

SBI Cards & Payment Services Ltd — Feb 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Miss **One-line:** The thesis is under severe duress as the "inflection point" promised for three quarters has translated into a record 9.4% Gross Credit Cost, forcing management to sacrifice growth (guiding 12-15% vs historical 25%+) to protect the balance sheet.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Weak Miss	Gross Credit Cost (9.4%) rose 40bps QoQ despite management's prior "stabilization" narrative.	☐
Earnings Quality	Low (Impairment heavy)	PAT of ₹383 Cr is the lowest in 12 quarters; impairment charges (₹1,313 Cr) now consume 65% of PPOP.	☐
Guidance Confidence	Weak	Management shifted from a specific "recovery by year-end" to "visible improvement from next quarter" with no quantified targets.	☐
Management Credibility	Neutral	High transparency on "stock vs flow" dynamics but failed to predict the persistent rise in write-offs.	☐
Business Quality Signal	Deteriorating	RoAE collapsed to 11.5% (from 19.3% YoY); the high-ROE moat is currently non-existent.	☐
Key Q&A Exchange	Q# 3 (NPL Balance)	Management revealed the average defaulting customer holds a balance of ~₹1 Lakh, ~3.7x the portfolio average.	☐
The Street's Primary Anxiety	Credit Cost Floor	Analysts questioned when the 9.4% peak will actually reverse; management "expects" it but won't guide a number.	☐
Capital Cycle Stage	Consolidation	Shifting away from aggressive acquisition to "selective sourcing" and limit reductions.	☐
Margin / Return Ratio Trajectory	Deteriorating	ROAA at 2.4% is near-historic lows; NIM (AUM basis) compressed 20bps QoQ to 10.0%.	☐
Pricing Power	Stable	Interest yields held at 15.3%, but inability to drive revolvers limits upside.	☐
FCF Conversion & Quality	Distorted	High write-offs (₹1,354 Cr) are non-cash but indicate fundamental loss of principal.	☐
Competitive Moat Signals	Shrinking	Spend market share dropped to 15.6% (from 17.8% YoY) as competitors outpace SBIC in premium segments.	☐
Balance Sheet Strength	Strong	CAR at 22.9% (Tier 1 at 20.5%) provides a massive buffer to absorb further losses.	☐
Working Capital Efficiency	Deteriorating	Gross write-offs surged 22% QoQ to ₹1,354 Cr; recoveries are not keeping pace with write-offs.	☐
Mgmt Guidance Track Record	Mixed	Accurate on spend categories but consistently late on calling the credit cycle bottom.	☐
Key Vulnerability / Red Flag	Spend Market Share	The 220bps YoY drop in spend market share suggests SBIC is losing the "wallet share" battle to HDFC/ICICI.	☐
Management Tone	Cautious & Deflected	Focused on "performance metrics" (internal data) rather than P&L realities.	☐

Sentiment: ☐Negative

Key Takeaways: * **Positives:** Receivables per card grew 12% YoY to ₹27,052, showing higher utilization among existing "good" customers; Cost of Funds (CoF) has stabilized at 7.4% and is expected to track lower upon rate cuts. The SBI Banca channel remains a superior sourcing hedge with digital integration. * **Negatives:** The credit cycle is proving "stickier" than management anticipated, with Gross Credit Costs hitting 9.4%; the NPL pool is characterized by high-leverage customers (average ₹1 Lakh balance) who appear to have lost total solvency across all credit lines. * **Street Concern:** Analysts are focused on the "Growth-Risk Tradeoff." To fix asset quality, SBIC has throttled growth to 12-15% (receivables), which means the stock loses its "high-growth compounder" status for the next 4-6 quarters. * **Watchpoint:** Monitoring "Flow from Delinquency to Write-off." Management claims this trend reversed 3 months ago; if write-offs do not decline in Q4 FY25, management's "inflection point" claim will be fully invalidated.

2. BUSINESS PERFORMANCE

2A. KEY METRICS (NBFC Sector)

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	15.2%	+150 bps	+110 bps	↑	Driven by 12% receivable growth and stable yields.
NIM (AUM basis %)	10.0%	-20 bps	-20 bps	↓	Yields 15.3% minus CoF 5.3% (PPT Return Table).
Cost of Funds %	7.4%	+10 bps	→	→	Daily weighted average CoF was 7.5%; expects current levels to hold.
Loans Growth (% YoY)	12.0%	-1150 bps	-110 bps	↓	Deliberate slowdown via "selective acquisition."
GNPA %	3.24%	+60 bps	-3 bps	↑	Management claims GNPA has stabilized and will improve from here.
NNPA %	1.18%	+22 bps	-1 bps	↑	Impacted by high write-off run-rate.
Slippage Ratio %	Not in doc	-	-	-	Not explicitly disclosed; focus was on "into X" flows.
Credit Cost (% Gross)	9.4%	+214 bps	+40 bps	↓	Driven by ₹1,354 Cr in Gross Write-offs (up 22% QoQ).
Collection Efficiency %	Not in doc	-	-	-	"Trend is improving" (commentary) but no % disclosed.
Capital Adequacy %	22.9%	+450 bps	+240 bps	↑	Boosted by higher risk-weights on peers and internal accruals.
PAT (₹Cr)	₹83	-30.0%	-5.0%	↓	P&L remains suppressed by record high impairment charges.
Fee Income Growth %	-11.6%	-11.6%	+3.5%	↓	Impacted by lower instance-based fees and selective carding.

2B. SEGMENT BREAKDOWN

Segment	Spends (₹ Cr)	YoY Growth	Mix %	Trend	vs Co Avg	Key Development
Retail Spends	₹80,792	10%	93.8%	↑	Baseline	Category growth: Consumer Durables/Apparel +36% for 9M.
Corporate Spends	₹5,301	-23%	6.2%	↓	Worse	Deliberate exit from low-margin/high-risk corporate volume.
SBI Banca	N/A	N/A	55%	↑	Better	Relative 30+ delinquency is 0.77 (23% better than avg).
Open Market	N/A	N/A	45%	↓	Worse	Relative 30+ delinquency is 1.15 (15% worse than avg).

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Receivables Growth	12% - 15% for FY26.	Monthly growth needs to average ~1.1%.	Missed: Historical growth was ~25%.	Medium
Guidance	Credit Costs	"Inflection point reached"; expected to moderate from Q4.	Needs Gross Credit Cost <8.5% in Q4 to show "inflection."	Missed: Failed to peak in Q2 as previously suggested.	High
Guidance	Cost to Income	50% - 55% range.	Current 9M is 53.4%; on track.	Achieved: Consistently within range.	Low
Strategy	Quality Pivot	Increasing Prime+ segment mix in sourcing.	Maintain >60% Salaried mix.	Met: Salaried mix at 66% of CIF.	Low
Strategy	Hyper-Personalization	Scaling targeted campaigns 10x to drive LTV.	ROI on opex must be visible in Fee Income.	New: Launching in Q3; monitoring impact.	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	"Write-offs continue to increase... is this the peak?"	Management indicated Stage 2/3 compositions have reduced and "into X" delinquency flows are lower, suggesting an inflection point is reached. This implies P&L pain is nearing its end, but the pace of recovery remains the key overhang.	Exact quantum of reduction.	3.0	Inflection claimed
2	4.0	Krishnan / HDFC Sec	Control Levers	Strategy	"What is it that SBI Cards can control other than sourcing?"	Management is using early-warning frameworks to cut limits for customers displaying high-leverage transaction patterns before they hit delinquency. This defensive limit-management protects principal but caps interest income potential.	None	4.0	Defensive pivot
3	4.5	Piran / CLSA	NPL Exposure	Financials	"What is the average balance of a defaulting customer?"	Management revealed that a defaulting customer has an average balance of ~₹1 Lakh, compared to	None	5.0	Crucial detail

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						the ₹27,052 portfolio average. This suggests losses are concentrated in a highly-leveraged sub-segment, explaining why write-offs are so high.			
4	3.5	Shweta / Elara	Revolver Behavior	Financials	"Read negatively into the marginal revolver spike?"	Management clarified the revolver rate is stable at 24% and the prior quarter's dip was a seasonal denominator effect from festive transactors. This suggests no structural change in the high-margin revolver pool.	None	4.0	Seasonality clear
5	4.0	Nishant / Millennium	ROA Outlook	Financials	"Is 25% revolver the new normal?"	Management does not expect revolver rates to inch up and is proactively pushing EMI conversions/ FlexPay instead. This confirms a permanent transition to a lower-yield, higher-stability asset mix.	None	4.0	Structural shift
6	4.5	Pranav / Bernstein	Growth Strategy	Strategy	"Will growth be	Management guided to	None	4.0	Growth reset

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					a lot lower versus the industry?"	12-15% growth over the next 3-4 quarters, prioritizing market share maintenance over aggressive expansion. This signals a "safety-first" mode that will disappoint growth-oriented investors.			
7	4.0	Roshan / ICICI Pru	Min. Due Payers	Financials	"How has the minimum due paying customer trended?"	Management claimed the number of customers paying only minimum dues is improving, though they refused to provide exact data. If true, this indicates reduced stress in the "pre-NPL" bucket.	Specific data points.	2.5	Vague trend
8	4.5	Dhaval / DSP	Credit Cost Target	Financials	"When should we normalize... what 1 or 2 metrics should we look at?"	Management refused to give a firm number but said "30-plus and 90-plus" delinquency trends are the lead indicators. This lack of a quantified "floor" for credit costs remains the biggest risk to valuation.	Specific FY26 target.	2.0	Hedged

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9	4.0	Bhavik / Nippon	Write-off Run-rate	Financials	"Where are we going in terms of monthly write-offs?"	Management evaded a specific monthly run-rate but reiterated that lower Stage 3 inflows will eventually result in lower write-offs. This confirms the lagging nature of the P&L recovery.	Monthly write-off value.	2.0	Evasive
10	4.0	Nitin / Motilal	Sourcing Mix	Business Overview	"Salaried sourcing has come down... should this not cause worries?"	Management argued that account aggregator data allows them to underwrite self-employed cash flows with high precision. This pivot suggests SBIC is looking for yield outside the hyper-competitive salaried prime segment.	None	3.5	Sourcing pivot
11	4.0	Jignesh / InCred	Fee Income	Financials	"Fee income trend consistently declining... how do you see it?"	Management explained that subscription and spend-based fees will grow with card additions, while instance-based fees	None	4.0	Specific drivers

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						(late fees) are moderating as quality improves. This indicates fee income will become less volatile but grow slower.			
12	5.0	Shubhranshu / PhillipCap	Recovery Stock	Financials	"What has been the recovery from write-off accounts?"	Management admitted recoveries were impacted by the macro environment but showed "green shoots" this quarter. They deflected on the "total percentage recovered through cycles," a key sign of reduced confidence in bad-debt retrieval.	Recovery % metrics.	2.0	Deflected

PATTERN FLAGS & SENTIMENT * The "Stock vs. Flow" Debate: A recurring theme was the disconnect between management's "internal performance metrics" (improving flows) and the "P&L reality" (rising write-offs). Management's posture was defensive, asking investors to trust that the lag will resolve, but the lack of a quantified credit cost cap for FY26 left analysts skeptical. * **The Solvent-less Customer:** Analysts are increasingly worried that delinquent borrowers aren't just "liquidity constrained" but are "solvent-less" across all banks. Management's admission that these customers often default on all lines across the bureau confirmed that this is a systemic leverage issue, not an SBIC-specific underwriting failure. * **Analyst Sentiment Verdict:** Skeptical. While analysts appreciate the honesty regarding the ~₹1 Lakh NPL ticket size and the defensive limit cuts, they remain unconvinced that the credit cost has peaked. The high friction point was the guidance for 12-15% growth; analysts interpreted this as management "throwing in the towel" on growth to fix the balance sheet. Credibility has deteriorated slightly as prior promises of stabilization have been deferred yet again.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Credit Cost Peak | "Expect improvement by year-end FY25." | "Will see improvement from next quarter (Q4)." | Stabilization timeline pushed by 1-2 quarters. | Continued ROE drag. | | Growth Target | 20%+ target. | 12% - 15% for next 12 months. | Significant downward

revision in growth guidance. | Derating from "Growth" to "Value". | | Recovery Potential | Expected high bounce-back in recovery income. | Recoveries taking longer; systemic ecosystem stress. | Recovery income won't be a quick P&L fix. | Slower earnings recovery. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2 FY25)	This Quarter (Q3 FY25)	Direction
Gross Credit Cost	9.0%	9.4%	↓ Deteriorating
Net Credit Cost	8.0%	8.4%	↓ Deteriorating
ROAE	12.5%	11.5%	↓ Deteriorating
GNPA	3.27%	3.24%	↑ Improving (Marginal)
Cards-in-Force	1.96 Crore	2.01 Crore	↑ Improving
Spend Market Share	16.5%	15.6%	↓ Deteriorating
Receivables Growth Guidance	~20%	12% - 15%	↓ Defensive Pivot
Recovery Income	₹134 Cr	₹145 Cr	↑ Improving
Management Tone	"Searching for peak"	"Inflection point reached"	↑ More Confident

Investor Notes: * **Thesis Change:** The thesis has shifted from a "Cyclical Recovery" to a "Structural Reset." The company is trading growth for quality, which will likely keep the stock range-bound until Gross Credit Costs fall below 7.5%. * **Quality Watch:** Watch the "Self-Employed" sourcing mix. If this increases while credit costs stay high, it indicates management is taking higher risks to offset the loss of salaried-prime market share. * **Earnings Quality:** CFO-to-PAT ratio is historically weak for credit cards due to loan growth; however, the persistent discrepancy between ₹383 Cr PAT and ₹1,313 Cr impairment shows that cash is being incinerated through the P&L at an alarming rate. * **The "₹1 Lakh" Signal:** The fact that NPL balances are 4x the average balance is the most material disclosure. It means SBIC's "limit management" failed to catch these high-spenders before they spiralled, necessitating the massive 1 million account limit-cuts reported last quarter.