SBI Cards & Payment Services Ltd — Feb 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Beat on Asset Quality & PAT / Miss on Growth & Yields **One-line:** The asset quality "healing" is accelerating with Credit Costs dropping to 8.3%, but the structural "Transactor Trap" is tightening as Receivables growth (4% YoY) and Yields (16.3%) continue to sag despite record-high spends.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Beat (Asset Quality) / Miss (Growth)	Credit Cost at 8.3% beat the "improving trend" guidance; Receivables growth (4%) significantly missed the 10-12% FY26 target.	□
Earnings Quality	Moderate	PAT includes a □51 Cr reversal of PIDF provisions in Other Income; offset by a □121 Cr management overlay (not P&L recognized).	□
Guidance Confidence	Weak	Management officially refrained from 10-12% AUM growth guidance, citing shift in portfolio mix.	□
Management Credibility	Stable	Delivered on credit cost reduction and COF stability as promised; however, card sourcing targets (1M/qtr) continue to be missed.	□
Business Quality Signal	Improving (Risk) / Deteriorating (Yield)	Asset quality metrics (Stage 2/3) are at multi-quarter lows, but the interest-earning capability is eroding.	□
Key Q&A Exchange	Q# 1 (Provisioning)	Management explained they didn't write back the □121 Cr ECL gain to reduce P&L volatility before the model refresh.	□
The Street's Primary Anxiety	AUM Growth	Analysts repeatedly questioned why record spends (33% YoY) aren't converting to AUM (4% YoY).	□
Capital Cycle Stage	Harvesting Risk / Consolidation	Focused on improving the risk profile of existing users rather than aggressive balance-sheet expansion.	□
Margin / Return Ratio Trajectory	Deteriorating	NIM compressed to 11.0% (vs 11.2% prior); ROE at 14.7% is recovering but remains below historical 20%+ levels.	↓
Pricing Power	Eroding	Yields dropped to 16.3% (vs 16.5% prior) as the transactor mix outweighs revolvers/EMI.	□
FCF Conversion & Quality	Strong	High non-cash provisions (□1,222 Cr) vs PAT (□557 Cr) indicates high latent cash flow if write-offs continue to cool.	□
Competitive Moat Signals	Stable	Market share in spends (17.7%) and CIF (18.8%) remains dominant; UPI-on-Credit growing 20% QoQ.	□
Balance Sheet Strength	Strong	CAR at 24.4% (up from 22.9%) provides significant buffer for future growth.	□
Working Capital Efficiency	Improving	Stage 2 stock reduced by □246 Cr QoQ; roll-forward rates are abating.	□
Mgmt Guidance Track Record	Mixed	Accurate on credit costs; unreliable on growth and yield stability.	□
Key Vulnerability / Red Flag	Growth Disconnect	Spends grew 33% but Receivables grew 4%. The company is becoming a low-margin payment processor.	□
Management Tone	Cautious Optimism	Focused on "sustainable" and "calibrated" growth rather than chasing volumes.	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** The asset quality cycle has definitively turned; Gross Credit Cost fell 70bps QoQ to 8.3%, and Stage 2 assets (high-risk) fell □246 Cr. Management is now so comfortable with the trend that they opted to create a □121 Cr "rainy day" overlay instead of flowing it to the P&L. Spends reached an all-time high of □1.14 Lakh Cr, proving the SBI Card brand remains a primary choice for festive and online shopping. Cost of Funds (Daily Weighted) improved by 5bps, proving efficient liability management. * **Negatives:** Interest-earning asset conversion is broken; despite record spends, the interestbearing portfolio (revolvers + EMI) is not growing, leading to a yield contraction to 16.3%. NIM compressed 20bps QoQ to 11.0%. The company officially walked back its 10-12% AUM growth guidance, suggesting that "mid-teen" growth is a distant 2-3 year target rather than an immediate reality. Opex remains bloated at 56.8% of income, driven by corporate card pass-backs. * **The Street's Concern:** Analysts are terrified of the "Transactor Trap"—a scenario where SBI Card processes massive volumes (expensive opex) but earns zero interest (low yield). Management's defense that they are being "selective" to protect credit quality is valid but suggests they haven't yet found a way to lend safely in the current environment. * **Watchpoint:** Monitoring the "Model Refresh" in Q4 FY26. This will determine if the □121 Cr overlay is released into the P&L or if the model requires even higher permanent provisioning.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures primary. Concall used for commentary and unlisted metrics.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	8.6%	↑	↓	↓	YoY growth driven by lower interest cost; QoQ pressure from yield compression.
NIM (AUM basis %)	11.0%	↓ 20 bps	↓ 20 bps	↓	Yield compression (20bps) outpaced marginal COF savings.
Cost of Funds % (Daily)	6.7%	↓ 70 bps	↓ 10 bps	↑	Daily weighted average at 6.7%. Benefit from stable repo rates and mix.
Loans Growth (% YoY)	4.6%	↓ 340 bps	↓ 340 bps	↓	Significant deceleration vs 8% in Q2. Mgmt refraining from guidance.
GNPA %	2.86%	↓ 38 bps	↑ 1 bp	→	Stock reduced by □67 Cr QoQ, but percentage flat due to lower denominator (AUM).
NNPA %	1.28%	↑ 10 bps	↓ 1 bp	→	PCR remains healthy; net stock of NPAs is falling.
Slippage Ratio %	Not in doc	-	↓	↑	Mgmt cited "improvement in slippage ratio quarter-over-quarter."
Credit Cost (Gross %)	8.3%	↓ 115 bps	↓ 70 bps	↑	Massive improvement; driven by lower gross write-offs (□1,220 Cr).
Collection Efficiency %	Not in doc	-	-	-	Cited as the primary driver for lower Stage 2/3 stocks.
Capital Adequacy %	24.4%	↑ 530 bps	↑ 150 bps	↑	Accretion of profits and slight decline in RWA.
PAT (□Cr)	□557	↑ 45.8%	↑ 25.1%	↑	Driven by 70bps drop in credit costs and one-off PIDF reversal.
Fee Income Growth %	17.0%	↑ 200 bps	↑ 100 bps	↑	High spend-based income (festive) and subscription fees.
Revenue (□Cr)	□5,127	↑ 11.0%	↑ 3.3%	↑	Record spends of □1,14,702 Cr (+33% YoY) drove volumes.
Cost to Income (%)	56.8%	↑ 540 bps	→	↓	Elevated due to corporate pass-backs and □12 Cr gratuity one-off.
ROAA (%)	3.2%	↑ 80 bps	↑ 60 bps	↑	Recovery driven by credit cost abatement.
ROAE (%)	14.7%	↑ 320 bps	↑ 260 bps	↑	Improving, but still below the historical high-teen threshold.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (Yield)	Trend	vs Co Avg	Key Development
Interest Income	□2,536	6%	14.7%	↓	Lower	Yield down 55bps YoY due to transactor-heavy mix post-festive.
Fees & Commission	□2,367	17%	N/A	↑	Higher	Driven by record retail spends and value-added services.
Retail Spend	□91,962	14%	High	↑	Better	Spends per card improved; 62.1% online contribution.
Corporate Spend	□22,739	Not in doc	Low	↑	Lower	Strong diversification; now ~20% of total spend mix.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Receivables Growth	Refraining from 10-12% target; aim for "calibrated growth."	Needs ~30% QoQ growth in Q4 to hit 10% YoY; mathematically unlikely.	**Missed:** Slashed from 10-12% prior guidance.	High
Guidance	Credit Costs	Continued downward trend expected.	Q3 at 8.3% suggests a return to 6-7% range is possible in FY27.	**Met:** GCC has dropped for 2 consecutive quarters.	Low
Guidance	Cost to Income	55% - 57% for FY26.	Current 9M run rate is 56.8%; needs tight opex control in Q4.	**At Risk:** Currently at the ceiling of the range.	Medium
Guidance	New Card Adds	0.9M to 1.0M per quarter.	Current 864k is below target; needs 15% increase in sourcing velocity.	**Missed:** Failed to hit 900k for two quarters.	Medium
Strategy	Revolvers	Focus on EMI to compensate for revolver downward bias.	EMI is more predictable but lower yield than revolvers (~14-15% vs 36%).	**New:** Strategy pivot to protect yield.	Medium
Macro	UPI on Credit	Scaling as an engagement tool (+20% QoQ).	Highly incremental for groceries/utilities; drives volume, not yet AUM.	**On Track:** Strong adoption.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Mahrukh / Nuvama	Credit Cost	Financials	"Release of INR121 crores... provisions would have declined by INR121 crores... why did you not choose to write this back?"	Management confirmed they kept the □121 Cr as an additional provision to reduce P&L volatility ahead of their annual risk model refresh. This suggests a very conservative accounting stance and creates a "buffer" for Q4 earnings.	None	5.0	High Earnings Quality
2	4.5	Mahrukh / Nuvama	Growth	Business Overview	"Receivable growth looks very anemic through the sector... what is the guidance on AUM growth?"	Management officially refrained from the 10-12% guidance, citing a focus on "sustainable" growth and a downward bias in revolvers. This is a significant walk-back, signaling that low growth is the new normal for FY26.	Specific FY26 numeric target	4.0	Guidance Walk-back
3	4.0	Aditya / DB Securities	New Sourcing	Mgmt Commentary	"You're saying you will go back to [1 million additions]... what happens to quality?"	Management intends to ramp up to 1M cards but only in "valuable and profitable" segments like government salaried and digital co-brands. This implies a pivot away from aggressive open-market sourcing to safer partners.	None	4.0	Strategic Pivot

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4	4.5	Gao / Schonfeld	Margins	Financials	"Where and when do you see the margin bottoming out?"	Yields are expected to trend downward for 2-3 quarters as the revolver mix remains weak; NIM compression will likely continue into H1FY27. This confirms that the RoE recovery will be "L-shaped" rather than "V-shaped."	Exact bottom level	3.0	Margin Overhang
5	3.5	Gao / Schonfeld	Other Income	Financials	"Other income... jump to INR226 crores this quarter. What's the jump about?"	Management clarified that □51 Cr was a release of a provision related to PIDF, while □19 Cr was reversed from expenses. This strips out □70 Cr of one-off pre-tax gains from the quarter's performance.	None	5.0	Stripped One-offs
6	4.0	Rohan / Equirus	Opex	Financials	"Opex growth has been 21%... operating loss perspective... how should one think?"	Management attributed high opex to corporate card pass-backs and card acquisition; they expect to stay in the 55-57% range next year despite ramping up sourcing. This implies limited operating leverage in the near term.	None	3.5	Opex Sticky
7	4.5	Jignesh / Ambit	Sourcing	Mgmt Commentary	"Which customer	Focus is on "digital	None	4.5	Quality Shift

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					base will be focused because you are talking about being selective?"	psychographics" via Flipkart, PhonePe, and Tata Neu, alongside integration with SBI's Yono 2 platform. Sourcing is moving toward high-frequency spenders rather than just "credit-starved" segments.			
8	4.0	M.B. Mahesh / Kotak	Recovery	Financials	"What is driving the credit cost decline? Is it access to credit... or lower settlement?"	Decline is driven by increased intensity of collections and resources, not by customers refinancing with other personal loans. This validates the "internal" nature of the recovery, which is more sustainable.	None	4.5	Organic Healing
9	4.0	Anuj / JP Morgan	Revolvers	Financials	"Newly acquired customers, the proportion of revolver is much lower... where can it settle down?"	Management refused to disclose vintage-wise revolver rates but admitted a "downward bias" in new vintages due to conservative sourcing. This is the smoking gun for why NIMs are under pressure.	Specific % targets	2.0	Structural Drag
10	3.0	Gaurav / MLP	Growth	Financials	"Guidance of 10% to 12%... does that stay?"	Management explicitly refrains from the 10-12% guidance, noting the	None	5.0	Clear Walk-back

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						current portfolio doesn't reflect that growth profile. Total capitulation on the growth thesis for the current fiscal.			

PATTERN FLAGS & SENTIMENT

- **The "Growth Capitulation":** The primary anxiety across almost all analysts was the disconnect between massive spend growth (33%) and stagnant receivable growth (4%). Management’s tone was defensive but honest; they essentially admitted that they are prioritizing the "cleansing" of the balance sheet over growth. The concern is now live: if SBI Card can't grow receivables during a record festive season, when will they?
- **Asset Quality "Stealth" Beat:** Analysts were pleasantly surprised by the 8.3% Gross Credit Cost, but immediately questioned the "excess" 121 Cr provision. Management’s posture was confident here, suggesting they have finally moved past the "crisis" mode of the last 4 quarters and are now in a "stability" mode.
- **Analyst Sentiment Verdict: Relieved on Risk, Bearish on Returns.** Analysts are satisfied that the GNPA/ Credit Cost nightmare is over, but they are now pricing in a structurally lower RoE (14-16% vs historical 20% +). The biggest friction point remains the Cost-to-Income ratio, which shows zero improvement despite the scale. Management's credibility on risk management has improved, but their growth forecasting credibility has taken a hit.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Prior Q)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Receivables Growth	10% - 12% for FY26.	"Refraining from giving any guidance."	Complete withdrawal of growth target.	Massive; invalidates the growth-stock premium.
NIMs	"Will hold on to current NIM levels."	NIM dropped to 11.0% and is expected to stay under pressure.	NIM compression is worse than anticipated.	ROE recovery will be slower.
Card Sourcing	0.9M - 1.0M per quarter.	864k achieved; hope to "compensate" in Q4.	Consistent miss on sourcing targets.	Slower future AUM buildup.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter	This Quarter	Direction
Gross Credit Cost	9.0%	8.3%	↑ Improving
AUM Growth Guidance	10% - 12%	Withdrawn	↓ Deteriorating
PAT Growth (YoY)	-26.2% (Q2)	+45.0% (Q3)	↑ Improving
NIM (AUM basis)	11.2%	11.0%	↓ Deteriorating
Receivables Growth (YoY)	8.0%	4.6%	↓ Deteriorating
Provisioning Strategy	Model-driven only	□121 Cr Management Overlay created	↑ Improving (Conservatism)
One-off Items	□30 Cr Stamp Duty	□70 Cr PIDF Reversal (Positive)	↑ Improving
Management Tone	Cautious / Defensive	Confident on Risk / Capitulating on Growth	□Neutral

Investor Notes: * **Thesis Status:** The "Asset Quality Pivot" has occurred, but the "Growth Pivot" has been postponed indefinitely. The stock is shifting from a "High Growth / High Risk" story to a "Low Growth / High Quality" story. * **Earnings Quality:** CFO-to-PAT ratio is healthy. The □121 Cr overlay acts as a hidden reserve for FY27. Stripping out the □70 Cr PIDF one-off, the core PAT growth is still strong due to credit cost savings. * **Transactor Trap:** SBI Card is increasingly a toll-collector (fee income) rather than a moneylender (interest income). This requires a valuation re-rating toward a "Payments Service" multiple rather than a "Consumer NBFC" multiple. * **Action Signal:** The primary monitoring point is no longer Credit Cost, but **Yield recovery**. If Yield does not bounce back to 16.5%+ in Q4, the RoE will likely cap out at 15%.

STOP HERE.