

SBI Cards & Payment Services Ltd — Apr 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat **One-line:** Management has finally delivered the elusive "inflection point" in asset quality with Gross Credit Costs declining to 9.0%, but the recovery remains fragile as they sacrificed Stage 3 provision density (PCR) to "clean up" Stage 2.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Beat	Gross Credit Cost (9.0%) improved 40bps QoQ, outperforming the "visible improvement" signal from Q3.	☐
Earnings Quality	High (Core driven)	PAT ₹534 Cr (QoQ +39%) driven by 54bps NIM expansion and lower opex; lease modification (one-off) was minor (0.1% NIM impact).	☐
Guidance Confidence	Neutral	Management expects "calibrated moderation" in credit costs but raised CTI guidance to 55-57% for FY26.	☐
Management Credibility	Improving	After three quarters of misses, they delivered on the asset quality peak; however, the ECL model "refresh" complicates QoQ NNPA comparisons.	☐
Business Quality Signal	Stabilizing	Return on Assets (ROAA) bounced to 3.4% from 2.4% QoQ; the "Safety-First" pivot to Banca (63% mix) is yielding results.	☐
Key Q&A Exchange	Q# 1 (ECL Model)	Mgmt explained increasing Stage 2 provisions to 20% (vs ~4%) to take pain early, which is a structural pivot in risk management.	☐
The Street's Primary Anxiety	CTI Guidance	Analysts were concerned about the jump to 55-57% CTI guidance; mgmt cited ramp-up in acquisitions and corporate cards.	☐
Capital Cycle Stage	Consolidation	Shifting from growth-chasing to "calibrated sourcing" (1.1M cards/qtr) while rebuilding the P&L buffer.	☐
Margin Ratio Trajectory	Improving	NIMs expanded to 11.2% (11.1% adjusted) aided by lower COF (7.2%) and better yields (17.0%).	☐
Pricing Power	Stable	Yields improved 48bps QoQ to 17.0%; revolver rate stable at 24% despite higher transactor mix in new vintages.	☐
FCF Conversion & Quality	Strong	CFO remains robust as impairment charges (₹4,872 Cr FY25) are non-cash; loan growth was funded by internal accruals and borrowings.	☐
Competitive Moat Signals	Stable	Cards-in-force (CIF) market share held at 18.9%; Spend market share stabilized at 15.6% after the BPSP-related exit.	☐
Balance Sheet Strength	Strong	CAR at 22.9% (Tier 1 at 17.5%) provides 700bps+ buffer over regulatory requirements.	☐
Working Capital Efficiency	Improving	Stage 2 balances reduced by ₹282 Cr; Stage 3 balances reduced by ₹59 Cr QoQ.	☐
Mgmt Guidance Track Record	Improving	Met the "inflection" promise; now pivoting to a 12-14% growth target (lowering from historical 20%+).	☐
Key Vulnerability / Red Flag	NNPA Spike	NNPA rose to 1.46% (from 1.18% QoQ) because Stage 3 provision coverage was cut from 64.3% to 53.5% during the model refresh.	☐
Management Tone	Confident & Reassuring	Focused on "accumulation of improvement" and "sustained trends" across all quality metrics.	☐

Sentiment: □ **Positive Key Takeaways:** * **Positives:** The credit cycle has finally peaked; Gross Credit Cost at 9.0% (vs 9.4% prior) and declining delinquencies suggest the worst is over. NIMs expanded to 11.2% on the back of lower COF (7.2%), and the company re-entered the Corporate segment (60% QoQ spend growth) with a "BPSP-compliant" strategy. * **Negatives:** To achieve the "ECL Inflection," management slashed Stage 3 provision coverage from 64.3% to 53.5%, causing a technical spike in NNPA (1.46%). Guidance for FY26 includes a higher Cost-to-Income (55-57%) as they resume aggressive digital sourcing. * **Street Concern:** Analysts pressed on the "Lag" in COF benefits and the permanence of lower revolver rates (down 10-15% in new vintages). Management's response—that they are pivoting to "Term Assets" (EMI) to offset revolver decline—suggests a structural shift to lower-yield, higher-stability interest income. * **Watchpoint:** Monitoring if NNPA returns to <1.2% in FY26. If the Present Value of recoveries (which justified the Stage 3 provision cut) fails to materialize, the credit cost will spike again.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	13.0%	+1300 bps	+100 bps	↑	Driven by 10% receivable growth and 48bps yield expansion.
NIM (AUM basis %)	11.2%	+29 bps	+54 bps	↑	Benefited from lower COF and interest income flow-through; adjusted NIM is 11.1%.
Cost of Funds %	7.2%	-15 bps	-18 bps	↑	Benefited from 7.5% daily avg COF and market rate action with a lag.
Loans Growth (% YoY)	10.0%	-1100 bps	-200 bps	↓	Deliberate moderation; guided to 12-14% for FY26.
GNPA %	3.08%	+31 bps	-16 bps	↑	Absolute Stage 3 balances fell by ₹59 Cr to ₹1,718 Cr.
NNPA %	1.46%	+47 bps	+28 bps	↓	Red Flag: Rose due to provision density reallocation in ECL refresh.
Slippage Ratio %	2.10%	Not in doc	-10 bps	↑	Management confirmed slippages improved from 2.2% to 2.1% QoQ.
Credit Cost (% funded assets)	9.0%	+143 bps	-42 bps	↑	First quarter of GCC reduction; management expects moderation to continue.
Collection Efficiency %	Not in doc	-	-	-	"Showing improvements" particularly in minimum due paying buckets.
Capital Adequacy / CET1 %	22.9% / 17.5%	+240 bps	→	→	Robust buffer; Tier 1 stable at 17.5%.
PAT (₹Cr)	₹534	-19.4%	+39.4%	↑	Significant QoQ recovery as credit costs and opex both moderated.
Fee Income Growth %	2.0%	-1100 bps	+2.0%	→	Impacted by lower instance-based fees (late fees) as quality improves.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin (Yield)	Trend	vs Co Avg	Key Development
Interest Income	₹2,415	13%	17.0%	↑	Baseline	Yields hit 17% as RBI risk-weight impacts were absorbed.
Fees & Other	₹2,259	2%	N/A	→	Worse	Subscription/Spend fees up; Instance/Late fees down.
SBI Banca	N/A	N/A	N/A	↑	Better	63% of Q4 new sourcing; 30+ delinquency index at 0.77 (23% better).
Open Market	N/A	N/A	N/A	↓	Worse	37% of Q4 new sourcing; 30+ delinquency index at 1.15 (15% worse).

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Receivables Growth	12% - 14% for FY26.	Needs ~₹650 Cr net addition/month; currently achieving ~₹400 Cr.	Missed: Prior guidance was 20%+.	Medium
Guidance	Credit Costs	"Calibrated moderation."	Needs ~30-40bps reduction per quarter to reach 7% by FY27.	Achieved: First decline in 5 quarters.	Medium
Guidance	Cost to Income	55% - 57% for FY26.	Mathematical jump from 51.8% in FY25 implies aggressive opex spend.	Met: Historically kept in 52-55% range.	High
Strategy	Sourcing Mix	50% - 55% Banca share.	Q4 was 63%; need to ramp Open Market back to avoid over-reliance on SBI.	Exceeded: Currently skewed to Banca for safety.	Low
Strategy	Corporate Cards	Rebuilding "profitable" corporate spends.	Spends grew 60% QoQ to ₹8,600 Cr; need to maintain ~₹10k Cr/qtr.	Improved: Turning around after BPSP exit.	Medium
Macro	Rate Cut Lag	Benefit to NIM to flow in 1-2 quarters.	COF already down to 7.2%; every 25bps repo cut adds ~10-15bps to NIM.	On Track: COF trending down.	Low

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Anuj Singla / BofA	ECL Model	Financials	"Provision coverage for Stage 1 to 3... significant change on a QoQ basis... what is driving this?"	Management explained the model refresh increased Stage 2 provision density from 4% to 20% to accelerate pain recognition in high-risk buckets. This "cleanup" reduces future P&L volatility but resulted in a lower Stage 3 PCR of 53.5%.	None	5.0	High Transparency
2	4.0	Anuj Singla / BofA	NIM Outlook	Management Commentary	"Should not the lower cost of funding drive a NIM expansion during the course of the year?"	Management indicated NIMs would be "steady" because they might pass some rate benefits to customers or face changes in IBNEA mix. This implies NIM expansion is capped in the near term by competitive pricing.	Specific yield cut targets.	3.0	Hedged
3	4.5	Anand Dama / Emkay	Depreciation	Financials	"Your depreciation is negative during the quarter. Any reason for that?"	Management clarified this was a one-time lease modification entry in Q4 that impacted the depreciation line. This confirms the QoQ PBT beat had a	None	4.0	Clarified

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						minor non-operating component.			
4	4.0	Shweta / Elara	Asset Quality	Financials	"Why this kind of significant spike in Stage 2 ECL? Is it customer behavior?"	Management stated the hike to 20% provision density was an exercise in "accelerating provision efforts" to take them early rather than late. This signals a more conservative risk stance heading into FY26.	None	5.0	Conservative Signal
5	4.5	Rohan Mandora / Equirus	Flow Rates	Financials	"On the flow rates, if you can qualitatively give from the peak level, how much would it have improved?"	Management confirmed 30+ and 90+ delinquencies improved steadily between Sep-Dec and again Dec-Mar. This supports the thesis that the "bad flow" into NPLs has finally slowed down.	Quantitative flow %	3.0	Directional only
6	4.0	Zhixuan Gao / Schonfeld	Revolve Rates	Business Overview	"On your new sourcing... what's the difference between the EMI % or revolver %... last 1 year vs average?"	Management noted new vintages have 10-15% lower revolving behavior but show a higher inclination for term loans (EMI). This suggests a structural shift toward safer,	Exact gap in bps.	3.5	Structural Shift

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						lower-yield installment products.			
7	4.0	Mahrukh / Nuvama	Yield Strategy	Management Commentary	"Would you be doing major cuts [to yields] as the rate cut cycle progresses?"	Management expects revolver yields to be sticky but EMI pricing to be adjusted based on COF benchmarks. This protects margins on the core revolver book while keeping EMI products competitive.	None	4.0	Clear Pricing
8	3.5	Punit Bahlani / Macquarie	Sourcing Mix	Strategy	"4Q mix towards Banca is like 63%... is this like a new strategy?"	Management stated the uptick was due to digital integration with SBI Card Sprint, but the long-term target remains a 50-55% mix. This implies they will pivot back to Open Market as risk appetite returns.	None	4.0	Strategic Pivot
9	4.5	Hardik Shah / Goldman	Stage 3 PCR	Financials	"What's the logic of reducing the Stage 3 coverage?"	Management explained that by discounting recoveries to present value first before capping at 100%, the "correct" LGD was lower. This accounting shift allowed	None	4.0	Accounting Detail

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						them to reallocate provisions to Stage 2 but leaves less room for NPL surprises.			
10	4.0	Tanuj Jain / JPM	Growth vs Quality	Strategy	"As the vintage of these newer acquisitions increase, you still expect your revolve rate to settle between that 24% mark?"	Management admitted the mix might settle "slightly lower than 24%" but they are prioritizing total interest income via term assets. This confirms the transition from a "revolver-first" to a "multi-product" lender.	None	3.5	Yield Reset
11	4.0	Krishnan ASV / HDFC Sec	Corporate Cards	Business Overview	"What are the levers available to improve corporate card profitability?"	Management highlighted Travel & Entertainment (T&E) as high margin, while vendor/tax payments provide high ROA despite low absolute profit due to zero capital charge. This explains the 60% QoQ surge in corporate volumes as an ROE-booster.	None	4.0	ROE Play
12	3.0	Piran Engineer / CLSA	Attrition	Business Overview	"How many [cards] would still be with you and how many	Management stated overall attrition is 10-13%, with involuntary	None	3.0	Useful Context

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					would have dropped off [from 2015]?"	attrition (write-offs) being a key component. This confirms that cardholders are stickier than the "revolver" behavior might suggest.			

PATTERN FLAGS & SENTIMENT * **The ECL Model Reallocation:** The primary theme was the "Model Refresh." Analysts were suspicious of the NNPA spike (to 1.46%) and the lower Stage 3 PCR (53.5%). Management was defensive but logically consistent, arguing that 20% Stage 2 coverage is a "gold standard" for early pain recognition. * **The Yield/Revolver Structural Reset:** Multiple questions focused on why new cardholders aren't "revolving" as much. Management's admission of a 10-15% lower revolve rate in new vintages confirms the street's fear: the hyper-profitable revolver moat is shrinking, necessitating a volume-led or EMI-led growth strategy. * **Analyst Sentiment Verdict: Cautiously Optimistic.** The "peak credit cost" box has finally been checked, which was the single biggest overhang. However, friction remains over the NNPA calculation and the 55-57% CTI guidance, which suggests FY26 will be an "investment year" rather than a "harvesting year." Credibility has stabilized as the MD/CEO delivered on the asset quality turnaround promised two quarters ago.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening / Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | NNPA Target | Expected to decline with GNPA. | Rose to 1.46% (up 28bps QoQ). | Accounting refresh reduced PCR, inflating NNPA despite better GNPA. | Perception of weak "net" quality. | | Cost-to-Income | Aimed for ~52% (Q4 level). | Guided to 55% - 57% for FY26. | Aggressive opex spend planned for new sourcing/digital. | FY26 earnings growth lag. | | Revolve Mix | Stabilizing at 24%. | New vintages are 10-15% lower. | Structural shift in consumer behavior toward EMI over revolvers. | Permanent NIM compression risk. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY25)	This Quarter (Q4 FY25)	Direction
Gross Credit Cost	9.4%	9.0%	↑ Improving
Net Interest Margin	10.6%	11.2%	↑ Improving
Cost of Funds (COF)	7.4%	7.2%	↑ Improving
GNPA	3.24%	3.08%	↑ Improving
NNPA	1.18%	1.46%	↓ Deteriorating (Accounting)
Stage 2 Provisioning	~4.2%	19.2% (ECL rate)	↑ More Conservative
Stage 3 PCR	64.3%	53.5%	↓ Aggressive Recognition
Sourcing Mix (Banca)	52%	63%	↑ Defensive/Quality Focus
Corporate Spend Growth	Defensive/Slow	+60% QoQ	↑ Aggressive/Re-entry
Management Tone	Cautious/Defensive	Confident of Inflection	↑ Improving

Investor Notes: * **Thesis Status:** The thesis has moved from "Distressed" to "Recovery." The peak in credit costs is the primary re-rating trigger. * **Earnings Quality:** CFO remains strong; however, the PAT of ₹534 Cr includes a minor benefit from lease modifications and a significant reallocation of provisions. * **The "NNPA Paradox":** Investors must look past the 1.46% NNPA spike; it is an artifact of the 19.2% Stage 2 provisioning. This is a "better quality" balance sheet than Q3, despite the higher NNPA number. * **Watch Point:** FY26 CTI guidance (55-57%). If management spends this opex and fails to deliver 15%+ receivable growth, the stock will derate on "inefficient growth."