

SBI Cards & Payment Services Ltd — Oct 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Beat on Asset Quality / Inline on Margins / Miss on Growth **One-line:** The asset quality "inflection" has finally arrived with GNPA and Credit Costs cooling, but the thesis remains in a "low-ROE trap" (12.1%) as interest-earning revolvers (22%) fail to recover despite massive tailwinds in borrowing costs.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Beat (Asset Quality)	Gross Credit Cost (9.0%) and GNPA (2.85%) both improved ahead of the "range-bound" guidance.	☐
Earnings Quality	Moderate	PAT (₹445 Cr) weighed by ₹30 Cr one-off stamp duty provision; high non-cash impairment vs PAT.	☐
Guidance Confidence	Neutral	Maintaining 10-12% receivable growth despite strong festive spends indicates lack of revolver conversion.	☐
Management Credibility	Stable	Delivered on COF reduction (51bps) and asset quality improvement as promised last quarter.	☐
Business Quality Signal	Improving (Risk)	Stage 2 (4.2%) and Stage 3 (2.85%) both hit multi-quarter lows; risk-side of the balance sheet is healing.	☐
Key Q&A Exchange	Q# 11 (Yield Drop)	Mgmt explained 50bps yield drop was seasonal transactor volume; expect bounce back in Q3 as revolvers build.	☐
The Street's Primary Anxiety	Revolver Atrophy	Analysts pressed on why revolvers are stuck at 22%; mgmt cited "selective acquisition" and cautious risk stance.	☐
Capital Cycle Stage	Consolidation	Focusing on high-quality co-brands (Flipkart, PhonePe) and Banca over aggressive open-market expansion.	☐
Margin Trajectory	Stable	NIM held flat at 11.2% as 51bps COF savings perfectly offset 50bps yield compression.	→
Pricing Power	Stable	Interest yields compressed due to mix, not pricing; interchange fees remain consistent.	☐
FCF Conversion & Quality	Strong	Massive non-cash provisions (₹1,293 Cr) relative to PAT suggest high latent cash flow when the cycle turns.	☐
Competitive Moat Signals	Stable	UPI-on-Credit growing 16% QoQ; massive co-brand launches (IndiGo, PhonePe) secure future sourcing.	☐
Balance Sheet Strength	Strong	CAR remains robust at 22.5% (Tier 1 17.5%) with a 2.85% GNPA.	☐
Working Capital Efficiency	Improving	Stage 2 stock reduced by ₹188 Cr QoQ; flow rates into delinquency are finally abating.	☐
Mgmt Guidance Track Record	Reliable	Asset quality and COF guidance from Q1 was hit accurately.	☐
Key Vulnerability	Transactor Skew	31% YoY spend growth is not converting to AUM, creating an opex-heavy, low-yield business model.	☐
Management Tone	Cautious	Focused on bringing credit costs below 9% before re-accelerating growth.	☐

Sentiment: ☐Neutral

Key Takeaways (Positives & Negatives): * **Positives:** The asset quality nightmare is receding; GNPA fell 22bps QoQ to 2.85% and Stage 2 assets dropped significantly to 4.2% (from 4.7%). Management utilized the 51bps Cost of Funds (COF) reduction to absorb a 50bps drop in yields, successfully protecting the 11.2% NIM. UPI-on-Credit is scaling as a high-frequency engagement tool (16% QoQ growth), and new co-brand partnerships with Flipkart and PhonePe provide a "moat" for high-quality digital sourcing. * **Negatives:** Profitability remains depressed (ROE 12.1%) as the revolver rate (22%) continues to languish far below pre-COVID norms (~35%). Despite a 31% YoY surge in spends (velocity), Receivables only grew 8% YoY (AUM), signaling that SBI Card is increasingly becoming a payment processor rather than a high-yield lender. Opex remains high due to corporate pass-backs and festive rewards, pushing Cost-to-Income to the higher end of guidance (56.8%). * **The Street's Concern:** The primary friction is the disconnect between "Spend Growth" and "Interest Income." Analysts are questioning if the credit card model in India has structurally shifted to a "transactor-only" market, which would permanently lower SBI Card's ROE profile. Management's response is that they are being "selective" to protect credit costs, implying they are intentionally avoiding the "revolver" segment for now. * **Watchpoint:** Monitoring the Revolver % in Q3 FY26. If the festive season spends do not convert into interest-earning assets by January, the 10-12% growth guidance will likely be missed.

2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures primary. Concall used for commentary and unlisted metrics.

Metric	Current Qtr (Q2 FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	-3.0% (Derived)	↓	↓	↓	NII impacted by 50bps yield compression and flat QoQ interest income.
NIM (AUM basis %)	11.2%	↑ 40 bps	→ 0 bps	→	COF savings (51bps) perfectly offset Yield drop (50bps).
Cost of Funds % (Daily)	6.8%	↓ 60 bps	↓ 50 bps	↑	Massive benefit from repo-rate floating book and CP/NCD mix.
Loans Growth (% YoY)	8.0%	↓ 1,100 bps	→ 0 bps	→	Deliberate focus on quality over volume; guidance 10-12%.
GNPA %	2.85%	↓ 43 bps	↓ 22 bps	↑	Improving trend; Stage 2 stock reduced by ₹188 Cr.
NNPA %	1.29%	↑ 10 bps	↓ 13 bps	↑	Improved as stock reduction outpaced write-offs.
Slippage Ratio %	2.07%	Not in doc	↓	↑	Mgmt cited "abatement over there in terms of slippages."
Credit Cost (Gross %)	9.0%	↓ 2 bps	↓ 60 bps	↑	Reduction of ₹59 Cr in absolute credit costs vs Q1.
Collection Efficiency %	Not in doc	-	-	-	Flow rates into Stage 2/3 are slowing down.
Capital Adequacy (CAR) %	22.5%	↑ 40 bps	↓ 70 bps	→	Remains very comfortable; Tier 1 at 17.5%.
PAT (₹Cr)	₹445	↓ 26.2%	↓ 19.9%	↓	YoY/QoQ drop due to higher opex and high impairment stock.
Fee Income Growth %	16.0%	↑ 1,100 bps	↑ 3.4%	↑	Driven by 31% YoY spend growth and subscription fees.
Revenue (₹Cr)	₹5,136	↑ 13.0%	↑ 2.0%	↑	High spend-based income offset muted interest income.
Cost to Income (%)	56.8%	↑ 540 bps	↑ 540 bps	↓	Seasonally high due to festive offers and corporate pass-backs.
ROCE (%)	Not in doc	-	-	-	Segmental metrics not disclosed.
ROAA (%)	2.6%	↓ 4 bps	↓ 75 bps	↓	Dragged by low yields and higher opex.

2B. SEGMENT BREAKDOWN

Segment	Spend (₹ Cr)	YoY Growth	Margin (Yield)	Trend	vs Co Avg	Key Development
Retail Spend	₹89,611	17%	High	↑	Better	Online contrib 62.5%; UPI-on-Credit growing 16% QoQ.
Corporate Spend	₹17,452	Not in doc	Low	↑	Lower	Strong growth; impacting opex through pass-backs.
Interest Income	₹2,490 (Rev)	8.7%	14.8%	↓	Baseline	Yield down 41bps QoQ; Revolver at 22% (denominator effect).
Fees & Other	₹2,471 (Rev)	16%	N/A	↑	Better	Strong subscription fee growth (Slide 18).

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Receivables Growth	10% - 12% for FY26.	Needs acceleration in H2; current growth is only 8% YoY.	Missed: Prior Q1 guidance was 12-14%.	High
Guidance	Credit Costs	Expected to show an improving trend (below 9%).	Achievable given Stage 2/3 stocks are falling; Q2 already hit 9.0%.	Met: GCC down from 9.6% in Q1.	Low
Guidance	NIMs	Will hold on to current NIM levels.	High visibility; COF floor reached, and yields should rise in Q3.	On Track: NIM stable at 11.2%.	Low
Guidance	Cost to Income	54% - 56% for FY26.	Needs massive opex reduction in Q4; current Q2 is at 56.8%.	At Risk: Currently at the high end.	Medium
Strategy	Co-branding	Scale Flipkart/PhonePe/IndiGo products.	Early traction positive; focused on high-trust SBI brand.	New: Just launched in Q2.	Low
Macro	Rental Spends	Expect 3-5% impact from rental stop.	Minimal; rental was already down to early single digits.	On Track: Already absorbed.	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	Financials	"Write-offs remain elevated... will it be substantially below 9%?"	Management confirmed that as Stage 2/3 stocks and flow rates decline, Gross Credit Cost will fall below 9% in coming quarters. Improving asset quality will be the primary P&L driver for H2.	Specific range below 9%	4.0	Clear improvement
2	4.0	Abhishek / HSBC	Opex	Financials	"How much would have been the festive spend... to get a sense of underlying retail opex?"	Management declined to disclose specific festive or corporate pass-back numbers but confirmed opex was higher due to both. Opex visibility remains poor, masking underlying efficiency.	Specific cost breakups	2.0	Evasive on opex
3	4.5	Abhishek / HSBC	Revolvers	Financials	"What kind of trends do you expect on absolute balances in EMI and revolver?"	Management indicated a downward bias for revolvers (currently 22%) while EMI balances remain stable. Low revolver share will continue to cap ROE expansion until risk appetite changes.	Timeline for revolver recovery	3.0	Structural drag

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4	4.0	Piran / CLSA	Fee Income	Financials	"Fees are up 3-4% while spends are up 15%?"	Management clarified that fee income is split between account-based and spend-based; rental fee drops also impacted the mix. Fee income growth will likely lag spend growth in the near term.	None	4.0	Mix shift
5	4.0	Shweta / Elara	Sourcing	Mgmt Commentary	"Key strategic measures for sourcing... are we changing guidance on 0.9M to 1M cards?"	Management is sticking to 0.9M-1.0M card additions, focusing on Flipkart and PhonePe partnerships for "quality" sourcing. Pivot toward co-brands is intended to lower acquisition risk.	None	4.5	Quality over volume
6	3.5	Anand / Emkay	POS Spends	Business Overview	"Why have POS spends on departmental stores and travel come down?"	Management attributed this to Navratri shifting spends online (e-commerce) and expect POS to recover in the Dusshera-Diwali window (Q3). Spend pattern is seasonal, not structural.	None	4.0	Seasonal shift

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
7	3.5	Mahesh / Kotak	Rental Spends	Business Overview	"Has RBI put a full block on the rental transaction?"	Management explained that payment aggregators are stopping transactions where merchant KYC is incomplete, impacting rental spends by 3-5%. This removes a low-yield/ higher-risk spend category.	None	5.0	Regulation impact
8	3.5	Shubhramshu / Phillip	Co-brands	Business Overview	"IndiGo has Kotak, Flipkart has Axis... what will these contribute?"	Management believes the SBI brand trust and their reach in Tier 2/3/4 cities provide a competitive edge even in existing co-brand ecosystems. Market share gains will depend on deep-tier penetration.	Specific volume targets	3.0	Strategic intent
9	4.5	Punit / Macquarie	Yield Drop	Financials	"Why have the yields declined so drastically (17% to 16.5%)?"	Management attributed the 50bps yield drop to higher transactor volumes at the end of the quarter (festive), which will reset as balances build. This confirms the yield compression	None	4.5	Seasonal skew

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						is seasonal, not a structural price cut.			

PATTERN FLAGS & SENTIMENT * **The "Transactor" Pivot:** Analysts expressed significant anxiety over the "Transactor-isation" of the book. 31% YoY spend growth coupled with only 8% receivable growth suggests the company is doing more work (opex) for less interest income. Management remained defensive, framing it as a "selective acquisition" strategy to lower credit costs, but failed to signal when they would pivot back to higher-revolving segments. * **Asset Quality Relief:** There was a palpable shift in tone regarding asset quality. After several quarters of "model refresh" and "high credit cost" excuses, the actual reduction in Stage 2/3 stocks provided management with much-needed credibility. The consensus is that the asset quality cycle has peaked, shifting the focus entirely to ROE recovery. * **Analyst Sentiment Verdict: Skeptical but Pacified.** Analysts are relieved that asset quality is no longer deteriorating (GNPA down 22bps), but they remain skeptical of the 12% ROE profile. The friction moved from "Will they survive the credit cycle?" to "Can they ever earn 20% ROE again?" Management's credibility on COF reduction was high, but they are viewed as being in a defensive crouch regarding growth.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Yields | Expected to be stable at 17%. | Dropped to 16.5% in Q2. | 50bps miss on yield expectations. | Lower interest income; ROA drag. | | Cost-to-Income | 54% - 56% range. | Q2 hit 56.8%. | Pushed to the high end of the range. | Margin compression from opex. | | Revolvers | Stability expected. | Dropped to 22% (denominator impact). | Structural decline in high-yield assets. | Lower terminal ROE. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY26)	This Quarter (Q2 FY26)	Direction
Gross Credit Cost	9.6%	9.0%	↑ Improving
GNPA %	3.07%	2.85%	↑ Improving
Cost of Funds (Daily)	7.1%	6.8%	↑ Improving
Stage 2 Assets	4.7%	4.2%	↑ Improving
Portfolio Yield	17.0%	16.5%	↓ Deteriorating
Revolver Rate	24%	22%	↓ Deteriorating
New Card Additions	0.87 Million	0.94 Million	↑ Improving
One-off Item	None	₹30 Cr Stamp Duty Provision	↓ Lowers Quality
Spend Growth (YoY)	11%	31%	↑ Improving

Investor Notes: * **Thesis Status:** The business is "healing" its balance sheet (lower risk) but "hurting" its P&L (lower ROE). The long-term thesis remains intact if you believe the revolver rate of 22% is a cyclical trough and not a structural permanent shift in Indian consumer behavior. * **Earnings Quality:** Operating profit (EBCC) fell 10% QoQ despite higher revenues because opex grew faster. However, the non-cash nature of impairment

means the company is building a massive provision "war chest" that will support future earnings once write-offs subside. * **CFO/PAT Lever:** CFO-to-PAT ratio remains high because of the ₹1,293 Cr impairment (non-cash) against a ₹445 Cr PAT. This divergence is driven by conservative accounting (ECL model) rather than poor cash collections. * **Watch Point:** Q3 interest income. With festive transactors expected to convert to revolvers/EMIs, yield should bounce back above 16.8%. If it stays at 16.5%, the "Transactor Trap" is real.