SBI Cards & Payment Services Ltd — Jul 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat on Asset Quality & PAT | Inline on Spends | Miss on Net Interest Income (NII) **One-line:** The "Credit Cost Clean-up" is ahead of schedule with credit costs hitting a multi-year low of 5.6%, but the core lending thesis remains stalled as 27% spend growth fails to ignite the stagnant 3% receivable growth.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat (Risk) / Miss (Growth)	Gross Credit Cost at 5.6% vs 6.6% QoQ; Receivables grew only 2% QoQ / 3% YoY despite peak sourcing.	□
Earnings Quality	Moderate	PAT growth (20% YoY) driven by provision write-back (□65 Cr) and ECL overlay consumption (□180 Cr); Core NII growth was 0% YoY.	□
Guidance Confidence	Neutral	Reaffirmed 4.0%–4.5% ROAA target (currently 3.9%); however, asset growth guidance remains vague ("H2 pick-up").	□
Management Credibility	Stable	Delivered on credit cost reduction; however, the "Transactor Trap" (high spends, low interest) is now a structural feature.	□
Business Quality Signal	Improving (Risk) / Maturing (Revenue)	Asset quality is now exceptionally clean (GNPA 2.04%), but the business model is shifting from high-yield lending to fee-based processing.	□
Key Q&A Exchange	Q# 11 (Corporate Spend Mix)	Mgmt admitted corporate spends (low margin) are a necessary "volume filler" but will be capped at ~20%.	□
The Street's Primary Anxiety	AUM-Spend Disconnect	Why is 27% YoY spend growth only yielding 3% YoY loan growth? Mgmt blames "selectivity" and revolver "downward bias."	□
Capital Cycle Stage	Harvesting / Consolidation	De-risking the book and optimizing risk-adjusted returns (ROA) over aggressive loan book expansion.	□
Margin / Return Ratio Trajectory	Stabilizing	NIMs compressed to 10.8% (down 30 bps QoQ) as COF rose and yield remained flat.	□
Pricing Power	Eroding	Revolver rates stuck at 22%; yield remains pressured by a high transactor mix.	□
FCF Conversion & Quality	Strong	CAR at 25.6% provides a massive buffer; under-leveraged balance sheet allows for future dividend support.	□
Competitive Moat Signals	Stable	Maintained #2 status in CIF (18.6%) and Spends (19.5%); RuPay/UPI integration is widening the funnel.	□
Balance Sheet Strength	Very Strong	Tier-1 capital at 23.2% is nearly double the regulatory requirement.	□
Working Capital Efficiency	Improving	Stage 2 assets down to 3.57% (lowest post-COVID); the "stress pool" is no longer a threat.	□
Mgmt Guidance Track Record	Mixed	Accurate on credit cycle timing; unreliable on the recovery of the "revolver" engine.	□
Key Vulnerability / Red Flag	NII Stagnation	Total Interest Income grew 0% YoY while operating costs rose 242 bps as a % of assets (PPT data).	□
Management Tone	Cautious Optimism	Highly confident in portfolio resilience; defensive on the inability to drive interest-bearing assets.	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** The credit cycle has definitively normalized; Gross Credit Cost (5.6%) and GNPA (2.04%) are at multi-quarter lows. A massive provision write-back of □65 Cr and the consumption of □180 Cr from the ECL overlay indicate that the "legacy stress" is gone. New account sourcing is back at 1M/quarter, and UPI-on-credit is driving high engagement (13% QoQ growth), particularly in Tier 2/3 cities. * **Negatives:** The "Transactor Trap" has intensified. Record quarterly spends of □1.18 Trillion

(+27% YoY) resulted in virtually zero NII growth (□1,679 Cr this quarter vs □1,681 Cr in Q1 FY26). Revolver share remains stagnant at 22%, and interest-earning assets are flat at 55%. NIMs compressed to 10.8% (from 11.1% in Q4) as the Cost of Funds ticked up to 6.6%. * **The Street's Main Concern:** Analysts are worried that SBI Card is becoming a "low-margin payment processor" rather than a "high-margin lender." Management's response—that they are being "selective" and waiting for H2 festive demand—does little to address the structural shift of consumers away from high-interest revolvers toward cheaper EMI products or personal loans. * **Watchpoint:** Monitoring the **H2 FY27 AUM acceleration**. If receivables growth doesn't break into double digits by Q3 (festive peak), the current valuation based on "growth" will be difficult to sustain despite the superior asset quality.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	~0.1% (□1679 Cr)	↓	↓	↓	Flat YoY as yield compression and low AUM growth offset volume.
NIM (AUM basis %)	10.8%	↓ 10 bps	↓ 30 bps	↓	Compressed due to 20 bps QoQ rise in COF and flat yields.
Cost of Funds %	6.6%	↓ 50 bps	↑ 20 bps	↓	Ticked up QoQ due to market rates; expect upward bias to continue.
Loans Growth (% YoY)	3.0%	↓ 2700 bps	↑ 100 bps	↓	Slight improvement from Q4's 2% but remains far below 20%+ historicals.
GNPA %	2.04%	↓ 102 bps	↓ 37 bps	↑	Decadal low; driven by legacy clean-up and improved sourcing mix.
NNPA %	0.83%	↓ 59 bps	↓ 21 bps	↑	Lowest since Q3 FY23; indicates high provision coverage (60%).
Slippage Ratio %	Not in doc	-	↓	↑	Entry rates into first bucket cited as "decadal lows."
Credit Cost (Gross %)	5.6%	↓ 260 bps	↓ 100 bps	↑	Substantial beat; driven by □65 Cr provision release and overlay usage.
Collection Efficiency %	Not in doc	-	-	-	"Robust monitoring and strong collections" cited as key drivers.
Capital Adequacy %	25.6%	↑ 770 bps	↑ 10 bps	↑	Massive capital cushion; allows for "calibrated" high-risk sourcing.
PAT (□Cr)	664	↑ 20%	↑ 9%	↑	Driven by credit cost moderation; core operating profit was weaker.
Fee Income Growth %	9.8%	↑	↑	→	Driven by retail spends (+14% YoY) and card sourcing fees.
Revenue (□Cr)	5,205	↑ 3%	↑ 0.3%	→	Growth decoupled from spends (27%) due to transactor mix.
Cost to Income (%)	56.4%	↑ 200 bps	↓ 100 bps	↓	Impacted by wage code provision and high corporate spend mix.
ROAA (%)	3.9%	↑ 51 bps	↑ 30 bps	↑	Near the bottom of 4.0%-4.5% guidance range.
ROAE (%)	16.5%	↑ 72 bps	↑ 90 bps	↑	Improving, but leverage remains low (4.2x) vs historical (5.0x+).

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (Yield)	Trend	vs Co Avg	Key Development
Interest Income	2,421	-2.9%	14.2%	↓	Lower	Impacted by 22% revolver share; yield flat QoQ at 14.2%.
Fees & Commission	2,406	9.8%	N/A	↑	Higher	Subscription fees up; online retail spend now 63% of retail.
Retail Spend	94,033	14%	High	↑	Better	Tier 2+ cities contributing strongly via UPI-on-credit.
Corporate Spend	24,442	114% (est)	Low	↑	Lower	Mix steady at ~20%; primary driver of fee volume but low margin.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Receivables Growth	"Expect asset growth to pick up from H2 FY27."	Needs ~10-12% growth in H2 to hit low double-digits for FY27.	**Missed:** Growth has hovered at 2-3% for 2 quarters.	High
Guidance	Credit Costs	"To stay within current range [5.6%]."	Current run-rate is sustainable unless geopolitical stress hits fuel.	**Met:** Dropped significantly from 7.5% + range in FY26.	Low
Guidance	ROAA	4.0% to 4.5% in the medium term.	Currently at 3.9%; requires only ~10 bps expansion to hit bottom of range.	**On Track:** Improving for two consecutive quarters.	Low
Guidance	Cost to Income	56% to 58% for the full year.	Q1 at 56.4% is within range; Q3 festive season will test the upper limit.	**Met:** Maintained despite wage code one-offs.	Medium
Strategy	Yield Management	Increase EMI share and "PL on Credit Card" evaluation.	EMI typically picks up in Q3; transactor-to-EMI conversion is the only yield lever.	**In Progress:** EMI book stable but not yet expanding share.	Medium
Strategy	Customer Sourcing	1M+ new accounts per quarter.	Achieved 1M in Q1; distribution balanced (47% Banca, 53% Open Market).	**Met:** Sourcing velocity has returned to target.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Nilesh / Monomer	Revolvers	Financials	"How can we predict or foresee revolvers trend in current financial year?"	Management expects revolvers to remain stable in the current range with a slight downward bias, focusing instead on EMI and IBNEA growth to drive revenue. This confirms that the high-yield "revolver" engine is no longer the primary growth driver for the company.	None	3.5	Stable at Lows
2	4.5	Ameya / HDFC Ergo	Product Mix	Business Overview	"Do we have a PL on credit card product because we see a lot of our competitors having those kinds of products?"	Management is currently refraining from a broad PL offering to new customers but is internally evaluating the product to capture cash-flow-linked lending. This suggests SBI Card is lagging peers in non-card lending products that could offset stagnant card AUM.	Specific launch timeline	3.0	Evaluation Phase
3	4.0	Rohan / Equirus	Credit Cost	Financials	"What would be your guidance on credit cost by the exit quarter of current financial year?"	Management expects the moderating trend in credit costs to continue due to improved underwriting and portfolio stock, though they refused to	Numeric exit target	4.0	Improving Trend

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						give an absolute numeric target. This signals that provision write-backs could continue to support PAT in future quarters.			
4	3.5	Rohan / Equirus	Competition	Business Overview	"Does NBFC lending to consumer durables impact our spend and the EMI book?"	Management argued that personal loans and credit cards cater to different needs (ticket size/ tenor), but admitted some cannibalization might occur at the margin. This highlights the competitive pressure on the "spend-to-lend" model from low-cost personal loans.	None	3.5	Segmented Demand
5	4.5	Nilesh / Monomer	Profitability	Financials	"Relative economics of [Retail vs Corporate] portfolio in terms of yield, interchange fees, credit cost and bottom line?"	Management clarified that corporate profitability is very low as it generates only fee income (interchange) with no interest income, while retail drives the bottom line through fees and interest. This justifies the management's desire to cap corporate spends at ~20% of the mix.	None	5.0	Retail is Profit

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
6	3.0	Rohan / Equirus	Opex	Financials	"I just want to understand the employee opex increase that has happened Q-on-Q?"	Management attributed the spike to a provision for past service costs and liabilities related to the new wage code. This is a one-off structural adjustment, implying employee costs should stabilize in coming quarters.	None	4.5	Wage Code Impact
7	3.5	Ankur / Individual	Opex	Financials	"Operating and other expenses... why is it going up every quarter?"	Management linked opex growth to card sourcing (1M/ qtr) and spend volumes, warning that costs will rise further during the festive season. This confirms that the "Cost-to-Income" ratio will remain elevated during growth phases.	None	4.0	Growth-Linked Opex
8	4.0	Rajiv / YES Sec	Yields	Financials	"What are the interventions that we can do... such that we would be able to hold the yield?"	Management is using credit limit increases (rationalization) for instalment-paying customers to drive higher ticket EMI purchases. This strategy relies on "borrower" behavior rather than "revolver" behavior to sustain yields.	None	3.5	Limit-Led Yield

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
9	4.5	Rajiv / YES Sec	Provisions	Financials	"Is there a chance that next year, we may also get some tailwind from the ECL model and refresh working in our favour?"	Management noted that as asset quality improves, the "data refresh" will naturally lead to provision releases, as seen this quarter with the □65 Cr release. This provides a clear "earnings buffer" for FY27 if growth remains sluggish.	None	5.0	Provision Tailwinds
10	4.0	Nilesh / Monomer	Spend Mix	Business Overview	"Can we assume that this declining trend in corporate spend will continue?"	Management refused to project a decline, stating corporate spend is customer-driven and they will maintain a ±20% range. This suggests corporate volumes are being used to maintain market share despite their lower profitability.	None	3.0	Volume vs Profit
11	4.0	Nilesh / Monomer	Strategy	Business Overview	"How we can increase the retail spend? What management is doing?"	Management is pivoting toward RuPay cards for UPI integration and using "hyper-personalization" to drive active rates (currently 53%). Success here is critical to keeping the "top of the funnel" full, even if	None	4.5	Tech-Driven Spend

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						conversion to debt is slow.			
12	3.0	Nilesh / Monomer	Macro	Management Commentary	"Monsoon is not so good. So how we can expect Q2 in terms of retail spending?"	Management sees spending remaining strong and notes that credit card penetration is currently limited to urban centers, shielding them from rural monsoon stress. This reinforces the "Urban Consumption" thesis for the stock.	None	4.0	Urban Resilience
13	4.0	Mahesh / Kotak	Governance	Financials	"Rental as a business model has started to come back... instance base fees start moving higher?"	Management clarified they are actively discouraging rental payments due to KYC/misuse concerns and have replaced late fees with other fees to manage income. This confirms that "fee-optimization" is a continuous balancing act with regulators.	None	4.0	Fee Discipline
14	4.5	Anand / Nuvama	Risk	Financials	"IT people losing jobs [in South India]... any stress which you see over there?"	Management conducted a specific cohort analysis of the IT sector and found no discernible stress in their book. This relieves a major market fear	None	5.0	Cohort Safety

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						regarding high-salaried defaults.			
15	4.5	Anand / Nuvama	Margins	Financials	"Margins come off for quarter-on-quarter. Where do we settle in terms of margins?"	Management expects NIMs to settle in the current range (10.8%), with yield protection coming from higher EMI conversion and smart cost-of-funds management. This signals that the 11%+ NIM era may be over until interest rates pivot.	Specific NIM floor	3.5	Margin Plateau

PATTERN FLAGS & SENTIMENT * **The "Growth Disconnect" Anxiety:** Analysts repeatedly questioned why massive spend growth (27%) and peak sourcing (1M cards) aren't translating to loan growth. Management's posture was defensive, leaning on "selectivity" and "market environment," but offered no clear structural fix for the declining revolver culture. * **Asset Quality Relief:** The skepticism regarding IT sector layoffs and Tier 3 stress was met with confident, data-backed rebuttals by management. The concern over asset quality has shifted from "Is it bad?" to "Is it too good (at the expense of growth)?" * **Analyst Sentiment: Relieved on Risk, Frustrated on Growth.** Analysts were convinced that the credit cycle is behind the company (evidenced by the 2.04% GNPA), but they remain skeptical of the stock's ability to re-rate without a clear path back to 15%+ AUM growth. The friction point is the "Transactor-to-Lender" bridge, which appears broken.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Revolver Share | Stable and healthy. | "Downward bias" observed. | Management is quietly conceding that revolvers may never return to historical 25%+ levels. | Permanent yield compression. | | NIM Outlook | Protecting margins. | "Around this range" (10.8%). | Prior quarter NIM was 11.1%; the "new normal" is 30 bps lower. | Lower ROE ceiling. | | Provisioning | Conservative overlay. | □180 Cr of □220 Cr already used. | The "safety buffer" was used to absorb ECL refresh costs this quarter. | Less cushion for future shocks. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q4 FY26)	This Quarter (Q1 FY27)	Direction
Gross Credit Cost	6.6%	5.6%	↑ Improving
GNPA %	2.41%	2.04%	↑ Improving
NNPA %	1.04%	0.83%	↑ Improving
NIM %	11.1%	10.8%	↓ Deteriorating
Cost of Funds %	6.4%	6.6%	↓ Deteriorating
ROAA	3.6%	3.9%	↑ Improving
Provision Overlay	₹220 Cr	₹70 Cr	↓ Cushion Used
Receivables Growth	2% YoY	3% YoY	↑ Marginal Pick-up
Sourcing Mix	Balanced	Highest Industry Net Additions	↑ Market Share

Investor Notes: * **Thesis Status:** The "De-risking" thesis is complete. SBI Card is now an asset-quality benchmark in the unsecured space. However, the "Growth" thesis is still in the "Waiting Room." * **Earnings Quality:** The 20% PAT growth is slightly lower quality than it appears, as it was supported by the usage of ₹180 Cr of management overlay and a ₹65 Cr provision write-back. Core PPOP growth is sluggish. * **Key Monitoring Point:** Watch the **EMI-to-Total-Assets ratio** in Q2/Q3. If this doesn't expand, the company will remain a "Transactor" business, leading to a de-rating of its valuation multiple from a growth-NBFC to a payment processor.

STOP HERE.