SBI Cards & Payment Services Ltd — Nov 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Miss **One-line:** The thesis is undergoing a painful transition from "High-Growth Compounder" to "Value-Recovery Play" as credit costs hit a record 9.0% and management abandons short-term stabilization timelines in favor of defensive limit-cutting for 1 million customers.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Weak Miss	Credit cost (9.0%) exceeded prior quarter's 8.5% and management's "stabilization" narrative.	□
Earnings Quality	Low (Asset quality drag)	PAT plummeted 33% YoY despite 23% receivable growth; provisions are consuming operating profits.	□
Guidance Confidence	Weak	Management shifted from "recovery in 2 quarters" (prior Q) to "closer to the peak" with no firm timeline.	□
Management Credibility	Neutral	Transparent about "solvency" issues of borrowers but failed to anticipate the depth of the current cycle.	□
Business Quality Signal	Deteriorating	RoAE collapsed to 12.5% (from 22.3% YoY); the high-ROE moat is currently breached by credit losses.	□
Key Q&A Exchange	Q# 11 & 14 (Solvency)	Management admitted that once a customer defaults, they "don't have money to pay," suggesting a deep solvency crisis.	□
The Street's Primary Anxiety	Peak Credit Cost	Analysts are fixated on when the credit cycle bottoms; management could not provide a specific quarter.	□
Capital Cycle Stage	Consolidation	Aggressive de-risking (10 lakh limit cuts in H1) indicates a shift from acquisition to survival.	□
Margin / Return Ratio Trajectory	Deteriorating	ROAA dropped to 2.7% (vs 4.9% YoY); NIMs are stable but unable to offset impairment spikes.	□
Pricing Power	Stable	Yields at 15.2% are holding, but inability to hike revolver rates limits the ability to price for risk.	□
FCF Conversion & Quality	Weak	CFO is heavily impacted by the inability to recover written-off "stock" despite high collection intensity.	□
Competitive Moat Signals	Stable	Retains #2 position (18.5% CIF share) and strong SBI Banca sourcing (41%).	□
Balance Sheet Strength	Strong	Total CAR at 22.1%; well-capitalized to absorb further shocks.	□
Working Capital Efficiency	Deteriorating	GNPA increased to 3.27%; Stage 2/3 assets are not curing as expected.	□
Mgmt Guidance Track Record	Mixed	Accurate on spend growth (retail +24%) but consistently over-optimistic on credit cost recovery.	□
Key Vulnerability / Red Flag	Recovery "Stock"	The high volume of delinquent accounts that "cannot pay" creates a long tail of write-offs.	□
Management Tone	Defensive but Patient	Focused on early "flow" improvements rather than immediate bottom-line recovery.	□

Sentiment: □Negative

Key Takeaways: * **Positives:** Retail spends remain robust at 24% YoY growth, demonstrating that the "active" customer base is still consuming; SBI Banca channel provides a high-quality sourcing hedge (0.77 relative delinquency); Cost of Funds (7.4%) has likely peaked. * **Negatives:** Gross Credit Cost reached a staggering 9.0% (speech data), significantly higher than the 8.0% shown in the PPT returns table; Management has been forced to slash limits for 10 lakh (1 million) customers in H1 FY25, a massive defensive pivot that will dampen future interest income. * **Street Concern:** Analysts are alarmed by the "solvency" vs. "liquidity" distinction; management admitted that delinquent borrowers are not just delaying payments but lack the capacity to pay entirely due to systemic over-leveraging. * **Watchpoint:** Monitor the "Inflow to Delinquency" rate. Management claims this has improved over 6 months; if this doesn't translate to lower GNPA by Q4, the underwriting model's ability to filter "prime" customers is fundamentally broken.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS *PPT figures used as primary. Management Commentary derived from Concall.*

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Loans Growth (% YoY)	23.5%	+23.5%	+5.5%	↑	Driven by retail spends (+24% YoY). Receivables (Gross) reached □55,601 Cr.
NIM (AUM basis %)	10.6%	-100 bps	-20 bps	↓	Yields slightly down (15.2%) and asset mix shift to spends dampened NIM.
Cost of Funds %	7.4%	+30 bps	-20 bps	↑	Cof peaked; benefit from short-term borrowing linked to lower T-bill rates.
GNPA %	3.27%	+84 bps	+21 bps	↓	Industry-wide delinquency spike; driven by household debt and over-leverage.
NNPA %	1.08%	+16 bps	+3 bps	↓	Slight containment compared to GNPA due to high provisioning/write-offs.
Credit Cost %	9.0%	+230 bps	+50 bps	↓	Speech notes 9% gross credit cost; PPT Return table shows 8.0% (Discrepancy noted).
Capital Adequacy %	22.1%	+10 bps	+110 bps	↑	Strong capital cushion despite high impairments.
PAT (□Cr)	□404	-32.0%	-32.0%	↓	Profits halved QoQ as credit costs (□1,460 Cr) wiped out 64% of PPOP.
Fee Income Growth %	-0.8%	-0.8%	+1.5%	→	Impacted by lower rental fees and selective portfolio actions.
Retail Spends (□ Cr)	□76,398	+24.0%	+6.2%	↑	Strong growth in PoS and online spends; 60% of retail spends are online.
Receivables / Card (□)	□28,387	+12.5%	+1.7%	↑	Driven by higher spends; retail spends per card reached □1.58 lakh.
Cost to Income %	53.4%	-10 bps	+270 bps	↓	Increased due to festive season spends/marketing in late September.

2B. SEGMENT BREAKDOWN

Segment	Receivables (₹ Cr)	YoY Growth	Int. Earning Mix	Trend	vs Co Avg	Key Development
Receivables (NEA)	₹55,601	23%	60%	↑	Baseline	37% are EMI-based receivables.
SBI (Banca)	~₹22,800	N/A	High	↑	Better	Relative delinquency at 0.77 (23% better than average).
Open Market	~₹32,800	N/A	Lower	→	Worse	59% of new accounts; sourcing quality is the primary stress point.
Corporate Spends	₹5,495	-13%	Low	↓	Lower	Strategic shift toward profitable spends over volume.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Credit Costs	Closer to the peak; expected to remain elevated near-term.	Needs to drop to <7% in H2 to average ~7.5% annually.	**Missed:** Guidance for stabilization in Q1/Q2 was not met.	High
Guidance	Asset Growth	15% - 20% annualized growth.	Current H1 run-rate is 23%; requires slight deceleration.	**Achieved:** Growth remains above target.	Low
Guidance	Cost to Income	~55% for the full year.	Current H1 is 52.2%; well within range.	**Achieved:** Historically consistent.	Low
Strategy	Quality Pivot	15% increase in Prime+ customers in new mix.	Maintain higher credit filters in open market sourcing.	**New:** Pivot visible in lower card acquisition (9.1L vs 1.1M avg).	Medium
Strategy	Limit Mgmt	Continued real-time limit reductions based on bureau scrubs.	Needs careful balance to not choke interest income.	**Delivered:** 10 lakh accounts cut in H1 (Hedged losses).	Medium
Strategy	Co-brand Mix	Compliance with new network portability guidelines.	Completed for all proprietary and co-brand cards.	**Achieved:** Strategic KrisFlyer launch.	Low

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 Peak	Financials	"If your flows have peaked, does it mean at least some moderation... or how does it pan out?"	Management indicated they are "closer to the peak" but cautioned it will take 1-2 more quarters to confirm the pattern. This implies credit costs will remain a drag on ROE through FY25.	Specific moderation quantum.	3.0	Vague timeline
1a	4.0	Mahrukh / Nuvama	Opex Outlook	Financials	"Does opex hold here... or does it rise even further?"	Management expects cost-to-income to normalize in Q4, maintaining a full-year guidance of approximately 55%. This suggests short-term margin pressure from festive marketing will dissipate.	None	4.0	Clear guidance
2	4.5	Shweta / Elara	Revolver Share	Financials	"Has the revolver share come down because we chose it or customers are just defaulting?"	Management explained that the denominator spike from late September spends seasonally lowered the mix, but absolute revolver balances are increasing. This indicates that the core high-margin segment isn't shrinking, just	None	4.0	Logical/ Evidence

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						being masked by seasonality.			
3	4.0	Piran / CLSA	Revolver Strategy	Strategy	"What steps will we take to ensure [revolver share] does not drop given it's a big profit contributor?"	Management is not proactively pushing for more revolvers but expects the share to stabilize between 23-25% as underwriting stabilizes. This confirms a "safety-first" approach where yield is not being chased at the expense of risk.	None	3.5	Strategy shift
3a	4.5	Piran / CLSA	Banca Sourcing	Strategy	"What explains that we are reducing the share of SBI sourcing [given they are less delinquent]?"	Management clarified this was a temporary dip due to recalibrating the banca underwriting model, and sourcing mix should return to the 55% banca level soon. This is a positive signal for asset quality recovery.	None	4.5	Specific details
4	4.0	Shubhranshu / PhillipCap	Origination Quality	Business Overview	"How much are we carding the carded there? What is the proportion of people who	Management noted that Banca sourcing brings in "new to credit" (NTC) via banking data, while	Specific % mix.	3.0	Directional

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					come in with a card?"	the open market focuses on "thick file" customers with existing credit history. This reliance on internal data for NTC is a key competitive moat in a high-risk cycle.			
5	5.0	Rohan / Equirus	Flow Rates	Financials	"If you look at this quarter, the GNPA has gone up... is it for a particular month that you are talking about the flow rate?"	Management distinguished between "early delinquency flows" (improving) and "delinquent to write-off flows" (not improving), indicating the pain is in the existing "stock" of defaults. This explains why P&L stress persists even as sourcing quality improves.	None	4.0	Brutally honest
6	4.5	Gao Zhixuan	FY26 Outlook	Management Outlook	"How fast do you think credit costs can come down [in FY26]?"	Management refused to provide a gradient for recovery, stating results depend on the overall unsecured lending ecosystem improving alongside their internal	FY26 numbers.	2.0	Deflected

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						actions. This signals that SBIC is now a "macro beta" play for credit cycle recovery.			
6a	3.5	Gao Zhixuan	Fee Divergence	Financials	"Spend growth is strong, but then why are we seeing the divergence with the fee income growth?"	Management cited a decline in late fees and over-limit fees (as portfolio quality is tightened) and lower rental fees as the primary drags. This indicates that fee income is becoming "cleaner" but at a lower growth rate.	None	4.0	Quantified
7	4.5	Anand / Emkay	Collection Effort	Financials	"Is it basically that you have put more efforts and because of which you're able to collect faster?"	Management confirmed they are nudging and calling customers much earlier in the life cycle to prevent early delinquency from aging. This proactive collection is the main lever for the "flow" improvement they are claiming.	None	4.0	Specific action
8	4.0	Pranav / Bernstein	Customer Profitability	Financials	"If you're going more towards prime... would that lead to a	Management argued that while prime customers may have lower yields,	Margin delta (Prime vs Avg).	3.0	Strategic intent

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					significantly lower profitability?"	they provide essential "confidence and strength" to the overall portfolio. This confirms management is trading off marginal ROE for balance sheet stability.			
9	4.5	MB Mahesh / Kotak	Recovery Stock	Financials	"Any color on... the outstanding stock of written off loans and when do you see this contribution diluting?"	Management admitted that the "written-off pool" is also feeling ecosystem stress, with some recoveries now taking up to 10 years to materialize. This dampens expectations of a quick "recovery income" boost to the P&L.	Total write-off stock.	2.0	Deflected
10	4.0	Ken Ang	Credit Cost Cap	Financials	"Where do you think credit costs would be... would it go above 10%?"	Management reiterated that they expect costs to remain elevated but see "downward gradients" ahead, effectively dodging a specific cap. This lack of a "ceiling" guidance is a key risk for the stock.	10% cap confirmation.	2.0	Hedged

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
11	4.5	Bhavik / Nippon	Limit Reductions	Strategy	"How many cards are we maybe reduce limits, how are you working around that?"	Management confirmed 10 lakh (1 million) customers had limits reduced in H1 FY25 to preempt defaults. This is a massive defensive maneuver representing ~5% of the total card-in-force base.	None	5.0	Specific/ Clear
12	5.0	Shubhranshu / PhillipCap	Delinquency Contagion	Business Overview	"If they are not paying us, who are they paying? Are they delinquent everywhere?"	Management confirmed that customers delinquent with SBIC are typically delinquent on all unsecured credit lines across the bureau. This confirms the "Solvency Crisis" narrative over a simple "Priority of Payment" issue.	None	5.0	Crucial insight

PATTERN FLAGS & SENTIMENT * **Theme Cluster: Stock vs. Flow.** Analysts repeatedly challenged why GNPA is rising if management claims "flows" are improving. Management's defense—that the "stock" of existing delinquent customers has lost the capacity to pay—reveals a fundamental shift: this isn't a temporary liquidity hiccup for borrowers but a deeper solvency issue that requires time and write-offs to clear. * **Theme Cluster: Defensive Posture.** The friction point in the call was the scale of limit cuts (1 million accounts). Analysts are trying to model the impact on future interest income, while management views it as a "necessary cost" to avoid catastrophic credit losses. The posture was one of survival over growth. * **Analyst Sentiment Verdict:** Analysts were palpably skeptical, particularly regarding the "closer to peak" credit cost claim, which has been echoed by management for three quarters without materializing in the P&L. The friction was highest when discussing the "recovery stock," as analysts realized that even if new sourcing is better, the old "bad" book will bleed the P&L for several more quarters. Management credibility is currently in a "wait-and-see" mode.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Q1 FY25) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Credit Cost Peak | Expected stabilization by Q2 FY25. | Currently at 9.0%; peak is now "near" but not defined. | Missed prior timeline by at least 2 quarters. | Persistent RoE drag. | | Recovery Potential | Expected high recoveries from write-offs. | Recoveries are "flattening" due to systemic stress. | Recovery income is no longer a reliable P&L tailwind. | Slower earnings bounce-back. | | limit Cuts | 5 lakh accounts cut (Total FY24/Q1). | 10 lakh (1 million) accounts cut in H1 FY25 alone. | Defensive actions have doubled in intensity. | Significant headwind to interest income growth. |

---

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY25)	This Quarter (Q2 FY25)	Direction
Gross Credit Cost	8.5%	9.0%	↓ Deteriorating
GNPA	3.06%	3.27%	↓ Deteriorating
ROAE	19.1%	12.5%	↓ Deteriorating
Limit Reductions	5 Lakh accounts	10 Lakh accounts (Cumulative H1)	↓ Defensive Pivot
PAT	□594 Cr	□404 Cr	↓ Deteriorating
Cost of Funds	7.6% (Peak)	7.4%	↑ Improving
Management Tone	"Stabilizing within 2 quarters"	"Stock issues persisting; recovery timeline uncertain"	↓ Cautious
Banca Sourcing	Recalibrating model	Mix beginning to return to 55%	↑ Improving

Investor Notes: The thesis has moved from a "growth story" to a "patience story." The 23% receivable growth is currently a liability as it brings in 9% credit costs. The key to a re-rating is not higher spends, but the GNPA "stock" clearing through write-offs and the "Prime+" sourcing mix (now 15% higher) maturing. Expect RoE to remain suppressed below 15% for the remainder of FY25.