

SBI Cards & Payment Services Ltd — May 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat on Asset Quality & PAT | Significant Miss on AUM Growth **One-line:** The asset quality "healing" is complete with credit costs hitting a multi-quarter low of 7.7%, but the structural "Transactor Trap" has deepened as record spends (31% YoY) failed to drive any meaningful loan growth (2% YoY).

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Beat (Risk) / Miss (Growth)	Gross Credit Cost at 7.7% beat the "improving trend" guidance; Receivables growth of 2% missed the already lowered expectations.	□
Earnings Quality	Moderate	PAT includes one-off reversals (GST/PIDF); offset by a ₹220 Cr conservative management overlay.	□
Guidance Confidence	Weak	Management again refused to provide a numerical target for AUM growth, citing "calibrated" expansion.	□
Management Credibility	Stable	Delivered on credit cost reduction as promised; however, unable to solve the AUM-Spend disconnect.	□
Business Quality Signal	Improving (Risk) / Maturing (Yield)	Asset quality is now top-tier (GNPA 2.41%), but the business is behaving more like a payment processor than a lender.	□
Key Q&A Exchange	Q# 11 (AUM Acceleration)	Mgmt admitted AUM growth follows card acquisition but wouldn't commit to a timeline for double-digit growth.	□
The Street's Primary Anxiety	AUM Deceleration	Analysts pressed on why 31% spend growth only yielded 2% AUM growth; mgmt cited selectivity and lower revolvers.	□
Capital Cycle Stage	Consolidation	Focusing on de-risking the balance sheet and improving ROA (3.6%) over market share land-grabs.	□
Margin / Return Ratio Trajectory	Stable	NIMs held at 11.1% despite yield pressure, helped by lower Cost of Funds (6.4%).	□
Pricing Power	Eroding	Revolver share steady at 22% but with a "downward bias"; yield on assets fell 92 bps YoY.	□
FCF Conversion & Quality	Strong	High liquidity and comfortable CAR (25.5%) allow for the newly announced interim dividend.	□
Competitive Moat Signals	Stable	Maintained #2 position in CIF (18.6%) and Spends (18.1%); UPI-on-Credit growing 10% QoQ.	□
Balance Sheet Strength	Strong	CAR at 25.5% is significantly above regulatory requirements; Tier-1 at 22.9%.	□
Working Capital Efficiency	Improving	Stage 2 assets fell significantly (₹11 Cr YoY); the "stress pool" is shrinking fast.	□
Mgmt Guidance Track Record	Mixed	Accurate on credit costs and card sourcing (0.9M/qtr); unreliable on AUM conversion.	□
Key Vulnerability / Red Flag	Growth Disconnect	Spends of ₹1.15 Trillion (Q4) are not converting to interest-bearing assets; the "revolver" engine is stalled.	□
Management Tone	Cautious Optimism	Confident on the risk cycle being behind them; defensive on the lack of loan growth.	□

Sentiment: ☐Neutral

Key Takeaways (Positives & Negatives): * **Positives:** The credit cycle has definitively turned; Gross Credit Cost fell to 7.7% (vs 8.3% prior quarter), and GNPA improved 46 bps QoQ to 2.41%. The "stress" in the unsecured ecosystem appears managed for SBI Card, as evidenced by the massive reduction in Stage 2 assets (high-risk pool). Spends remain robust at ₹1.15 Trillion (+31% YoY), proving the brand's dominance in the transaction layer. Cost of funds dropped to 6.4%, providing a buffer for NIMs. * **Negatives:** The "Transactor Trap" is the new reality; despite record transaction volumes, the interest-bearing portfolio (revolvers + EMI) is stagnant, leading to a measly 2% YoY growth in Receivables. Management's refusal to guide on AUM growth suggests they are struggling to find "safe" borrowers who also want to revolve. The Cost-to-Income ratio remains high (57.2%) as the cost of processing these massive "transactor" volumes isn't being offset by interest income. * **The Street's Main Concern:** Analysts are questioning the long-term ROE potential if SBI Card becomes a "Payment-as-a-Service" company. Management's response—that they are being "selective" and waiting for the right macro environment—is a prudent risk management move but a valuation killer for a growth-oriented NBFC. * **Watchpoint:** Monitoring the "Revolver/EMI Pivot" in FY27. If the EMI book doesn't grow fast enough to offset the structural decline in revolvers, NIM compression will eventually resume once the Cost of Fund benefits peak.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	-1% (Int. Inc)	↓	↓	↓	Pressure from yield compression (revolver bias) and low AUM growth.
NIM (AUM basis %)	11.1%	↑ 30 bps	↑ 10 bps	↑	Improved due to 82 bps YoY drop in COF; yield compression was offset.
Cost of Funds %	6.4%	↓ 82 bps	↓ 10 bps	↑	Driven by daily weighted average management and stable repo environment.
Loans Growth (% YoY)	2%	↓ 260 bps	↓ 260 bps	↓	Significant deceleration vs 4.6% in Q3; AUM stagnant at ₹56,926 Cr.
GNPA %	2.41%	↓ 67 bps	↓ 45 bps	↑	Massive improvement; Stock reduced by ₹268 Cr QoQ.
NNPA %	1.04%	↓ 42 bps	↓ 24 bps	↑	Driven by higher write-offs and lower slippages.
Slippage Ratio %	Not in doc	-	↓	↑	Mgmt cited slippages are in an "improved trajectory."
Credit Cost (Gross %)	7.7%	↓ 128 bps	↓ 50 bps	↑	Third consecutive quarter of improvement; below the 8% threshold.
Collection Efficiency %	Not in doc	-	-	-	Strengthened physical and digital infrastructure cited as driver.
Capital Adequacy %	25.5%	↑ 300 bps	↑ 110 bps	↑	Strongest in recent history; Tier-1 at 22.9%.
PAT (₹Cr)	609	↑ 14%	↑ 9%	↑	Driven by credit cost savings; includes one-off reversals.
Fee Income Growth %	13%	↑	↓	→	Spend-based income strong (+31% spends YoY) but offset by higher costs.
Revenue (₹Cr)	5,187	↑ 7%	↓ 3%	□	Record FY26 spends of ₹4.3 Trillion; Q4 spends at ₹1.15 Trillion.
Cost to Income (%)	57.2%	↑ 600 bps	↑	↓	High corporate spend mix (20% of spends) is diluting margins.
ROAA (%)	3.6%	↑ 29 bps	↑ 41 bps	↑	Recovery cycle in full swing; medium-term target remains 4-4.5%.
ROAE (%)	15.6%	↑ 8 bps	↑ 85 bps	↑	Improving, but needs AUM growth to return to historical 20% level.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin (Yield)	Trend	vs Co Avg	Key Development
Interest Income	2,382	-1%	14.2%	↓	Lower	Yield fell 92 bps YoY due to transactor mix and revolver dip.
Fees & Other	2,553	13%	N/A	↑	Higher	Driven by retail spends and digital co-brand adoption (Flipkart/Tata).
Retail Spend	89,786	13%	High	↑	Better	Online contribution at 62.5% for FY26; UPI-on-credit gaining.
Corporate Spend	25,600	Not in doc	Low	↑	Lower	Strong volume growth but heavy pass-backs inflating opex.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Receivables Growth	"Calibrated growth"; Refused numeric target.	Historically grew at 20%+; current 2% is a multi-year low.	Missed: Slashed significantly from early FY26 hopes.	High
Guidance	Credit Costs	Continued moderation expected in FY27.	Q4 at 7.7% suggests FY27 could settle near 6.5-7.0%.	Met: GCC has dropped for 3 quarters straight.	Low
Guidance	Cost to Income	55% - 58% for FY27.	Current run rate is 55.3% (FY26); guidance allows for opex expansion.	Met: Stayed within range despite one-offs.	Medium
Guidance	New Card Adds	0.9M to 1.0M per quarter.	Achieved 917k in Q4; current velocity is sustainable.	Met: After missing in Q3, Q4 is back in range.	Low
Strategy	Yield Offset	Focus on EMI and "PL on CC" to offset revolver decline.	EMI is growing but not enough to offset the high-yield revolver dip.	In Progress: EMI book still showing seasonal weakness.	Medium
Strategy	Customer Mix	Salaried share to remain ~70%.	Current Q4 sourcing was 70% salaried; focus on stability over yield.	Met: Consistent pivot to safety.	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	Ajmera	Growth	Business Overview	"Our new account addition has been significantly lower than previous year. How do you see it?"	Management stated they are targeting 0.9-1M additions per quarter and focusing on high-quality customers over volume. This confirms the shift to a "quality-first" strategy which will likely cap growth in the near term.	None	4.5	Calibrated Growth
2	4.5	Ajmera	Opex	Financials	"Cost-to-income... used to be 51-52%. What has changed?"	Management clarified that the spike to 55-58% is due to the higher mix of corporate spends which involve pass-backs. This suggests structural margin compression unless the corporate spend mix is reduced.	None	4.0	Mix-led Opex
4	4.0	Piran / CLSA	Revolvers	Financials	"How do we protect profitability in a scenario where revolver falls to 20 or below?"	Management intends to compensate for revolver decline through installment lending (EMI) and PL-on-CC rather than rewards cuts. This is a yield-dilutive shift since EMI yields are significantly	None	3.5	Yield Pressure

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						lower than revolvers.			
6	4.0	Zhixuan / Schonfeld	Margins	Financials	"Denominator for reported margin of 11.1%... NII is down 5% and margin is up 5 bps?"	Management explained that NIM is calculated on a 13-point average (monthly) rather than simple period-end. This nuance explains why NIMs look stable even as quarterly interest income sags.	None	5.0	Formula Clarity
10	4.5	Gaurav / MLP	Margins	Financials	"Adjusted cost to income for this quarter is at 60%... how confident are we to be at the lower end?"	Management expressed confidence that initiatives to contain expenses and boost revenue will keep it within the 55-58% range. This implies the 50-52% days are permanently gone.	None	3.0	Sticky Opex
11	5.0	Mahrukh / Tara Cap	AUM Growth	Business Overview	"Receivables growth is now 2% YoY... how do you view near-term growth?"	Management refused to give asset growth guidance, simply stating it will "follow card acquisition growth." This is a significant evasion, signaling uncertainty about when the transactor-to-revolver conversion will recover.	Numerical guidance	2.0	Growth Evasion

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
12	4.0	Mahrukh / Tara Cap	Provisions	Financials	"Write-back of ₹47 crores... is that likely to continue?"	Management noted the write-back is a function of the ECL model and declining Stage 2/3 stocks, but they are retaining a ₹220 Cr overlay. This indicates high earnings quality and a "buffer" for future volatility.	None	5.0	Conservative Buffers
14	3.5	Shubhranshu / PhillipCap	Dividends	Capex and Allocation	"Barely grown bottom line by 13%... yet giving a dividend. Was that necessary?"	Management argued that they are underleveraged and have no capital adequacy issues, so rewarding shareholders is appropriate. This signals that the company is currently generating more capital than it can profitably deploy.	None	4.5	Capital Surplus
16	4.5	Anuj / JP Morgan	EMI Book	Financials	"Even EMI has been pretty weak [35% to 32% mix]... trying to understand if there is something beyond seasonality?"	Management attributed the dip to the completion of festive tenures and the absence of specific partner offers (Apple). This highlights a dangerous reliance on specific manufacturer subventions to	None	3.5	Asset Fragility

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						drive interest-bearing assets.			
17	4.0	Pranuj / 3P Investment	Sourcing	Business Overview	"Do you intend to increase sourcing in self-employed... or is it a conscious choice to slow down?"	Management stated that 70% of sourcing is salaried as they are being selective on credit quality. This confirms they are avoiding the high-yield/high-risk self-employed segment to protect the balance sheet.	None	4.0	Quality Preference

PATTERN FLAGS & SENTIMENT * The "Transactor" Anxiety: Almost every analyst questioned why spends are disconnected from AUM. Management's posture was defensive, attributing it to "selectivity" and a "conservative stance." The concern remains live; the market is now pricing SBI Card as a mature, low-growth business. * **Risk vs. Return Trade-off:** Analysts are pleased with the GNPA drop to 2.41%, but realize this safety has come at the cost of yield. The friction point is the Cost-to-Income ratio, which is now structurally higher. * **Analyst Sentiment: Skeptical on Growth, Relieved on Risk.** Management's credibility on managing the credit cycle has improved, but their "growth story" is currently broken.

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% (Early FY26) | "Not giving any guidance." | Total withdrawal of numerical target. | Thesis shifts from "Growth" to "Yield Defense." | | Revolver Share | "Bottoming out" | "Slight downward bias in FY27." | Revolvers haven't found a floor yet. | NIMs will face pressure if COF rises. | | EMI Conversion | To be the primary growth driver | Declining share YoY (35% to 32%). | EMI isn't scaling fast enough to offset revolvers. | Structural yield erosion. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY26)	This Quarter (Q4 FY26)	Direction
Gross Credit Cost	8.3%	7.7%	↑ Improving
GNPA %	2.86%	2.41%	↑ Improving
AUM Growth (YoY)	4.6%	2.0%	↓ Deteriorating
NIM %	11.0%	11.1%	↑ Improving
Cost of Funds %	6.5%	6.4%	↑ Improving
New Card Adds	864k (Missed target)	917k (Met target)	↑ Improving
Management Tone	Cautious on Risk	Confident on Risk / Cautious on AUM	☐ Neutral
Stage 2 Stock	₹2,239 Cr	₹2,090 Cr	↑ Improving
Capital Allocation	Retaining Capital	Interim Dividend Announced	↑ Improving

Investor Notes: * **Thesis Status:** The "Asset Quality Recovery" is fully realized. The new thesis is: "Can SBI Card re-ignite lending?" * **CFO/PAT Quality:** Healthy. The drop in NNPA and Stage 2 assets means future provisions will be lower, providing a structural tailwind to PAT. * **Forensic Flag:** Management is retaining a ₹220 Cr overlay despite a sharp drop in GNPA. This is a "hidden reserve" that can be used to smooth earnings in FY27 if growth remains weak. * **Action Signal:** The primary monitoring point is the **EMI/AUM growth**. Until AUM growth returns to >10%, the stock will likely trade at a "Value" multiple rather than a "Growth" multiple.

STOP HERE.