SBI Cards & Payment Services Ltd — Aug 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Miss **One-line:** Thesis is under significant stress as persistent asset quality degradation "across all cohorts" and a pivot to aggressive limit-cutting suggest a breakdown in underwriting predictability during a systemic unsecured lending downcycle.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Weak Miss	Credit cost at 8.5% exceeded the ~7% directional guidance; PAT flat YoY.	□
Earnings Quality	Low (Asset quality drag)	PAT growth is 0% YoY despite 22% receivable growth due to massive impairment spikes.	□
Guidance Confidence	Weak	Mgmt admitted prior "2-quarter recovery" timeline failed; now pushing recovery to late H2 FY25.	□
Management Credibility	Neutral	Transparent about ecosystem stress but failing to forecast the bottom of the credit cycle.	□
Business Quality Signal	Deteriorating	Credit cost at 8.5% is significantly above historical norms; RoAE slipped to 19.1%.	□
Key Q&A Exchange	Q# 11 + Recovery Strategy	Mgmt admitted borrowers are "unable to pay at all," regardless of collection intensity.	□
The Street's Primary Anxiety	Cohort Contagion	Analysts fear delinquency is no longer just "new to credit" but spreading to vintage portfolios.	□
Capital Cycle Stage	Consolidation	Aggressive limit reductions (5 lakh cards) and selective sourcing indicate a defensive posture.	□
Margin / Return Ratio Trajectory	Deteriorating	RoAA dropped from 5.0% to 4.1% YoY; RoAE fell 419 bps YoY.	□
Pricing Power	Stable	Yields at 15.3% are stable, but inability to pass on higher risk costs via revolver rates.	□
FCF Conversion & Quality	Weak	High credit costs are eating operating cash flow; Receivables growth outpacing PAT.	□
Competitive Moat Signals	Stable	Retains #2 position (18.5% CIF share) and SBI Banca access, but market share in spends is dipping.	□
Balance Sheet Strength	Strong	Tier 1 CAR at 16.8%, Total CAR at 20.6% is well above regulatory requirements.	□
Working Capital Efficiency	Deteriorating	GNPA increased 30 bps QoQ to 3.06%; NNPA breached 1% mark (1.11%).	□
Mgmt Guidance Track Record	Mixed	Growth targets being met, but asset quality guidance has been consistently optimistic.	□
Key Vulnerability / Red Flag	Universal Delinquency	Management confirmed defaults are happening across salary, geography, and ticket sizes.	□
Management Tone	Cautious & Defensive	Acknowledged industry-wide overleveraging; focus is on "cutting losses" over growth.	□

Sentiment: □Negative

Key Takeaways (Positives & Negatives): * **Positives:** Retail spends grew robustly at 23% YoY, offsetting a collapse in corporate spends (-66%); SBI Banca channel remains a resilient sourcing engine (42% of new adds); NIMs held steady at 10.9% despite cost of funds rising to 7.5%. * **Negatives:** Credit costs have spiked to a record 8.5%, driven by "overleveraged" customers holding 5-10 trade lines; management was forced to slash limits for 5 lakh customers in a single quarter (matching the total for all of last year); the "2-quarter recovery" narrative from last year has been abandoned for a vague "H2 FY25" timeline. * **Street Concern:** Analysts are deeply unsettled by the admission that delinquency is "spread across all cohorts," implying that standard underwriting filters (salary, geography, score) are providing limited protection against systemic over-leveraging. * **Watchpoint:** Monitor if credit costs stabilize in Q2/Q3; any breach above 9% would suggest the model's loss-prediction capability is broken.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Loans Growth (% YoY)	22.0%	First entry	First entry	↑	Receivables (NEA) reached ₹50,807 Cr (Net).
Fee Income Growth %	1.6%	First entry	First entry	→	Fees/Commission income at ₹1,928 Cr vs ₹1,898 Cr YoY.
Cost of Funds %	7.5%	+50 bps	+10 bps	↓	Daily weighted average COF increased; expected to stay elevated.
NIM (AUM basis %)	10.9%	First entry	→	→	Yield expansion offset COF rise; stable QoQ.
GNPA %	3.06%	+65 bps	+30 bps	↓	Driven by "ecosystem stress" and overleveraging.
NNPA %	1.11%	+22 bps	+12 bps	↓	Net NPA breached the 1% threshold.
Credit Cost (%)	8.5%	+165 bps	+90 bps	↓	Gross credit cost at 8.5% (₹1,101 Cr impairment).
Capital Adequacy %	20.6%	First entry	First entry	→	Tier 1 at 16.8%; well-capitalized for risk.
Revenue	₹4,483 Cr	11%	0.2%	↑	Driven by interest income (+24% YoY).
PAT	₹594 Cr	0.2%	-10%	→	Flat YoY as credit costs wiped out revenue gains.
ROAA (%)	4.1%	-97 bps	-61 bps	↓	Profitability under pressure from provisions.
ROAE (%)	19.1%	-419 bps	-300 bps	↓	Significant drop from the peak 23%+ levels.

2B. SEGMENT BREAKDOWN

Segment	Spends (□ Cr)	YoY Growth	Margin (NIM)	Trend	vs Co Avg	Key Development
Retail Spends	□71,880	23%	N/A	↑	Higher	Consumer durables (+85%) and Jewellery (+11%) were strong.
Corporate Spends	□5,249	-66%	N/A	↓	Lower	Impact of regulatory changes; recovering month-on-month.
Interest Earning	□32,677	N/A	10.9%	→	Benchmark	Share of earning receivables stable at 62%.
Revolvers	□12,649	N/A	~42% APR	→	Max Yield	Revolver share stable at 24% of receivables.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery (Did they do what they promised?)	Risk Flag
Guidance	Credit Costs	7.0% - 8.0% for FY25	Needs <7.5% in Q2-Q4 to hit mid-point; currently 8.5%.	**Missed:** Prior guidance of 2-quarter peak has been extended.	High
Guidance	Receivable Growth	15% - 18% Asset Growth	Currently 22%; likely to slow due to selectivity.	**Achieved:** Growth remains robust.	Low
Guidance	Cost of Funds	Stable at current levels	Dependent on RBI rate cuts; currently 7.5%.	**Met:** Slight uptick as guided.	Medium
Guidance	Card Additions	~1 Million per Quarter	Current 0.9M; needs slight uptick.	**Missed:** Slight decline due to tighter filters.	Low
Strategy	Limit Reductions	Aggressive de-risking	5 lakh accounts reduced; impact to hit H2.	**New:** Major acceleration this quarter.	Medium
Strategy	UPI on Credit	Growth in RuPay adoption	□1,000 Cr/month run rate achieved.	**Achieved:** Spends grew 50% QoQ.	Low
Macro	Overleveraging	Persistent industry issue	Monitoring trade lines (1 to 10 per user).	**Live:** Management admits contagion across vintages.	High

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Piran Engineer / CLSA	Credit Cost Levers	Financials	"What are the levers we can take apart from say collections... to offset the impact of credit cost?"	Management refused to hike revolver rates from the current 3.5%/ month (42% APR) but will look at fee-based items like rental fees. This implies top-line levers are limited and margins are entirely dependent on fixing the credit cost.	None	4.0	Clear/ Quantified
2	3.5	Piran Engineer / CLSA	Underwriting	Business Overview	"How many [new customers] are new to credit, how many are new to credit cards?"	60% of new acquisitions are already carded, while 40% are new to credit, sourced primarily through the Banca channel. This highlights SBIC's reliance on SBI's internal data to navigate the risky NTC (New to Credit) segment.	None	4.5	Specific details
3	4.5	Piran Engineer / CLSA	Overleveraging	Business Overview	"Why are we giving such customers a card [if they already have many trade lines]?"	Management explained that customers often appear "prime" at onboarding but rapidly add 5-10 trade lines post-acquisition, changing their risk profile. This confirms a lack of ongoing monitoring/	None	3.0	Vague on control

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						control once the card is in the customer's wallet.			
4	5.0	Mahrukh Adajania / Nuvama	Cohorts	Financials	"Is it that customers... are multi-leveraging... is culture really deteriorating?"	Management confirmed delinquency is moving across all segments (salary, self-employed, tiers) with no specific cohort to blame. This "universal" deterioration is the most alarming signal of the quarter for long-term investors.	None	4.0	Directional evidence
5	3.0	Mahrukh Adajania / Nuvama	Opex	Financials	"How long do you see [opex] remaining subdued?"	Opex is low due to lower corporate spends and card acquisition, but will stabilize at mid-50s cost-to-income as volume returns. This suggests current low opex is temporary and not a structural efficiency gain.	None	4.0	Logical
6	4.0	Rohan Mandora / Equirus	Watchlist	Financials	"What is the watch list pool of customers... where we can potentially expect some action?"	Management declined to give a specific number, stating triggers are acted upon in "real time." The refusal to quantify the watchlist pool leaves investors blind to the potential	Number of customers on watchlist	2.0	Deflected

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						size of future write-offs.			
7	4.5	Rohan Mandora / Equirus	Limit Cuts	Strategy	"Where does [exposure] stand now [after the 5 lakh limit cuts]?"	The 5 lakh limit cuts involved reducing limits by ~25% for high-risk customers, aiming to "cut losses" before they become delinquent. This massive defensive pivot (equivalent to 1 year of action in 3 months) suggests significant internal panic about portfolio risk.	Total exposure amount	3.0	Hedged
8	3.5	Rohan Mandora / Equirus	Interest Earning Mix	Financials	"Share of interest earning assets... has not moved up in the last 1 year."	Revolver share is stable at 24%, while installment lending (EMI) is expected to reach a 38-40% ceiling. This confirms that SBIC is hitting a structural yield ceiling where further growth won't come from higher-interest segments.	None	4.0	Specific targets
9	4.0	Roshan Chutkey / ICICI Pru	Delinquency	Financials	"How has [delinquency number] moved over the past 4 quarters... talk about bounce rates."	Management pointed to the ECL model refresh as the driver of stage movements but admitted that "environmental factors" are	Specific bounce rate data	3.0	Vague

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						delaying recovery. This essentially moves the goalposts on when asset quality will bottom out.			
10	4.0	Shweta Daptardar / Elara	Credit Cost Forecast	Management Outlook	"What is it that we should be factoring into sort of get some sense on credit cost movement ahead?"	Management linked credit costs to the "ecosystem" rather than their own sourcing, suggesting they are victims of broader macro trends. This indicates that internal underwriting changes may have a limited impact until the total market credit cycle turns.	None	2.5	Vague/ Macro-reliant
11	4.5	MB Mahesh / Kotak	Recovery	Financials	"How easy or difficult has it been to put SBI Cards as a first point of repayment?"	Management admitted that for many delinquent customers, "the fellow doesn't have money to pay" at all. This suggests a shift from "liquidity issues" (can't pay now) to "solvency issues" (can't pay ever) for a portion of the portfolio.	None	4.0	Brutally honest
12	3.5	Vishal / UBS	Growth Comfort	Management Outlook	"How comfortable you are	Management is prioritizing growth from	None	4.0	Strategic shift

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					growing your book at 20% plus if you are seeing this stress?"	"existing customers" and "installment lending" (EMI) rather than aggressive new customer acquisition. This confirms a shift from a "land grab" strategy to a "mining the base" strategy.			
13	4.5	Krishnan / HDFC	Quality vs Growth	Management Outlook	"Are we reaching a stage now where you necessarily need to prioritize asset quality stability over the growth?"	Management insisted they will not "step back" or "fold up the shop," arguing they can manage both quality and growth simultaneously. This stance may be viewed as aggressive by the Street given the current 8.5% credit cost.	None	3.0	Defensive posture
14	3.0	Shubhranshu / PhillipCap	NUNP	Business Overview	"What is the NUNP (Non-User Non-Pay) as of this quarter?"	NUNP is almost nil following RBI guidelines to close inactive cards within 37 days. This clears one regulatory risk but confirms that "active" cards are the ones failing.	None	4.0	Regulatory alignment

PATTERN FLAGS & SENTIMENT * **Theme Cluster: Portfolio Contagion.** Analysts repeatedly probed for specific cohorts (vintage, salary, tier) to isolate the pain. Management's response—that it is "spread around" across all categories—creates a sentiment of high anxiety, as it suggests the stress is systemic rather than a targeted underwriting fix. * **Theme Cluster: Defensive Maneuvers.** The acceleration of limit cuts (5 lakh accounts) was a major friction point. Analysts were skeptical if 25% cuts on already-utilized limits would meaningfully save the portfolio, while management viewed it as a necessary loss-containment measure. * **Analyst Sentiment Verdict:** Analysts are visibly skeptical and growing frustrated with the shifting timeline for credit cost recovery. The friction in the call centered on whether management is being too aggressive by continuing 20%+ growth while the "solvency" of their borrowers is in question. Credibility has slightly deteriorated because the "two-quarter" stabilization guided previously was proven wrong.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Prior Q)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Asset Quality Recovery	Expected recovery within 2 quarters.	Recovery pushed to "later part of the financial year."	~6-month delay in stabilization timeline.	Persistent ROE/ROA suppression.
Portfolio Isolation	Implied certain segments were more stressed.	Stress is "spread across salary, self-employed, and tiers."	Admission of systemic rather than localized stress.	Higher probability of broad-based write-offs.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare. Baselines established: Credit Cost 8.5%, GNPA 3.06%, ROAE 19.1%.

What Changed	Prior Quarter	This Quarter	Direction
Credit Cost	Not available	8.5%	↓ Deteriorating
Limit Management	Not available	5 lakh accounts cut	↓ Defensive
Recovery Timeline	Not available	Pushed to late H2	↓ Deteriorating
ROAA	Not available	4.1%	↓ Deteriorating
Corporate Spends	Not available	□5,249 Cr (-66% YoY)	↓ Deteriorating
GNPA	Not available	3.06%	↓ Deteriorating