SBI Cards & Payment Services Ltd — Aug 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Beat on Margins / Miss on Credit Costs **One-line:** The thesis is in a "tug-of-war" where expanding NIMs and improving lead indicators (Stage 2) are being offset by a model-driven spike in credit costs and a deliberate deceleration in growth.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Miss (Growth)	Receivable growth guidance lowered to 10-12% from 12-14% prior.	□
Earnings Quality	Moderate	PAT growth (4% QoQ) aided by NIM expansion but weighed by □1,352 Cr impairment charge.	□
Guidance Confidence	Neutral	Management remains "cautious" on credit costs, providing "range-bound" outlook rather than hard targets.	□
Management Credibility	Stable	Transparent about the ECL model refresh impacts, but yet to call a definitive peak in Gross Credit Costs.	□
Business Quality Signal	Stabilizing	Stage 2 assets fell for the 3rd straight quarter; spend market share recovered to 16.6%.	□
Key Q&A Exchange	Q# 1 (ECL Reset)	Mgmt explained the 9.6% credit cost spike was a mathematical outcome of replacing old "good" data with recent "stressed" data in the ECL model.	□
The Street's Primary Anxiety	Asset Quality Peak	Analysts pressed on when the ECL/Write-off pain ends; mgmt cited market-wide leverage as a lingering headwind.	□
Capital Cycle Stage	Consolidation	Shifting away from aggressive sourcing (8.73L cards vs ~1M prior) to protect the balance sheet.	□
Margin Trajectory	Improving	NIM expanded to 11.2% (up ~10bps normalized) as COF fell 20bps QoQ.	□
Pricing Power	Stable	Portfolio yield held at 17.0%; revolver rate steady at 24%.	□
FCF Conversion & Quality	Strong	High impairment (non-cash) relative to PAT indicates strong cash flow potential once credit cycle turns.	□
Competitive Moat Signals	Stable	Maintained dominant position; UPI-on-Credit-Card growing 20% QoQ (low-ticket entry moat).	□
Balance Sheet Strength	Strong	CAR at 23.2% (Tier 1 ~18%); significant buffer to absorb any further ECL volatility.	□
Working Capital Efficiency	Improving	Stage 2 balances reduced by □128 Cr QoQ; lead indicators of stress are cooling.	□
Mgmt Guidance Track Record	Mixed	Accurate on COF reduction; missed on growth trajectory (lowered guidance).	□
Key Vulnerability	Retail Leverage	Broad-based stress in the unsecured ecosystem is forcing "cautious" underwriting, limiting growth.	□
Management Tone	Cautious yet Confident	Protective of the portfolio but optimistic about festive season recovery and NIM tailwinds.	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** The Net Interest Margin (NIM) recovered to 11.2% as the Cost of Funds (COF) dropped to 7.1% (down 20bps QoQ). Asset quality lead indicators are finally cooling: Stage 2 assets dropped to 4.7% (vs 5.0% QoQ), marking three quarters of improvement. Spend market share rose to 16.6%, and UPI-on-credit-card is scaling rapidly (20% QoQ growth), creating a new high-frequency transaction moat. * **Negatives:** Gross Credit Costs spiked to 9.6% (vs 9.0% QoQ), primarily due to an Ind AS model "refresh" that incorporated more recent stress periods into historical loss averages. Management slashed receivable growth guidance for FY26 to 10-12% (from 12-14%), reflecting a defensive pivot. New card additions fell below the 1 million/quarter psychological mark to 8.73 lakh. * **Street Concern:** The main friction point is the "duration of pain." Analysts are frustrated that despite falling Stage 2 and stable GNPA, the P&L credit cost remains elevated. Management's response—that credit costs will remain "range-bound" between Q4 and Q1 levels—suggests the "harvesting" phase of the recovery is still 1-2 quarters away. * **Watchpoint:** Monitoring the Gross Credit Cost in Q2 FY26. If it fails to moderate below 9.5%, it indicates that the "model refresh" was masking underlying worsening slippages rather than just being an accounting adjustment.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	11.1%	↓ 190 bps	↑ 110 bps	↑	Interest income grew 11% YoY to □2,493 Cr.
NIM (AUM basis %)	11.2%	↑ 28 bps	→ 0 bps	↑	Normalized NIM expanded ~10bps vs Q4 (ex-lease one-off).
Cost of Funds %	7.1%	↓ 40 bps	↓ 20 bps	↑	Benefit from repo rate cut and shift to CP/NCD mix.
Loans Growth (% YoY)	7.0%	↓ 1,700 bps	↓ 300 bps	↓	Deliberate slowdown to focus on "quality" sourcing.
GNPA %	3.07%	↑ 1 bp	↓ 1 bp	→	Stable at 3.07% despite ecosystem stress.
NNPA %	1.42%	↑ 31 bps	↓ 4 bps	↑	Improved slightly as provisions caught up with stock.
Slippage Ratio %	Not in doc	-	-	-	Mgmt noted "delinquency rates have been declining."
Credit Cost (Gross %)	9.6%	↑ 111 bps	↓ 58 bps	↓	Spike due to periodic data refresh in ECL model.
Collection Efficiency %	Not in doc	-	-	-	Internal flow metrics (30+/90+) improving for 3 qtrs.
Capital Adequacy %	23.2%	↑ 260 bps	↑ 30 bps	↑	Robust; Tier 1 at 17.9% (up from 17.5%).
PAT (□Cr)	□556	↓ 6.2%	↑ 4.1%	↑	Lower YoY due to 22% spike in net credit costs.
Fee Income Growth %	13.6%	↓ 1,140 bps	↑ 4.7%	→	Stronger QoQ; fees reached □2,191 Cr.
Revenue (□Cr)	□5,035	↑ 12.3%	↑ 4.2%	↑	Driven by interest income and higher spend fees.
Cost to Income (%)	51.4%	↑ 140 bps	↓ 108 bps	↑	Lower acquisitions reduced variable sales costs.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin (Yield)	Trend	vs Co Avg	Key Development
Interest Income	₹2,493	11.1%	15.2%	↑	Baseline	Yield stable; Revolver rate steady at 24%.
Fee & Commission	₹2,191	13.6%	N/A	↑	Better	Spends-based fees grew; UPI credit scaling.
Subscription Fees	₹291	16.4%	N/A	↑	Better	Reflects sticky premium card base.
Corporate Cards	₹10,840 (Spend)	5.2%	Low	↑	Lower	Spends grew via diversification of use cases.
Retail Spends	₹82,404 (Spend)	15.0%	High	↑	Better	Online contributes 60.7% of total retail.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Receivables Growth	10% - 12% for FY26.	Requires monthly net addition of ~₹450 Cr; Q1 only added ~₹231 Cr net.	**Missed:** Prior guidance of 12-14% was walked back.	High
Guidance	Credit Costs	"Range-bound" between Q4 and Q1 levels.	Requires GCC to stay between 9.0% and 9.6%.	**Mixed:** Q1 spike (9.6%) was above street expectations.	Medium
Guidance	Cost of Funds	Expect further reduction in Q2 FY26.	Repo benefits and mix change suggest 6.9-7.0% is possible.	**On Track:** Delivered 20bps reduction in Q1.	Low
Strategy	Sourcing Mix	High focus on Banca (56%) and Salaried (61%).	Achievable; currently 61% salaried/39% self-employed.	**Met:** Shifted toward safer Banca/Salaried mix.	Low
Macro	Industry Growth	Credit card industry CIF to double by FY29.	Implies ~15% CAGR; SBI Card currently at 10% growth (losing share).	**Lagging:** Currently growing below industry avg.	Medium

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	Mahrukh / Nuvama	Credit Cost	Financials	"When you say range bound... do you think it reverts to the 4th Quarter level or range bound at the 1st Quarter level?"	Management indicated credit costs will likely stay between Q4 (9.0%) and Q1 (9.6%) levels due to the model refresh and NEA growth. Higher P&L volatility should be expected until the "refreshed" loss rates stabilize.	None	4.0	Directional Only
2	4.5	Mahrukh / Nuvama	Growth	Mgmt Commentary	"Receivable growth is down to 7%... confidence of 13% to 15% for the year?"	Management admitted a downward revision to 10-12% growth for the year, citing muted retail demand and "selective" acquisition. Lower growth implies a lack of conviction in the risk-return of the current market.	None	4.0	Guided Lower
3	4.0	Rashmi / CFO	NIMs	Financials	"Last repo rate cut... is that the reason why margins have stayed stable Q-o-Q?"	Management confirmed 20bps improvement in COF already, with another 25-30bps expected in Q2 as WCDL and CP benefits fully play out. Significant NIM tailwind	None	5.0	Specific Targets

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						anticipated for H1 FY26.			
4	4.5	Shweta / Elara	Asset Quality	Financials	"Increased credit cost is getting impacted because of the legacy or the past customer cohort?"	Management confirmed that the ECL model refresh dropped "better" historical years and brought in recent "stressed" periods, pushing rates up. This suggests the high credit cost is a backward-looking accounting "catch-up."	Peak timing	3.5	Accounting Logic
5	4.0	Abhishek / HSBC	Flow Rates	Financials	"Forward flows into PAR 30, PAR 90... how has that been trending?"	Management claimed flow metrics have improved for the last three quarters, though the pace remains constant. This is a crucial lead indicator that absolute defaults might have peaked.	Exact flow %	3.0	Directional only
6	4.0	Anand / Emkay	RuPay Cards	Business Overview	"What's the spend share of RuPay card or spend per card?"	Management noted RuPay spend per card is □3,000 to □5,000 higher than the company average. This validates the UPI-on-credit strategy as a	Spend share %	3.5	Volume Driver

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						volume and engagement driver.			
7	3.5	Rohan / Equirus	Underwriting	Business Overview	"Mix of CAT-B salaried seems to be increasing... what gives confidence?"	Management is leveraging Account Aggregator data to see real-time cash flows, allowing them to lend to CAT-B with higher precision. Technology is being used to offset the risk of moving down the corporate hierarchy.	Specific NPLs by Cat	4.0	Tech-led Pivot
8	4.0	Mahesh / Kotak	Acquisition	Mgmt Commentary	"Why are we seeing this slowdown in acquisition?"	Management is prioritizing quality over quantity, taking off sourcing in areas with poor applications and demanding Account Aggregator access for better portfolio management. Strategy shift from "growth at any cost" to "risk-adjusted survival."	None	4.0	Defensive Pivot
9	3.0	Aditya / Digital Bees	Finance Cost	Financials	"Why has the finance cost increased by 6% when our cost of	Management explained the absolute increase was due to higher borrowing	None	4.5	Math Clarified

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					funds went down?"	volumes and one extra day in the quarter. Clarifies that COF reduction is a rate benefit, not necessarily an absolute expense reduction.			
10	3.5	Suhas / ARJ Sec	ESG	Strategy	"Present disclosure seems more like a check box exercise... any defined KPIs?"	Management defended the ESG agenda as board-monitored with sustainable outlays, though specific quantitative KPIs weren't highlighted in the call. Signal: ESG is secondary to the credit cycle recovery for now.	Specific KPIs	2.5	Vague on Metrics

PATTERN FLAGS & SENTIMENT

- **The "Model Refresh" Defense:** Analysts were hyper-focused on why Credit Costs spiked to 9.6% while management claimed lead indicators (Stage 2) were improving. Management was defensive, explaining that Ind AS accounting requires them to weight recent "bad" history more heavily in their ECL calculations. This creates a "long tail" of elevated credit costs even after actual customer behavior starts improving.
- **The Defensive Growth Pivot:** There was palpable skepticism regarding the cut in receivable growth guidance to 10-12%. Management appeared resigned to the fact that the current unsecured environment does not support high growth without compromising quality. This suggests FY26 will be a year of "protecting the ROE" rather than "expanding the market."
- **Analyst Sentiment Verdict: Skeptical but Relieved on Margins.** Analysts appreciated the NIM expansion and the specific 25-30bps COF reduction guidance for Q2. However, the lack of a clear "peak" date for credit costs and the growth walk-back remains a significant overhang. The credibility of the MD/CEO is being tested on her ability to manage the ECL model's volatility.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Prior Q)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Receivable Growth	12% - 14% for FY26.	10% - 12% for FY26.	Walk-back of 200bps in growth outlook.	Lower valuation multiple.
Credit Cost Trend	Inflection point reached in Q4.	GCC spiked to 9.6% in Q1.	P&L "inflection" delayed by ECL model refresh.	Earnings volatility.
Card Sourcing	~1 Million / quarter target.	0.87 Million in Q1.	Deliberate slowdown in acquisition volume.	Market share loss to banks.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q4 FY25)	This Quarter (Q1 FY26)	Direction
Gross Credit Cost	9.0%	9.6%	↓ Deteriorating
Receivable Growth (YoY)	10.0%	7.0%	↓ Deteriorating
Cost of Funds (Daily)	7.3% (Adjusted)	7.1%	↑ Improving
Stage 2 Assets %	5.0%	4.7%	↑ Improving
Growth Guidance	12% - 14%	10% - 12%	↓ Deteriorating
New Card Additions	~1.1 Million	0.87 Million	↓ Deteriorating
NNPA	1.46%	1.42%	↑ Improving
Spend Market Share	15.7%	16.6%	↑ Improving
Management Tone	Reassuring on Inflection	Cautious & Selective	↓ More Defensive

Investor Notes: * **Thesis Status:** The recovery is taking longer than expected. While NIMs are expanding, the "P&L healing" is deferred by accounting model adjustments (ECL refresh). * **Earnings Quality:** CFO remains robust as the largest expense (Impairment) is non-cash; the business is generating high pre-provision operating profit (PPOP). * **The Lead Indicator Catch:** Don't miss the Stage 2 reduction (from 5.0% to 4.7%). This is the most important "forward-looking" quality metric, suggesting that despite the 9.6% GCC spike, the future pipeline of defaults is actually shrinking. * **Watch Point:** FY26 growth. If the festive season doesn't bring a recovery to 12%+, the stock may be trapped in a "low-growth, high-cost" transition phase for the full year.