

## Annual Report Analysis (Consolidated)

Source: CRORES. All figures Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

### Investor Snapshot

| #  | Analytical Point                                                                                                                                                                     | Sentiment |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 1  | SBI Cards maintains a dominant market position by pivoting toward a high-yield, transaction-led model, leveraging the SBI ecosystem to drive a 60% RuPay-UPI linkage.                | □         |
| 2  | Revenue grew 10.9% YoY to ₹19,875 Cr, increasingly powered by high-quality Interchange Income which surged 30.5% to ₹5,110.88 Cr.                                                    | □         |
| 3  | Negative operating leverage is evident as the Cost-to-Income ratio climbed to 55.3%, with employee costs (+12.1%) significantly outstripping operating profit growth (1.35%).        | □         |
| 4  | Net profit (PAT) increased 13% to ₹2,167 Cr, supported by a "Risk-Off" strategy that prioritizes balance sheet resilience over aggressive volume expansion.                          | □         |
| 5  | Asset quality improved materially with GNPA contracting to 2.41% from 3.08%, while the company secured ₹2,000 Cr in NCDs at a competitive 7.05% to optimize finance costs.           | □         |
| 6  | Cash Flow from Operations (CFO) marked a significant liquidity turnaround, swinging to a positive ₹1,245 Cr from a negative ₹1,150 Cr in the previous fiscal.                        | □         |
| 7  | Capital allocation remains disciplined with stable dividends and a visible revenue pipeline evidenced by ₹590 Cr in unearned revenue.                                                | □         |
| 8  | Earnings quality has improved as amortization of contract costs (₹1,396 Cr) now exceeds new capitalization (₹1,285 Cr), though ₹1,037 Cr in unamortized costs remains a monitorable. | □         |
| 9  | Governance is characterized by a strong 57% independent board, yet extreme parent dependency persists with proposed Related Party Transactions (RPTs) reaching 140.8% of revenue.    | □         |
| 10 | The risk profile remains elevated due to a 99.5% unsecured loan book and a high reliance on volatile bad debt recoveries, which constitute 31.6% of PAT.                             | □         |
| 11 | Competitive intensity is rising, reflected in a 34.6% spike in reward point redemption costs ( ₹1,488.42 Cr), which may further pressure margins.                                    | □         |
| 12 | Investment View: ACCUMULATE based on asset quality recovery; key monitorables include the 52% Cost-to-Income threshold and UPI-driven interchange growth.                            | □         |

### 1. BUSINESS OVERVIEW (In Bullet Points)

- **Business Segments:** Primary focus on the credit card lifecycle, including card acquisition, transaction processing, and financing.
- **Revenue Drivers:** Driven by **Interest Income on Loans** (47.7% of revenue), **Interchange Income** (25.7%), and fee-based income including membership and service fees.
- **Cost Drivers:** Major costs include **Impairment on financial instruments** (bad debt write-offs), **Sales Promotion**, **Finance Costs**, and rising **Reward points redemption** and **Collection charges**.

- **Industry Position:** Second-largest credit card issuer in India, leveraging the massive "SBI Brand Equity" and a growing network of co-branded partners.
- **Expansion Plans:** Shifting focus from "Acquisition at Scale" to "Yield through Depth," prioritizing the optimization of credit limits for high-conviction customers via a **Unified Credit Limit**.
- **Acquisitions & Partnerships:** Growing reliance on co-branded ecosystems with major brands like **Titan, Indigo, Miles, and Singapore Airlines** to diversify the sourcing funnel.
- **Capacity Additions:** Digital infrastructure expansion through the "SPRINT" onboarding journey and migration of 400+ campaigns to **Oracle Behavior Analytics** for hyper-personalization.
- **Segment Performance:** **Interchange Income** grew by 30.5%, signaling high transaction velocity, while **New Account additions** were deliberately decelerated (35.9 Lakh vs 40.9 Lakh) to stabilize asset quality.
- **Geographical Presence:** Pan-India presence leveraging SBI's extensive branch network and digital sourcing channels.

## 2. MANAGEMENT COMMENTARY & OUTLOOK

---

- Management has executed a strategic pivot from "growth at a cost" to "**Scaling with Purpose**," deliberately slowing **Cards-in-Force (CIF)** growth to 6% to prioritize portfolio stability.
- The introduction of the "**Unified Credit Limit**" signals a shift toward maximizing wallet share and credit utilization among existing high-quality customers rather than just increasing headcount.
- The **RuPay-UPI linkage** is a primary growth catalyst, with 60%+ of the RuPay base linked to UPI, transforming the card from a discretionary tool to an everyday utility.
- Management guidance emphasizes "**Disciplined Execution**" and "Banking Rigor," with a heavy focus on underwriting workflows and AI-driven portfolio surveillance.
- The demand environment remains robust for transaction-led growth, though management is adopting a "Risk-Off" stance in sourcing to protect margins.
- Competitive intensity remains high, necessitating a 34.6% spike in **Reward points redemption** to maintain customer stickiness.
- New digital projects like "**Centralized K-Locker**" for eKYC aim to reduce friction in the customer journey and improve lead-to-card conversion ratios.
- The long-term vision focuses on "Segment-of-One" marketing through advanced behavior analytics to lower the **Card Acquisition Cost (CAC)**.
- **Management Tone:** The transition to new leadership has brought a shift from "Measured Optimism" to "Disciplined Execution." While there is an accountability gap regarding the specific ROI of development programs, the linkage of ESG performance to executive compensation is a high-signal governance improvement. The overall tone is one of **Risk-Averse Professionalism**, prioritizing the "Quality of the Book" over "Quantity of Cards" to navigate the post-FY25 asset quality recovery phase.

## 3. FINANCIAL ANALYSIS

---

### 3.1 Financial Statements

Source: Screener.in — all monetary values in Crores. Use these numbers directly.

## P&L Statement (₹Crores)

| Line Item                | FY Current | FY Prior |
|--------------------------|------------|----------|
| Revenue -                | —          | —        |
| Interest                 | —          | —        |
| Expenses -               | —          | —        |
| Financing Profit         | —          | —        |
| Financing Margin %       | —          | —        |
| Other Income -           | —          | —        |
| Depreciation             | —          | —        |
| <b>Profit before tax</b> | —          | —        |
| Tax %                    | —          | —        |
| <b>Net Profit -</b>      | —          | —        |
| EPS in Rs                | —          | —        |
| Dividend Payout %        | —          | —        |

## Balance Sheet (₹Crores)

| Line Item                | FY Current | FY Prior |
|--------------------------|------------|----------|
| Equity Capital           | —          | —        |
| Reserves                 | —          | —        |
| Borrowing                | —          | —        |
| Other Liabilities -      | —          | —        |
| <b>Total Liabilities</b> | —          | —        |
| Fixed Assets -           | —          | —        |
| CWIP                     | —          | —        |
| Investments              | —          | —        |
| Other Assets -           | —          | —        |
| <b>Total Assets</b>      | —          | —        |

## Cash Flow Statement (₹Crores)

| Line Item                      | FY Current | FY Prior |
|--------------------------------|------------|----------|
| Cash from Operating Activity - | —          | —        |
| Cash from Investing Activity - | —          | —        |
| Cash from Financing Activity - | —          | —        |
| <b>Net Cash Flow</b>           | —          | —        |
| Free Cash Flow                 | —          | —        |
| CFO/OP                         | —          | —        |

## 3.2 Financial Analysis Summary

- **Revenue** from operations grew 10.9% to ₹19,875.35 Cr, primarily supported by a 30.5% surge in **Interchange Income** to ₹5,110.88 Cr, which now represents 25.7% of the total mix and provides a high-quality, risk-free revenue stream.
- **Net Profit** reached ₹2,166.71 Cr, but earnings quality is heavily reliant on **Other Income** from **Bad debts recovered** of ₹686.40 Cr, which accounts for a significant 31.6% of **PAT**.
- **EBITDA (Operating Profit)** grew marginally by 1.35% to ₹5,985.58 Cr, as the **Cost to Income** ratio rose to 55.3% (from 51.8%), indicating negative operating leverage and an increasingly expensive business model.
- **Impairment on financial instruments** remained high at ₹4,962.39 Cr, with bad debt write-offs of ₹4,925.77 Cr reflecting a high-velocity charge-off policy for a **Balance Sheet** that is 99.5% unsecured.
- **CFO** turned positive at ₹1,245.00 Cr (from negative ₹1,150.00 Cr), driven by slower loan book growth and better working capital management, resulting in a **Free Cash Flow** of ₹1,230.00 Cr.
- **Total Debt** is dominated by **Working Capital Loans** from the parent (SBI) totaling ₹19,876.06 Cr, providing a critical liquidity cushion but maintaining a high key-man dependency.
- **Finance Costs** decreased to ₹3,071.58 Cr despite a larger loan book, aided by the issuance of ₹2,000 Cr new NCDs at a competitive 7.05% rate, improving **Interest Coverage**.
- **Trade Receivables** grew 20.2% to ₹283.10 Cr, outpacing revenue growth, while **Unbilled Receivables** rose 36% to ₹83.89 Cr, suggesting a potential lag in billing cycles or aggressive revenue recognition.
- **Unamortised card acquisition cost** (a "soft asset") stands at ₹1,037.65 Cr; however, **Earnings** quality is supported by amortization (₹1,396.94 Cr) exceeding new capitalization (₹1,285.99 Cr).
- **Other Assets** are impacted by a 70% jump in **GST recoverables** to ₹172.63 Cr, indicating a buildup of tax credits that could pressure future cash flows if not utilized.
- **Other Liabilities** include **Unamortised membership fees** of ₹590.98 Cr, providing a steady pipeline of deferred revenue and earnings visibility for the next 12 months.
- **Other Expenses** were pressured by a 28.3% rise in **Collection charges** (₹653.45 Cr) and a 34.6% spike in **Reward points redemption** (₹1,488.42 Cr), signaling higher costs to maintain the user base and recover dues.
- The dominant financial theme of the year is "**Balance Sheet Consolidation over P&L Aggression**," characterized by a deliberate slowdown in unsecured lending to prioritize **CFO** generation and GNPA reduction (to 2.41%) at the expense of operating leverage.

## 3.3 Contingent Liabilities & Commitments

- **Litigation & Tax:** The company follows a policy of disclosing possible obligations where outflow is not probable; however, specific litigation values are not aggregated in the summary.
- **Guarantees:** No significant third-party guarantees were noted outside of standard operational commitments.
- **Capital Commitments:** Total commitments for intangible assets (software) stand at ₹12.09 Cr.
- **Project Delays:** The "**Sprint Infinite**" project (₹4.20 Cr) has been overdue for more than a year, presenting a minor execution risk to digital infrastructure upgrades.
- **Provisions:** A prudent **Provision for reward points** of ₹712.08 Cr is maintained based on actuarial valuation, ensuring future cash outflows are recognized as liabilities rather than contingencies.

### 3.9 Earnings Quality & Forensic Checks

| #  | Check                                     | Impact                                                                                                     | Status | Evidence                                                     | Notes Detail                                      |
|----|-------------------------------------------|------------------------------------------------------------------------------------------------------------|--------|--------------------------------------------------------------|---------------------------------------------------|
| 1  | PAT vs CFO trend                          | Profit ↑ — amortization of ₹1,396 Cr exceeding capitalization of ₹1,285 Cr improves cash quality.          | □      | Amortization: 1,396.94 Cr; Capitalization: 1,285.99 Cr       | Forensic Check: Aggressive Capitalization (p.386) |
| 2  | Receivables & channel-stuffing signal     | Revenue ↑↓ — trade receivables growth of 20.2% outpaces revenue growth of 10.9% suggesting lag.            | □      | Receivables: 283.10 Cr (+20.2%); Revenue: 19,875 Cr (+10.9%) | Note 7: Trade Receivables Ageing (p.359)          |
| 3  | Revenue timing (unbilled/contract assets) | Revenue ↑ — unbilled receivables rose 36% indicating aggressive revenue recognition before billing cycles. | □      | Unbilled Receivables: 83.89 Cr vs 61.66 Cr                   | Note 7: Working Capital Deep Dive                 |
| 4  | Revenue from related parties %            | Neutral — negligible loans to related parties (0.00%) ensures revenue is from third-party customers.       | □      | Related Party Loans: 0.00% of total book                     | Note 8: Loans to Related Parties (p.362)          |
| 5  | Inventory vs revenue growth               | Profit ↓ — immediate expensing of card plastic costs prevents inventory-based profit inflation.            | □      | Card plastic cost expensed immediately                       | Note 4.17: Accounting Policy (p.356)              |
| 6  | Inventory valuation method change         | Neutral — consistent policy of expensing card plastic upon procurement maintains earnings integrity.       | □      | No change in card plastic expensing policy                   | Note 4.17: Accounting Policy (p.356)              |
| 7  | Exceptional items in operating profit     | Profit ↑ — bad debt recoveries of ₹686.4 Cr significantly boost PAT via other income.                      | □      | Bad Debt Recovered: 686.40 Cr (3.45% of Revenue)             | Note 26: Other Income (p.382)                     |
| 8  | Depreciation rate vs useful life policy   | Neutral — depreciation and amortization policies remain consistent with standard useful life estimates.    | □      | Amortization of contract costs over behavioral life          | Note 4.16: Revenue Recognition (p.356)            |
| 9  | Provision reversals boosting PAT          | Profit ↑ — high reliance on ₹686.4 Cr bad debt recoveries to support bottom line.                          | □      | Bad debt recovery represents 31.6% of PAT                    | Note 26 & Forensic Check: Other Income Impact     |
| 10 | Tax rate consistency                      | Neutral — effective tax rate of 25.6% aligns closely with statutory corporate tax rates.                   | □      | Tax: 746.48 Cr on 2,913.19 Cr PBT                            | Note 31: Tax Rate Forensic Check (p.383)          |
| 11 | CWIP age and stalling projects            | Profit ↓ — overdue digital project "Sprint Infinite" indicates potential impairment risk if abandoned.     | □      | Sprint Infinite: 4.20 Cr overdue > 1 year                    | Note 13.2(b): Capital Commitments (p.370)         |
| 12 | Deferred tax asset recognition adequacy   | Profit ↑ — large DTA of ₹446.1 Cr relies on optimistic future taxable profit assumptions.                  | □      | Deferred Tax Asset: 446.09 Cr                                | Note 12: Deferred Tax Assets (p.366)              |
| 13 | RPT quantum and trend                     | Neutral — heavy reliance on parent SBI for ₹19,876 Cr funding provides liquidity stability.                | □      | SBI Working Capital: 19,876.06 Cr                            | Note 17: Related Party Transactions (p.373)       |
| 14 | Dividend paid vs FCF adequacy             | Neutral — dividend sustainability is supported by high-quality interchange income growth of 30.5%.         | □      | Interchange Income: 5,110.88 Cr (+30.5%)                     | Note 25 & 34: Revenue Analysis                    |
| 15 |                                           |                                                                                                            | □      |                                                              |                                                   |

| #  | Check                      | Impact                                                                                                     | Status | Evidence                                       | Notes Detail                     |
|----|----------------------------|------------------------------------------------------------------------------------------------------------|--------|------------------------------------------------|----------------------------------|
|    | ECL Provision Adequacy     | Profit ↑ — low ECL allowance (3.41%) relative to massive annual write-offs suggests thin margin of safety. |        | ECL: 1,941.87 Cr vs Write-offs: 4,925.77 Cr    | Note 4.7 & 28: Forensic Check    |
| 16 | Soft Asset Impairment Risk | Profit ↑ — ₹1,037 Cr in unamortized acquisition costs represents ~50% of PAT; sensitive to attrition.      | □      | Unamortised card acquisition cost: 1,037.65 Cr | Note 14 & 31: Analytical Insight |
| 17 | Collection Cost Efficiency | Profit ↓ — collection charges (+28.3%) outstripping revenue growth (+10.9%) indicates diminishing returns. | □      | Collection charges: 653.45 Cr                  | Note 28 & 31: Analytical Insight |

## 4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters - **Audit Opinion Type:** Unqualified. - **KAM 1: Impairment of Financial Assets (ECL):** Auditor flagged significant management judgment in "management overlays" for economic scenarios and the use of complex statistical models. The 191-day DPD threshold for write-offs remains a critical accounting choice that delays loss recognition compared to more conservative peers. - **KAM 2: Revenue Recognition (Ind AS 115):** Complexity in identifying performance obligations in co-branded card arrangements. Management estimates the "expected behavioral life of cards" to amortize membership fees and acquisition costs, which is subject to high estimation uncertainty. - **Auditor Fees:** Joint Statutory Auditors: M/s. S. P. Chopra & Co. and M/s. V. K. Dhingra & Co. Standard governance practice for large NBFCs.

B. Related Party Transactions | Party | Relationship | Nature | Amount (₹Cr) | Concern | |---|:---|:---|:---|:---| | **State Bank of India** | Parent | Proposed RPT FY27 (Borrowing/Limits) | 28,000.00 Cr | □140.88% of Revenue | | **State Bank of India** | Parent | Working Capital Loan Balance | 19,876.06 Cr | □High dependency | | **State Bank of India** | Parent | Royalty Payment | 43.33 Cr | □Profit leakage | | **SBI Foundation** | Fellow Subsidiary | CSR Expenditure | 9.00 Cr | □Structured giving | | **Promoters/Directors** | KMP | Credit Card Advances | 0.63 Cr | □Negligible |

**RPT Verdict:** Monitor □ While SBI provides a critical liquidity backstop, the scale of proposed transactions (140% of revenue) and the structural royalty "tax" (2% of PAT or 0.2% of Income) represent significant value leakage and dependency.

C. Shareholding - **Promoter (SBI):** 68.58% (Slight 0.02% drop due to ESOP dilution). - **Pledged Shares:** 0.00%.

D. Board Composition + KMP Compensation - **Total Directors:** 7 | **Independent %:** 57.14% (4 of 7) | **Women Directors:** 3 (42.86%). - **KMP Compensation:** MD & CEO Salila Pande is on deputation from SBI; her pay is governed by SBI's internal policies and not directly charged as a KMP commission. - **YoY Growth:** Aggregate Employee Cost grew 12.12% (₹661.01 Cr), outstripping the 1.35% growth in Operating Profit, indicating negative operating leverage.

F. Capital Allocation & Capex | Action | FY Current (₹Cr) | FY Prior (₹Cr) | % of CFO | Signal | |---|:---|:---|:---|:---| | **Dividends** | 237.75 Cr | 237.50 Cr | 19.10% | □ | **Impairments / Write-offs** | 4,962.39 Cr | 4,871.51 Cr | 398.59% | □ | **Net Debt Change** | -882.00 Cr | 3,180.71 Cr | -70.84% | □ | **Capex (Intangibles)** | 12.09 Cr | 57.64 Cr | 0.97% | □ |

**CAPEX Analytical Notes:** - **CFO Coverage of Capex:** 102.98x. CFO is sufficient to cover minimal physical capex. - **Nature of Capex:** Primarily **Unamortized Card Acquisition Costs (₹1,037.65 Cr)**, deferred over the behavioral life of the card. - **Key Takeaways:** The ₹1,037.65 Cr in unamortized costs acts as a deferred



expense buffer; while it fell from ₹1,148.60 Cr (positive sign), it remains a significant P&L risk if card churn accelerates.

H. Risks - **Unsecured Exposure** (High): 99.5% of the ₹56,926 Cr book is unsecured. A 1% spike in defaults wipes out ~26% of PAT. - **Parent Dependency** (Medium): 45% of total borrowings sourced from SBI; refinancing risk if parent pricing shifts. - **Soft Asset Impairment** (Medium): ₹1,037 Cr in unamortized costs; immediate hit if card attrition spikes. - **Cybersecurity** (High): High digital volume makes data breaches a critical regulatory and brand risk. - **Regulatory Shift** (Medium): Implementation of DPDP Act may increase compliance costs.

## 5. SCORECARD & VERDICT

### Part A: Scorecard

| Dimension                                | Rating (1–5) | Delta | Key Evidence                                       | One-line Rationale                                                      |
|------------------------------------------|--------------|-------|----------------------------------------------------|-------------------------------------------------------------------------|
| Business Quality                         | 4            | ↑     | Interchange Income +30.5%; RuPay-UPI 60% link      | Strong moat via SBI ecosystem and pivot to everyday utility (UPI).      |
| Financial Health                         | 4            | ↑     | GNPA 2.41%; CAR 25.5%; CFO ₹1,245 Cr               | Significant improvement in asset quality and cash flow generation.      |
| Earnings Quality                         | 3            | →     | Amortization > Cap; Bad debt recovery 31.6% of PAT | Improved accounting conservatism offset by high reliance on recoveries. |
| Management & Governance                  | 3            | →     | 57% Independent Board; RPT 140% of Revenue         | Strong risk-rigor under new CEO but extreme parent dependency remains.  |
| Capital Allocation & Earnings Visibility | 4            | ↑     | Dividend stable; Unearned revenue ₹590 Cr          | Disciplined capex and visible deferred revenue pipeline.                |

**BUSINESS POSITIVES (for this company this year)** \* **Asset Quality Recovery:** GNPA improved significantly to **2.41%** from 3.08% in the prior year. \* **High-Quality Revenue Growth:** Interchange Income surged **30.5%** to ₹5,110.88 Cr, reducing reliance on risky interest income. \* **Cash Flow Turnaround:** CFO turned positive at **₹1,245 Cr**, a massive swing from the negative ₹1,150 Cr in FY25. \* **Conservative Accounting:** Amortization of contract costs (**₹1,396 Cr**) exceeded new capitalization (**₹1,285 Cr**), cleaning the balance sheet. \* **Liability Management:** Issued **₹2,000 Cr** NCDs at a competitive **7.05%**, successfully lowering finance costs despite a larger book.

**BUSINESS NEGATIVES / CONCERNS (for this company this year)** \* **Negative Operating Leverage:** Cost-to-Income ratio rose to **55.3%**, with employee costs growing 12.1% against 1.35% operating profit growth. \* **High Credit Risk:** **99.5%** of the ₹56,926 Cr loan book remains **unsecured**, leaving the company highly sensitive to macro shocks. \* **Reliance on Recoveries:** **31.6% of PAT** is derived from **Bad debt recoveries** (₹686.4 Cr), a volatile and non-core income stream. \* **Rising Retention Costs:** **Reward points redemption** spiked **34.6%** to ₹1,488.42 Cr, indicating intense competitive pressure. \* **Parent Dependency:** Proposed RPTs with SBI for FY27 stand at **₹28,000 Cr**, representing **140.8% of revenue**.

**OVERALL SCORECARD SUMMARY** SBI Cards has successfully transitioned from a period of asset quality stress to a "Risk-Off" stability phase, evidenced by the sharp drop in GNPA to 2.41% and a robust return to positive CFO. While earnings quality has improved through more conservative amortization of acquisition costs, the bottom line remains uncomfortably dependent on bad debt recoveries and is pressured by rising operating costs. Governance is structurally sound due to the SBI lineage, but the extreme concentration of funding and royalty leakage to the parent remains a persistent overhang. Overall, the business is on a **stable-to-improving trajectory**, trading aggressive growth for balance sheet resilience.



## Part B: Governance Check Matrix

| #  | Check                          | Status                   | Evidence                                                                                 |
|----|--------------------------------|--------------------------|------------------------------------------------------------------------------------------|
| 1  | Audit opinion clean?           | <input type="checkbox"/> | Unqualified opinion (p.296)                                                              |
| 2  | Promoter pledge = 0?           | <input type="checkbox"/> | 0.00% pledged (p.357)                                                                    |
| 3  | KMP pay < 5% of PAT?           | <input type="checkbox"/> | CEO pay on SBI books; other KMP not disclosed but aggregate employee cost is manageable. |
| 4  | RPT quantum < 5% of revenue?   | <input type="checkbox"/> | Proposed RPT is 140.8% of revenue (₹28,000 Cr).                                          |
| 5  | Board > 50% independent?       | <input type="checkbox"/> | 57.14% (4 of 7 directors).                                                               |
| 6  | At least 1 woman director?     | <input type="checkbox"/> | 3 women directors (42.86%).                                                              |
| 7  | No statutory dues outstanding? | <input type="checkbox"/> | No major defaults reported.                                                              |
| 8  | No fraud reported?             | <input type="checkbox"/> | No material fraud mentioned in auditor report.                                           |
| 9  | Audit trail enabled?           | <input type="checkbox"/> | Confirmed in auditor's report.                                                           |
| 10 | Frequent Auditor change        | <input type="checkbox"/> | Joint statutory auditors in place; no frequent changes.                                  |

Final line: "Total: 9/10 ☐—

Governance Rating: 4"

## Part C: Investor Verdict

THESIS: SBI Cards is a dominant market player successfully pivoting from "growth-at-all-costs" to a high-yield, transaction-led model with improving asset quality.

### OVERALL STANCE: ACCUMULATE

RATIONALE: Strong recovery in GNPA (2.41%) and positive CFO generation outweigh the concerns of rising operating costs and unsecured concentration. RE-EVALUATE WHEN: Cost-to-Income ratio exceeds 58% OR GNPA reverts above 3.2%. BULL CASE: UPI-on-Credit-Card adoption drives Interchange Income to >35% of total revenue, leading to a massive ROE expansion. BEAR CASE: A macro-economic downturn triggers a 2% spike in defaults, wiping out 50% of PAT due to the 99.5% unsecured nature of the book. KEY MONITORABLE: Cost-to-Income Ratio: 55.3% → watch threshold 52.0%.

## 7. YEAR-OVER-YEAR ANALYSIS

### 7.1 Changes

| Metric / Theme                       | Summary A Status                                                                      | Summary B Status                                                                                      | Forensic Takeaway                                                                                                                                          |
|--------------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Earnings Quality (Acquisition Costs) | Aggressive; capitalization of costs exceeded amortization, boosting PBT by ₹57.64 Cr. | Conservative; amortization (₹1,396 Cr) now exceeds new capitalization (₹1,285 Cr).                    | Management has pivoted to a more conservative accounting treatment of customer acquisition costs, effectively cleaning the balance sheet of "soft assets." |
| Cash Flow Generation                 | Negative CFO; loan book expansion and high impairments resulted in a cash drain.      | Positive CFO (₹1,245 Cr); driven by a deliberate slowdown in lending and improved working capital.    | The business has successfully transitioned from a cash-burning growth phase to a self-sustaining liquidity model.                                          |
| Asset Quality Trajectory             | Deteriorating; GNPA at 3.08% with impairment costs surging by 48.2%.                  | Improving; GNPA dropped to 2.41% as the "risk-off" sourcing strategy began to yield results.          | Headline asset quality has stabilized through a combination of aggressive write-offs and a shift toward higher-quality customer segments.                  |
| Operating Leverage                   | Negative; collection costs rose 41% while EBITDA declined by 8.2%.                    | Worsening; Cost-to-Income rose to 55.3% as employee and reward costs outpaced marginal revenue gains. | Despite better credit costs, the business is struggling with structural cost inflation in customer retention and collections.                              |
| Capital Allocation (Debt)            | Increasing leverage; net debt change of +₹3,180 Cr to fund growth.                    | De-leveraging; net debt decreased by ₹82 Cr as the company prioritized balance sheet consolidation.   | Management has halted debt-funded expansion in favor of internal accrual-based stability during the current credit cycle.                                  |
| Management Tone                      | "Measured Optimism" with a focus on acquisition at scale.                             | "Disciplined Execution" with a focus on "Yield through Depth" and UPI integration.                    | The strategic narrative has shifted from aggressive market share capture to defensive value extraction from the existing portfolio.                        |

### 7.2 Persistent Patterns

- **Extreme Unsecured Exposure:** The loan book remains **99.5%+ unsecured**, leaving the entire equity base perpetually vulnerable to minor fluctuations in retail credit behavior.
- **Structural Funding Dependency:** The company consistently sources **~50% of its liquidity from SBI**, creating a "too-big-to-fail" safety net that masks its independent market-based credit risk.
- **Parental Value Extraction:** The **royalty payment structure** (2% of PAT or 0.2% of Income) remains a permanent structural leakage that prioritizes promoter returns over minority shareholders.
- **Aggressive Write-off Lag:** A consistent **191-day DPD threshold for write-offs** (vs. the 90-day default trigger) allows the company to carry non-performing assets longer than conservative banking peers.
- **Volatile Recovery-Driven Earnings:** PAT remains uncomfortably dependent on **bad debt recoveries** (contributing 31.6% of PAT in the current year), which is a non-core and unpredictable income stream.
- **High Capital Adequacy:** The company maintains a **CRAR consistently above 20%**, providing a necessary but expensive regulatory buffer against its high-risk lending profile.
- **Negative Operating Leverage:** Operating expenses, particularly **collection charges and reward redemptions**, continue to grow faster than core interest income, squeezing long-term margins.

