in the near term, we don't say it is happening.

**Anuj Singla:** And lastly, on the UPI credit card customers that the linking has happened. You have shared some good insights there. Is it possible to share something on the asset mix as well? Is the asset mix similar to what we have on the company level or is it very differentiated there?

**Girish Budhiraja:** Too early for asset mix behavior. As you see, the numbers have actually grown rapidly. It's more than 3x what we were at the end of September quarter. In the next couple of quarters as we see the assets buildup coming across, we will start giving that information also. But as of now, it is too early for that aspect.

**Moderator:** The next question is from the line of Rahul Jha from Bay Capital. Please go ahead.

**Rahul Jha:** My question is regarding the credit cost. At the end of Q1 call, you had given a guidance that H2 credit cost will be around 6%, but we have already breached that at 7.5%. What has changed in the last 2 quarters that we have breached it with such a large margin?

**Abhijit Chakravorty:** Somewhere we need to see what has made RBI take these drastic actions too suddenly. When nobody was expecting, RBI came out with their guidelines in November. And even before RBI came out with guidelines, I will again refer to my own earnings call on the 27th of October, where we shared that we are seeing an overall stress in the ecosystem and that is impacting us. Very clearly, we had stated that. So, somewhere the stress was building up and it started impacting. As I said, the aspirations will remain and we will continue to work towards that, but unless there is an improvement in the ecosystem and there is a higher ability to repay back through the multiple trade lines, this will continue for the short run.

**Rahul Jha:** How often do we scrub the CIBIL database? How do we know whether you have multiple trade lines post him defaulting or before him defaulting? How often do we do that?

**Shantanu Srivastava:** The approach is to do it in a calibrated fashion depending on the nature of the customer. It can be as frequently as once a month.

**Abhijit Chakravorty:** I will just supplement that. I think the industry is aware of the services that are provided by the bureau. So, we avail them.

**Moderator:** The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

**Anand Laddha:** I just wanted to understand like is it possible for us to categorize customers based on the behavior pattern or based on the multiple lines they are running. How many customers of ours could be such that who have multiple lines running for them and who could have seen delayed payments so that at least we can categorize that this is the pool size which is seeing some stress and probably action can be taken against that pool size? Secondly, what I understand is that the bulk of the customers we acquired have a CIBIL score of 725, 750, and above. Despite that CIBIL score, we are seeing such large delinquencies.

**Abhijit Chakravorty:** The day he comes for a credit card, he must be at around 730-750. He merrily goes, creates a credit history, then borrows more, and one fine day, he is at 600. So, when the credit decision was taken, it was fine, with good repayment capability. But then, over a period of time, using the same good credit score, a fellow builds up a liability which he is unable to sustain and service. This is what we observed when we went through the portfolio.

**Anand Laddha:** Sir, is there anything we can do on that before that? Before the customer turns 600 score, are there any lead indicators that the client has taken multiple lines of credit? What action we can take?

**Abhijit Chakravorty:** In our call itself, we have stated what we have started doing. One is that some of them perhaps will definitely flow. And that's where our estimates of credit costs come. Those we have identified early; we pull the plug on the limits. And we have been able to take action on almost 3 lakh accounts where we have taken action on the limits. Wherever we have been able to cap, we have capped the limits at the lower levels so that we are able to cut the losses. And this is a perpetual process. This is a daily and perpetual process which has been happening for the last 5 to 6 quarters.

**Anand Laddha:** In which cohorts do we see the maximum delinquency? Is it the salaried or self-employed? Is it the government employee cat A or cat B? Any color you can give?

**Abhijit Chakravorty:** That's where we have been repeatedly saying that this is a malady which is spread across the portfolio. We see one here, we see two there, it's like that.

**Anand Laddha:** And there is no differentiation in the portfolio which is sourced outside from SBI and from open market? Is there any stark difference between the 2 portfolio qualities?

**Shantanu Srivastava:** I think I answered this question a little while ago. We analyze our portfolio in multiple ways across channels, across segments, across city tiers, and whenever we notice any pockets of stress, we do take action. But it's difficult to color any one segment or channel with a broad brush.

**Anand Laddha:** Last one from my side, sir. Today, credit card in general is a high-risk category, and we used to earn high yield on the revolve. Now, the bulk of the customers have moved to EMI whereas the credit risk and the default risk remain the same. Is there any way that you can increase the interface on the EMI customers so that at least it gets compensated?

**Girish Budhiraja:** On the installment lending products, if you notice, rates have increased over the last 1 to 1.5 years. They have gone up from almost 150 basis points to 250 basis points in certain categories. There is a limit to which we can take it up, but wherever we get an opportunity and – you are right – if the risk weightage increases of the EMI customers or as the cost of fund goes up, we get those opportunities to increase the rates and we have been increasing the rates in the past. If we see that continuing, for example, as Rashmi was mentioning, if there is a cost of fund increase that we will see in our portfolio, we will try to pass that on to our customers.

**Anand Laddha:** Do you believe that the credit card addition for the industry will slow down and even it will slow down for us also?

**Abhijit Chakravorty:** We don't have any reason today to believe that. As we speak, about hundreds of my fellows or thousand of our fellows will be out in the market sourcing some card or two at this moment.

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

**M. B. Mahesh:** Sir, the spend growth has been about 40% and if you look at the loan growth or the receivables growth, it has been about mid 20s. In the past, usually you should see it in the month after the spends has been completed. But this time, December was a bit slow. So, just I'm trying to understand why the loan growth translation has been a bit weak.

**Girish Budhiraja:** You have to first, rather than year on year, look at it from a quarter-to-quarter movement perspective. From the last quarter, the spends increase is almost close to 20% or so on a quarter-to-quarter basis. Just the retail spends I'm talking about because corporate spend does not lead to assets. That increase we saw, in most categories, in the month of October itself because most of the spending happened in the month of October. And that was the peak. After that, November was lesser than October, and December was almost at a similar level compared to November. What has also happened is when you look at the asset buildup, not only the revolve asset has increased in absolute terms because if the asset has increased by close to around, as you were saying, 9% to 10%, the revolve asset has also increased broadly at the same rate. It is that the new sale of installment lending has actually increased by a far larger level. It is because there is a pay down which happens on installment lending. So, it is always on a treadmill kind of a scenario. But the new sales have actually increased dramatically. This time, we saw a large amount of new spends converting into installment lending. Usually, the number used to vary at around close to 9.5% to 10% of the spends, but this quarter, we have seen this number go up to almost 11% of the spends. And most of it is, as you are aware, happening digitally. Customers do it on their own on our mobile app itself. Actually, the asset buildup this quarter has been fairly strong. And also, not only the transactor assets because it has remained stable, but it is also the installment and revolve assets both have got built up.

**M. B. Mahesh:** Because the retail spend growth was up 20% whereas if you look at the overall loan growth, it's about 8% QoQ. Do you think it's largely explained by the EMI product?

**Girish Budhiraja:** Yes, absolutely.

**M. B. Mahesh:** Just one question on the QR codes and the RuPay ecosystem. In your discussion with NPCI, how has been the market opening up at the merchant level on the credit card on RuPay products?

**Girish Budhiraja:** As of now, what we have seen is that the transaction data is fairly strong. You can already see that the ticket size is around Rs. 880 or so for the quarter and the average spend is around Rs. 12,000. The transacting customer is making almost close to 14 to 15 transactions on a monthly basis, and that becomes a fairly common routine. Fifteen UPI transactions per transacting customers; they are using it at almost every merchant that they can find. Not many complaints we have got. There are a few merchants who do not allow specifically credit card transactions to still go through. But most of these merchants are more organized merchants where otherwise credit card payment was also allowed and they are just trying to save something on the MDR. Smaller merchants, local shops, we have not seen that kind of trend picking up.

**M. B. Mahesh:** So, overall, you are saying that the merchant acceptance levels have not been too painful?

**Girish Budhiraja:** Yes. If you will see, for example, these are some organized online merchants and certain merchants which manage utility bills for residential colonies; some of those merchants would charge a surcharge or do something when we were paying through credit card and allow only UPI transactions and not through credit card. But the primary purpose of this was to get the smaller department stores, tea stalls, barbershops, those are all accepting the card through these UPI transactions.

**Moderator:** The next question is from the line of Kaitav Shah from Anand Rathi. Please go ahead.

**Kaitav Shah:** Sir, just one question; that's regarding more about the growth on Advances next year. Given what has been happening, a) on the risk weight side, b) a general increase in credit cost at your end, do you think we are going to tighten how we are going to give out credit cards for next year? Any sort of thoughts around here?

**Girish Budhiraja:** As of now, for the next 2 quarters – MD sir has already talked about – we will continue to run at this rate for the new customer acquisition at least for 2 quarters. If things start to improve from there, we will enhance our run rate going into next year. Let's see the conditions for the next 2 quarters. Hopefully, by Q2 of next financial year, we should be able to get the new customer acquisition at a slightly higher rate. The spends is going very strong, and the reason why we say this is that it's not only in this season, but you have also already seen the existing customers are spending higher. When the existing customer starts to spend more through more categories, through more options, and the RuPay UPI thing is still spreading – we started to scratch the surface as of now – we believe that more spends will definitely come. Regarding the assets, that's a second-degree buildup on this one, we foresee that the installment lending is going to be fairly strong. Revolve, to a degree, is also dependent on the kind of measures that we take on the underwriting space and on the portfolio management space. As we stated last time that if it remained stable at this 24% plus or minus 1%, we would be very happy. That is the way we look at it going in the next year.

**Moderator:** The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

**Anand Dama:** Sir, is it possible for you to share the breakup between the PLCC, i.e., personal loan on credit card and the EMI portfolio?

**Girish Budhiraja:** We have not declared that earlier, so we would not be able to do it at this stage.

**Anand Dama:** In terms of the asset quality or the NPA formation that we have seen in the recent past, any breakup that you can share, or any thoughts like in terms of whether we are seeing more delinquencies coming from the EMI pool or it's mainly the revolver customer who is delinquent?

**Shantanu Srivastava:** Unfortunately, we don't give that level of disclosure.

**Anand Dama:** But if you can just give some relative view on that.

**Shantanu Srivastava:** That I have already mentioned. Relative to the revolver bit, the EMI assets are better in terms of asset quality, and they are much lower in terms of the credit cost as well.

**Anand Dama:** Basically, a lot of NBFCs and banks usually tend to give out their portfolio at risk book. Going forward, if you can start sharing that data as well through the presentation, that will be really appreciated.

**Rashmi Mohanty:** Noted. Thank you so much. We will think about it.

**Moderator:** The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

**Rohan Mandora:** Sir, in the earlier participant's question, you had explained that when we are onboarding customers, they are at around 720-730 levels and then subsequently fall to 600. I just want to understand, sir, is it possible or are we doing something to assess the income of the customer when we are onboarding and the kind of profile? Because one of the credit card journeys that I had with SBI Card, it just took the name of the company where I work and the designation, but no subsequent documents were collected. Is there something where we can – which I may not be aware of, and you may be doing it – assess the income profile and the quality of income to avoid these kinds of scenarios? Just wanted your thoughts on this. And second, if we look at the Stage-2 that were disclosed, it is not increasing despite the jump on delinquencies that we are seeing. Why it's sort of flattish Q-on-Q or year on year?

**Abhijit Chakravorty:** I will answer the first part. Please rest assured that we do arrive at the income assessment. There are ways of doing it in the market and we also do it and we do it to very fair accuracy. Income assessment is one of the most important pillars of the card assessment. So, that is definitely done.

**Rohan Mandora:** Stage-2 is not increasing in the receivables that we give quarterly despite the delinquencies that we are seeing and the guidance of higher delinquencies for the next 2 quarters. Why is it still at 6%?

**Shantanu Srivastava:** The relative mix that you are talking about or stage 1, 2, and 3 receivables.

**Rohan Mandora:** Stage-2 Receivables.

**Shantanu Srivastava:** There is a bit of a rounding error here as well because we don't publish beyond the round numbers. So, the decimals aren't visible. But you can see a pickup in receivables and the mix remains largely the same at a whole number level. But there are marginal movements in decimal numbers for the Stage-2 assets.

**Moderator:** The next question is from the line of Krishnan ASV from HDFC Securities. Please go ahead.

**Krishnan ASV:** I was just wondering, 1) about all the behavioral issues that you mentioned with the multi-carded customers. And my query was regarding supposing if you carded me, Krishnan, as a multi card customer in your open market channel and if you have noticed some behavior already in the December quarter, why wouldn't you be able to switch off the Krishnan outstanding? Why would you need two more quarters to see the same? I am saying, with all the algos and the science that we do, why would you find it difficult to dial down on the customers where you have already identified across pools, across bivariate, multivariate, every cohort way that you can analyze? If you know that there are pools that are likely to give a problem, why wouldn't you be able to dial down or switch off those? 2) On the borrowing side, you are bank heavy now. Is there any thought process around wanting to diversify that a little bit better?

**Abhijit Chakravorty:** On the first part; first of all, it is not multi-carded, it is multi trade lines at times. And as I said that let's say for open market at the time of onboarding, there is a possibility of a trade line. It can be carded, or it can be any other trade line. Now, having noticed Krishnan's behavior through the bureau and the spends in December, as I said, I do block the limits wherever possible. If Mr. Krishnan is having a limit of Rs. 5 lakhs and I find him on outstanding he is at 3, I will cap it at 3. And thereafter, I will watch him continue to cap it. But then what happens? The moment if Mr. Krishnan does not want to pay, he will not reduce his outstanding below Rs. 3 lakhs. So, this Rs. 3 lakhs is going to flow ultimately to NPA and to write-off stage over 180 days.

**Krishnan ASV:** But wouldn't that already be a part of what you have recognized during the December quarter? Because, you have been saying this, as you mentioned, on the 27th of October also; you called this out even before the RBI did anything about this.

**Abhijit Chakravorty:** Yes, we did notice, but then, as I said, Mr. Krishnan could have been one of the indicators when I started working in August, but he was fine. Suddenly, his behavior started deteriorating in December.

**Krishnan ASV:** Okay, I understood.

**Abhijit Chakravorty:** It's not that we have cut a line where all the good borrowers have remained good after August, and they have not deteriorated. It's a perpetual process of identification through the bureau monitoring and the spend behavior that we are perpetually observing. And that exactly answers your question. If we are sitting in December, we can only look at the behavior up to December and predict up to the next 2 quarters. This explains everything.

**Krishnan ASV:** The other one around bank borrowings versus how you could diversify.

**Rashmi Mohanty:** That's something which we keep doing. It's not that we have just been borrowing from the banks. Even in this financial year, we have a couple of bond borrowings, opportunistically borrowing from the capital market wherever we got the rates right. And we will continue to look at that.

**Krishnan ASV:** I just have one last question which is related to the first one. Is there any merit in relooking at your expected credit loss norms given what you are experiencing from a behavioral thing? And this is not just for you. I'm assuming SBI Cards is not unique in this. It's something which is probably prevailing in the entire credit card industry right now. But you being a monoline player, is there a reason for you to relook at your ECL working?

**Shantanu Srivastava:** Our ECL model – like our other Tier 1 models – requires external validation on an annual basis and also quarterly refresh of all the data and it's also subject to close scrutiny by the regulators as well. And they have looked at it on the most recent visit. And even our board and our ACB look at our model and validate it and look at the validation reports of the external validation consultant. We follow market best practice in this area, and we continue to refresh our model on the specified frequencies.

**Moderator:** Ladies and gentlemen, we will take that as our last question. I would now like to hand the conference over to Mr. Abhijit Chakravorty for closing comments. Over to you, sir.

**Abhijit Chakravorty:** Thank you all of you for joining and looking at us quite closely. I share my gratitude towards our shareholders, investors, and business partners for their continued trust and support and believing in the strength of SBI Card.

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