November 05, 2024

The BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

SCRIP CODE: **543066**

SECURITY: **Equity Shares/Debentures**

The National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra-Kurla Complex.
Bandra (E), Mumbai - 400 051

SYMBOL: **SBICARD**

SECURITY: **Equity Shares**

Dear Sirs,

Re: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Transcript - SBI Card 2Q'FY25 Earnings Call

In compliance with the provisions of Regulation 30 read with Schedule III Part A of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, transcript of the Earnings Call held on October 29, 2024 with analysts/investors, has been made available on the website of the Company at the below mentioned link. Further, the same is also attached herewith for reference.

https://www.sbicard.com/en/who-we-are/analyst-investor-meeting.page

Kindly take the same on record.

Thanking you,

Yours faithfully,

For SBI Cards and Payment Services Limited

PAYAL MITTAL CHHABRA
Digitally signed by PAYAL MITTAL CHHABRA
Date: 2024.11.05 16:40:56 +05'30'

Payal Mittal Chhabra
Chief Compliance Officer & Company Secretary
Date and Time of event: - October 29, 2024 at 04:55 PM

“SBI Cards and Payment Services Limited

Q2 FY25 Earnings Conference Call”

October 29, 2024

MANAGEMENT:	**MR. ABHIJIT CHAKRAVORTY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER** **MR. GIRISH BUDHIRAJA – CHIEF SALES AND MARKETING OFFICER** **MS. RASHMI MOHANTY – CHIEF FINANCIAL OFFICER** **MR. SHANTANU SRIVASTAVA – CHIEF RISK OFFICER** **MS. NANDINI MALHOTRA – CHIEF CREDIT OFFICER**

Moderator: Ladies and gentlemen, good day, and welcome to the SBI Cards and Payment Services Limited Q2 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhijit Chakravorty, MD and CEO. Thank you, and over to you, sir.

Abhijit Chakravorty: Thank you, Sejal. And good evening, everyone. I welcome you all to the earnings call, along with my senior management team at SBI Cards.

Indian Credit Card Market: Gaining Momentum

- Recent reports on credit card market project that the number of credit cards in India will reach 200 million by FY28-29, with a CAGR of 15%, further establishing credit cards as a significant payment instrument.
- September 2024 data indicates that credit card transactions in India reached 0.39 billion in volume, showing a 36% YoY growth in transactions volume and 17.8% in spends value.
- The demand for credit cards remains strong as consumer spending is growing at a healthy rate.
- This trend indicates the expansion of the credit card market in India, driven by technology advancements, consumer behaviour shifts, and supportive regulatory measures.
- SBI Card continues to adapt to the changing business environment, to ensure profitable growth.
- The demand for credit cards remains strong as consumer spending is growing at a healthy rate. This trend indicates the expansion of the credit card market in India driven by technology advancements, consumer behavior shifts and supportive regulatory measures. SBI Card continues to adapt to the changing business environment to ensure profitable growth.

Let us now look at SBI Cards **business overview in Q2 FY '25**.

- Our cards-in-force (CIF) stand at 1.96 crore, with 10% YoY growth.
- New account acquisition during Q2 is at over 9 lakhs. We continue to be selective and focused on quality of acquisition, we will continue to be in this range in the near term.
- SBI Card continues to be India's second largest credit card player, with CIF market share at 18.5% (As per RBI September 2024 data).
- Our overall share of new accounts sourcing from Banca and Open Market channels stands at 41% and 59% respectively for the quarter.

Spends:

- Retail spends witnessed strong growth and reached ₹ 76,398 crore with a 24% YoY growth.
- Total card spends stand at ₹ 81,893 crore, with around 3% YoY growth.
- SBI Card spends market share is at 15.7 % (As per RBI September 2024 data).
- We have seen good growth in both PoS and online spends across various discretionary and non-discretionary spends categories.

  - Key ones include departmental stores, utilities, education, consumer durables, furnishing & hardware, apparel and jewellery, among many others.
- Retail spends per card have grown to ₹ 1.58 lakh during the quarter, vs ₹ 1.39 lakh for Q2 FY24.
- Online spends continue to be strong and contributed 60% of total retail spends.
- Corporate spends are at ₹ 5,495 crore. The spends have grown QoQ, in line with our strategy for profitable growth in spends.
- RuPay card spends at UPI terminals continues to grow and have shown a growth of 40% over the previous quarter.
  - Department stores & grocery, utilities, fuel, consumer durable, and restaurants, have been among the top five categories for UPI spends.
  - Tier II+ customers are utilizing this facility more as it increases the number of acceptance outlets for RuPay cards.

Key Initiatives:

As a customer centric and responsible organization, SBI Card continues to focus on varied initiatives during the quarter:

- We have forged strategic alliance with Singapore Airlines to launch 'KrisFlyer SBI Card', a one-of-its-kind travel centric co-branded credit card, targeted at the super-premium segment.
- All our customers now have an option to have a product with the network of their choice. All our products, both proprietary and co-brand, are now fully compliant with the RBI guidelines.
- We were among the first few to enable payment through BBPS, to make instant repayment experience simple and seamless for our customers.

Financial Performance Q2 FY25

Coming to the financial performance in Q2 FY25, I am pleased to report that SBI Card delivered a robust performance, highlighting the resilience of our business model. The key financial highlights for the quarter are:

Revenue:

- Total revenue has grown to ₹ 4,556 crore registering an 8% growth vs ₹ 4,221 crore in Q2 FY24.
- PAT stands at ₹ 404 crore vs ₹ 603 crore in Q2 FY24. This owing to:
  - Higher credit cost
  - Increase in spend based expenses owing to onset of the festive season towards last few days of September, resulting in higher opex.

Receivables:

- Receivables have reached ₹ 55,601 crore with a strong 23% YOY growth.
- Receivables per card have grown to ₹ 28,387 vs ₹ 25,220 in Q2 FY24.
- Interest earning asset stayed stable at 60% with EMI receivables at 37%.
    - Spends and related expenses were higher for the quarter, with the onset of the festive season during the last few days of September.
    - This also impacted NIM marginally as the asset mix changed due to spends coming in the last week of September. In earlier years too we have seen the same trend of NIM dropping in case of festival season starting in September.
    - NIM and asset mix will normalize over the next few months.

Cost of Funds:

- Cost of funds is stable at 7.4%.
- In our assessment at this stage, the Cost of funds has peaked out and will start coming down once interest rate easing cycle begins.
- Net Interest Margin during the quarter has remained stable at 10.6 %.
- Cost to Income for Q2 FY25 is at 53.4%.

Asset Quality:

Coming to the asset quality for the company. The credit card industry has continued to witness an increase in delinquency levels, largely driven by environmental factors which have impacted the repayment capacity of borrowers. As per recent RBI reports, these factors include increase in household debt and excess leverage through retail loans. The latest data from the credit bureau suggests that the card industry delinquencies will increase gradually during FY '24, have increased even more sharply in first half of FY '25.

This trend is seen in our portfolio too:

- The gross NPAs have increased to 3.27% from 3.06% in Q1 FY '25.
- Gross credit cost for the current quarter has increased to 9% from 8.5% in the previous quarter.

The primary reason for the increase in our Credit Cost has been the customers' inability to repay owing to cash flow challenges and increase in leverage. We have noticed that once the customers become delinquent, their ability to repay the pending dues has reduced significantly. Due to this, our delinquency levels have remained elevated with Credit Cost at 9% in Q2 FY'25.

We believe we are closer to the peak. Our flows into delinquency have improved over the last six months, this gives us some confidence about the efficacy of our actions.

As stated in our previous calls, our efforts have been directed towards tightening our underwriting standards, actively managing our portfolio, and intensifying our collections activity by leveraging digital and tele-calling earlier in the customer lifecycle.

We are seeing a drop in early delinquency of new acquisitions. In addition, the proportion of prime and above prime customers in our new acquisition has improved by ~15% over the last 15 months. That said, it is difficult to predict the exact timeline and quantum of improvement in Credit Cost, as this would also depend on the changes in the unsecured lending ecosystem and macroeconomic factors.

Liquidity and Capital Adequacy:

- Our liquidity position continues to be strong.
- Our Capital Adequacy Ratio (CAR) is at 22%+
- Our Liquidity Coverage Ratio (LCR) is at 108% vs statutory requirement of 85%.
- ROAA is 2.7%, lower by 218 bps YOY.
- ROAE is 12.5%, lower by 986 bps YOY.

Conclusion:

- We remain optimistic about growth prospects for the credit card industry.
- The rising consumer spending, increasing digital adoption and ongoing festive season ensure continued growth momentum.
- We'll continue to focus on all key aspects, including expanding our customer base and partnerships and enhancing our digital capabilities to meet the evolving needs of the customers.
- As a conscious and responsible organization, we will continue with our focus on ESG initiatives. Today, the positive impact of our initiatives can be seen across various assets from saving lots of trees owing to paperless communication to relief measures for communities facing natural calamities, etc.
- Additionally, we remain committed to maintaining strong asset quality and prudent risk management, ensuring long-term sustainability.

Thank you and now we are open to questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahrukh from Nuvama Wealth Management. Please go ahead.

Mahrukh: My first question is on credit cost only. You said flows have peaked and I know that the environment is uncertain, and now other lenders are also seeing a spike in credit cost on cards. But if your flows have peaked, does it mean at least some moderation or at least a peaking of your credit cost now or how does it pan out? Because your early delinquencies on new acquisitions are also coming off?

Abhijit Chakravorty: What we stated just now is that we see ourselves closer to the peak. It will take a couple of quarters more, at least one or two quarters more to understand the pattern. But then yes, as I said, a combination of all the factors taken together, the flows into delinquency, various actions that we have taken together, all of that indicate that we are closer to the peak. We have been very specific in our speech.

Mahrukh: Okay. Got it. And sir, does opex hold here for at least in the near term? Or does it rise even further the cost to income that is?

Rashmi Mohanty: Mahrukh, as you would have seen from the previous years' results as well, quarter 2 and quarter 3 typically are high Opex quarters and that kind of normalizes and comes down in quarter 4. We have given a guidance, which is where we always ask to look at the full year opex number, cost-to-income number instead of looking at it quarter-on-quarter which we said will be in that 55% range.

Mahrukh: Okay. Got it. And just my last question on margins. Like given that third quarter is also festivals. I did not catch your last comment on margins when you were giving the commentary. So, would the margins be a little soft even in the third quarter and then come back in the fourth quarter?

Rashmi Mohanty: That's right, yes.

Mahrukh: Okay. Thanks a lot. Thank you.

Moderator: Thank you. The next question is from the line of Shweta from Elara Capital. Please go ahead.

Shweta: Thank you for the opportunity. A couple of questions. So first one being for our revolver share has come down. So, is it that we have categorically chosen? Or is it that customers are not revolving, and they are just defaulting? That's question number one.

Girish Budhiraja: If you see the revolver share is around 23%. The primary reason for this is that during the last week of September, the festival season started. You have new spends coming in, which goes into the denominator and that takes time for the customer to pay off after some billing cycles. So as stated in the speech, we see normalization of this happening by the end of this quarter.

Shweta: Okay. Sir, second question being, if I look at corporate spend so they have -- so your calibration has worked out. And so, shall we expect now INR5,000-odd crores plus will be the range, and it will schedule your eventually or slowly and gradually now retail spend traction will catch up much faster than what we are seeing currently?

Rashmi Mohanty: You have to repeat the question, Shweta. We didn't get it. You were asking about the opex?

Shweta: As the strategy, our corporate expense calibration on the lower side has worked out for last two quarters so this quarter as well as last quarter, we have seen INR5,000-odd crores plus kind of a number on corporate spend. Going forward, do we see this number settling here and therefore, retail spend traction catching up much faster?

Girish Budhiraja: On the corporate spend in Q3, we are at INR5,000 crores for last two quarters, it will go slightly up. But we will continue to be focused on the retail spend because this quarter is a festival season. Going further, as we have stated, we are looking at more profitable spends coming out of the corporate spends rather than just a pass-through spend.

Moderator: Thank you. The next question is from the line of Piran from CLSA. Please go ahead.

Piran: Thanks for taking my questions. One of them is just an extension to Shweta's question on revolver share. Now not referring to the quarter, but in general, in the past, we've seen when we've tried to tighten our underwriting standards, the revolver share has dropped like during COVID, it went from mid-30s to mid-20s. What steps will we take to ensure that, that does not happen given that it's a big profit contributor for us or are these steps we can proactively take?

Girish Budhiraja: We are not taking any steps to increase proactively the number of revolvers. However, what we have seen from data is that because these steps on the underwriting and other things have been continuing for the last one year now, and it has stabilized at 24%. And even in last call, we have stated that it will continue to range between 23, 24, 25, depending on seasonality or what is happening at the end of the month. It should continue to be in that range at least for a foreseeable two to three quarters. What we are also seeing is that on absolute amount, the revolver balance has continued to increase.

Piran: Okay. And also, just in terms of sourcing from SBI, that share has been going down over the past few quarters. Now given that those customers are historically less delinquent, what explains that we are reducing the share of SBI sourcing?

Girish Budhiraja: That is not an active reduction on the number of accounts from the Banca channel. Because of the new underwriting parameters we have put in, we have worked with the bank to look at a new model to be put in by the bank for the new customer acquisition. That was put in somewhere in the middle of last quarter, but we should see the mix coming back to our standard mix of around 55 from Banca and 45 from open sourcing.

Piran: Okay. So, this is just a temporary thing?

Abhijit Chakravorty: Absolutely.

Piran: Got it. Got it. And just a last question for Rashmi. Cost of borrowing moderated this quarter. Is it simply an effect of T-bills, T-bill rates cooling off a bit?

Rashmi Mohanty: That's right. Yes. Our short-term borrowing is linked to T-bill rate. So, the expectation around interest rate and the softening of the T-bill rates have helped us in the cost of funds.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Phillip Capital. Please go ahead.

Shubhranshu Mishra: Hi, good afternoon. Thanks for this opportunity. So, three questions. The first one is on the credit cost. What could be the proportion from SBI customers versus open-source customer in the 9% gross credit cost that we see. Second is that are we going to see strong spend growth in Q3, Q4, especially the festival season that so much being spoken about the urban consumption coming off and festive season has been just about okay. So how are we thinking about that?

And third is around the new originations. So how much are we carding the carded there? In the new originations which could be probably the SBI or non-SBI, but what is the proportion of people who come in with a card in the new originations?

Shantanu Srivastava: I'll take the first question, which is about the channel-wise makeup of the asset quality. We don't do credit cost calculations by channel because it's a fairly detailed calculation, it's not possible to attribute credit cost by channel with that level of precision. But we know that the SBI sourcing is of much better quality in terms of delinquency. And that is mentioned in our slide as well, if you'll see the investor deck, there were only 2 slides. One of the slides explains that. So, the index delinquency of SBI is about 0.77, which basically means is 23% better than the overall average.

Girish Budhiraja: On the spends portion, retail spends are running fairly strong. As you rightly said, urban consumption is going up, and we have seen these spend season thus far growing quite okay. And there is no issue that we see primarily on this front.

On the new acquisition front, where you stated that what is the mix. So, the way that we look at it is slightly different. The Banca channel primarily operates when we look at the bank customers. Customers' banking transaction data is used to underwrite from there. So, we have more new to credit from there and less of people who already hold a credit card. On the open market because the data is required, so there are people with thick files, which we look at. It may not be that people are already carded they might be running some personal loans, but they have a good credit history for a record at the credit bureaus to be looked at. And we are these days looking at a lot of other data, apart from just credit score to give the card to the customer.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Good afternoon, sir. Thanks for the opportunity. Sir, in your opening remarks, you mentioned that the flow rates have improved. But if you look at this quarter, the GNPA has gone up and write-offs are also higher. So, is it for a particular month that you are talking about the flowrate if you can elaborate further here?

Second, you also commented that there's a 15-percentage improvement in prime and above prime customer. So, I just wanted to clarify that 15% or 15 percentage points because if it is 15% then the mix wise there is no meaningful improvement. So just clarity here. And third, in the recent origination that we are doing on new cards, how is the breakeven period vis-a-vis say, 2, 3 years ago on the new relationships that we are originating in terms of duration?

Shantanu Srivastava: So, in terms of the flow rate, the statement made in the opening speech was around the early delinquency, flows “into delinquency”. That's been improving. But other flow rates are, for example, from delinquent to write-off, that is not improving. And that is what is also witnessed in our write-off numbers, and they are clearly going up. So, there are 2 parts to the flow rate story. In terms of the asset mix, the improvement in the portfolio quality, the percentage number is in percentage of 100%.

Rashmi Mohanty: Absolutely, 15%.

Abhijit Chakravorty: Somewhere, I would say we need to recall our earnings -- on previous calls where we have stated that the issue remains with a set of cardholders who are unable to pay once they become delinquent. So, the same pattern remains. While we have been able to improve "into delinquency" part, a portion of the delinquent customers once they become delinquent, they are unable to pay. So that is the difference.

Having said that, what gives us some confidence, towards improvement in future is that the inflow to delinquency has reduced and that will bring down the overall delinquent customers' number. And if it stabilizes going forward, then these are looking at some better times.

Moderator: Thank you. The next question is from the line of Gao Zhixuan. Please go ahead.

Gao Zhixuan: Firstly, is on the asset quality on the commentary that maybe in a one or 2 quarters' time, we could see the peaking of credit cost. So just wondering what's our best guess of what happens after the credit cost peaked, i.e., if I look at FY '26, how fast do you think credit costs can come down or is it likely to remain at a 9% level for some time. How should we think about this, sir?

Abhijit Chakravorty: We won't be able to guess those numbers or estimate those numbers as of now. As I said, we take actions at our end, but a larger part of the impact comes from the overall ecosystem. So, a lot will depend, the overall ecosystem improving and contributing towards our efforts also. So, giving a firm number at this stage or estimating what can be the gradient will be a bit difficult at this stage. But yes, as we stated earlier also, we expect that during the end of the year onwards, we expect it to improve further.

Gao Zhixuan: Got it, sir. And on the interest earning assets, I was just trying to back calculate what the interest-earning assets growth on a sequential basis. Not sure I get it correctly, but it seems to be about 2%, which that number used to be somewhere above mid-single digit for the last 7, 8 quarters. So how should we think about the interest earning asset growth from here? Also given the tough asset quality environment, we are kind of taking prudently in terms of these interest earning assets growth. So how should we think about it going forward?

Girish Budhiraja: We had, in earlier calls also stated, that we should look at the spend growth at anywhere between 20% to 23% on a year-on-year basis going further and asset growth of around close to 17% to 20% on an annualized basis. As of now, what we see is that the interest-bearing asset is growing broadly in line with overall asset growth. So even if you look at this quarter on a year-on-year basis, the overall asset has grown by 23%, 24%. And the interest-bearing asset has also grown maybe a couple of percentage points lower than that, but broadly in the same line. So, we see that the interest-bearing assets would also grow probably between 15% to 19% in line.

Gao Zhixuan: Got it. That's helpful. And lastly is on the fee and commission income growth, how should we think about the growth there versus asset growth becomes flattish year-on-year. So, what's driving the divergence?

Girish Budhiraja: The spends growth will always have a divergence with some bit to asset growth. Typically, the spend growth leads the asset growth.

Gao Zhixuan: Sorry, sir. I mean the fee income because fee income is like I think a bit negative year-on-year, right? So, I'm just wondering, expense growth is strong, but then why are we seeing the divergence with the fee income growth?

Girish Budhiraja: So, fee income, there are two elements to fee income. One is the interchange part, which is growing fairly strongly and in line with the spend. But on some of the other key lines, for example, the late fee and over limit fee either because of external actions or because of the tightness and selectiveness that we are showing with our portfolio and actions we are taking. Some of those fee lines are not showing the kind of growth that we would have expected. And it is good, as the late fee does not go to that level at this point of time because of the credit cost that we are running at, we believe, that should give us some benefits at a later date.

One other thing, which is the rental fee that we were charging, the rental fee also now is degrowing in a way compared to what it used to be earlier years, and it was a large part of the overall fee. So, there are those elements on the fee part. We are, however, taking certain actions and we will be looking at revision of certain fees in certain lines to get the fee income to continue to grow.

Moderator: Thank you. The next question is from the line of Anand from Emkay Global. Please go ahead.

Anand: My question is related to the flow rate that you talked about. So that reduction in the flow rates into the early buckets, is it more to do with some improvement at the customer level or is it that you have put more efforts and because of which you're able to collect faster and whether a similar kind of trend can be expected at the industry level?

Shantanu Srivastava: The efforts are on both sides, the portfolio management, underwriting side as well and also on the collection side, both of them are contributing to the improvement into the flows into delinquency.

Abhijit Chakravorty: So, to expand that, we have started giving the nudges or calls to the customer early in the life cycle. So somewhere it has given some results, and we are going to build up further on that.

Anand: Earlier on, basically, you talked about your specific cohorts, the early vintage cohorts where basically you have seen some stress. So, whether we can say that those cohorts are largely done with and now whatever the near vintage cohorts are performing well. That is also could be a reason?

Abhijit Chakravorty: I don't think we spoke about near vintage cohort or any cohorts in last at least 5 calls. I've been in the last 4, 5 calls myself. We have never spoken about any cohorts, and then we have been very clear that we see the trends across entire stable. And we have never said that it's due to early cohorts. I don't think we've ever said that.

Anand: Sir, earlier, I think from 2018 or '19 cohort is where I think we are seeing higher delinquency what we had talked about?

Abhijit Chakravorty: I think that we spoke almost 1.5 years back, and then that we are on record saying that, that part -- '19 part, got cleaned up. That was brought under control. And that is, I think, we are talking about some March or June 2023 story. We have come a long way up since then.

Anand: Sure. Sure. And sir, one more key item, which is basically business development incentive, which has been actually coming down. Any specific reason for that?

Abhijit Chakravorty: Do you mean -- by business development, do you mean cards in force?

Anand: No sir, basically there is this line item by business development incentive. I think which -- where you get some fees from the network providers, right? So there, the fee has been on a quarter-on-quarter basis has seen some reduction. So, anything to read into that?

Girish Budhiraja: There is a marginal reduction this quarter, but it is going to come back from next quarter.

Anand: Okay. So that's more seasonal, right?

Girish Budhiraja: Yes.

Anand: Thank you, sir.

Moderator: Thank you. The next question is from the line of Pranav from Bernstein Research. Please go ahead.

Pranav: Good afternoon. Thanks for taking the questions. Just two questions. One, on your earlier comment that you're seeing a significant drop or write-off once a customer becomes delinquent. Is that simply a function of lenders across the board tightening their disbursals and therefore, resulting in defaults or is that the driver.

The second question is on your shift in the quality of customers. If you're going more towards prime, what's the difference in profitability between a prime versus the average customer? Does that -- or would that lead to a significantly lower profitability in the medium term if you shift to a greater share of prime customers?

Abhijit Chakravorty: So, the first part, we can't comment what other lenders are doing. We can only state what actions we have taken and what results we are able to see. Regarding the prime customers, well these are recent acquisitions, and the trends are moving as we have stated. Typically, customer matures, the card matures over a period of 12 months to 18 months. The contribution from the profitability part varies between prime or a nonprime -- near-prime customer also. It also depends on the card variant that typically, the customer holds. So, it's a combination of various factors taken together that the profitability of a customer comes out. Why we have stated about the prime part is, because that is an indicator of the overall client health composition. That gives some confidence and strength to overall portfolio.

Pranav: Understood. Thank you very much.

Moderator: Thank you. The next follow-up question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, just if you could help in quantification of how the flow rates have improved in the early delinquencies?

Abhijit Chakravorty: That will be difficult to give that level of information.

Rohan Mandora: Okay. Sir, second is that in the historical calls, we have been talking about the reason for delinquency being that once we underwrite customers take loans from other lenders and then they over leveraged and default. Now if you look at the RBI actions in the last 3, 4 quarters, there's been a lot of clampdowns that has happened on small ticket personal loans and Fintech lending. So, on the current bureau scrubs, if you can just talk about how is the trend that you are seeing on those portfolios? What would be the incremental reasons for the delinquency that will come up because typically small ticket personal loans will get paid off in 6 to 12 months. So, those overleveraged customers should have typically repaid. So incrementally, whatever stress we are seeing what could be this attributable to?

Abhijit Chakravorty: So far as the CIBIL scrub and the data is concerned, we find the trend still prevailing. To the extent, like we have done some portfolio classification segmentations at our end, we stated earlier also, and we monitor, and we take actions on them. Even on those segments, we find their ability to raise new trade lines. So, we don't see a significant change in the ability of the cardholders, our own customers to raise new trade lines.

Rohan Mandora: Sure sir. Thanks.

Moderator: Thank you. The next question is from the line of M.B. Mahesh from Kotak Securities. Please go ahead.

M.B. Mahesh: Sir I had just one question, the outstanding recoveries that you have reported this quarter, which is about INR133 crores. Any color on one what is the outstanding stock of written off loans that is there in your portfolio and two when do you see this contribution starting to dilute over a period of time?

Rashmi Mohanty: Mahesh, your question is about the recovery -- INR133 crores of recovery this quarter?

M.B. Mahesh: Yes.

Rashmi Mohanty: When do you expect it to rise?

MB Mahesh: It's still flat Y-o-Y despite the kind of writing off nearly about 1,200, 1,500 crores every year. Just trying to understand how we should look at the standard aspect over a period of time.

Abhijit Chakravorty: So let us look at it from the customer profile. Nearly getting return off doesn't change the profile of the customer. The customer was not able to pay a month back, is not able to pay even after 3 months later after getting written off. It's once the customer is able to generate cash flows, has ability to pay then only the repayment starts. So being written off, doesn't mean that suddenly, there is a repayment capacity coming up out of the customer.

So, what happens is it's a matter of time. Like today also when we are on a collection drive most of the customers have 2 responses. One, yes, I will pay. Second, I don't have money. I can't pay right now. I will pay you the day I have it. So, while the writing off the account is on a certain date, when the customer will have money and when they will pay off is a matter of, again, time and we keep on following. We can keep on chasing; we keep on making our collection efforts. That's how the entire scenario prevails.

Shantanu Srivastava: I will add just 1 data point, which is that in our recoveries these days or always, we see vintages as high as 10 years. So, people do pay up even after 10 years. Actually, part of the flattening of the recovery pool or recovery numbers in the last few quarters is also driven by the stress that is felt in the overall ecosystem and the other delinquency bucket. So, the same kind of reasons apply to the written-off pool as well.

M.B. Mahesh: In terms of order of priority, do you see any change at the customer side in the sense like do you stand in front of other lenders, or you stand behind other lenders?

Abhijit Chakravorty: Very difficult to find out. We can only see what is happening in overall Bureau performance because one is that it's only the trade lines we see, and we see the trade lines prevailing or growing up.

M. B. Mahesh: Perfect. Thank you.

Moderator: Thank you. The next question is from the line of Ken Ang from Pinpoint Asset Management. Please go ahead.

Ken Ang: Can I just ask with regards to credit costs. Where do you think credit costs would be for the next 2 quarters, and would it go above 10%?

Abhijit Chakravorty: We have stated that, we expect it to remain elevated around these levels. But then simultaneously, we have also stated that there are other indicators that help us in estimating that there will be some downward gradient in times to come.

Ken Ang: Got it. Any indication in terms of the magnitude that's the near term?

Abhijit Chakravorty: I didn't get you.

Rashmi Mohanty: Indication in the near term.

Abhijit Chakravorty: We have given the indication, sir, already.

Ken Ang: That’s all. Thank you.

Moderator: Thank you. The next question is from the line of Bhavik from Nippon Mutual Funds. Please go ahead.

Bhavik: Sir, just a quick question on the like last time you mentioned, we had reduced limits for around 5 lakh odd cards. How would that number be trending now? How is that working in the sense? How many limits -- how many cards are we maybe reduce limits, how are you working around that?

Abhijit Chakravorty: Yes, Nandini.

Nandini Malhotra: So, in this half of the financial year, we've actually reduced limits for around 10 lakh customers and total limits of course, going down. So, our activities continuing that.

Bhavik: And when you mentioned that the flow rates have eased out, but again, I could see this is a short-term product, right in that sense, why would the credit cost be elevated or around this level for two more quarters, considering if the rates have started to fall off. Consequently, the credit cost also should start dropping, right?

And when it drops like again, it's a hypothetical question, what is the steady-state credit cost that we will be happy with the new type of the business that we are doing today with more prime customers. How would you like the credit cost to be? Because our interest earning assets have also been in that 60%, 62% range. what would be the comfortable credit cost that you would like to work with? And if you could explain that, that would be helpful?

Abhijit Chakravorty: what we have stated is, we are seeing the flow rates improving in the near term. I mean into delinquencies, but then what happens to the stock we are sitting upon the GNPA stock we are sitting upon. It's not that people are going to pay up from that. So, as I've already stated earlier in the call, we have a GNPA stock. We have a Stage 2 stock also. Once the delinquency sets in, set of people will not pay. So, unless the entire flow comes under control, progressively that will not improve. So somewhere, we are already having a certain stock there out of that, we have set the write-offs to continue a bit, but what happens is how do we predict? Every time there is a promise to pay. And there is a deferral of payment. So based on the promise to pay, we make an estimate and based on the payment history in the near term, that also we make an estimate.

Then there are people who don't pay at all. All taken together is how we arrive at what can be our near-term collection, but then some of them, if they are not able to keep up the promise and if they defer the payment, then our calculations can go a bit awry, and which is happening. So, the stock we are holding at GNPA stage or in the late Phase II stages, they will be critical in defining what ultimately write-offs will take place. But as we said, if the inflows are getting restricted, ultimately over a period of time, the overall stock gets reduced.

Bhavik: Sure. And in terms of steady state credit cost with the kind of business that we are underwriting today from a long -- like from an FY '26 '27 perspective, just the best guesstimate on what credit costs will you be comfortable with to run this business?

Abhijit Chakravorty: When we speak to every person, and we ourselves look at it, this is our unsecured business. There will always be a credit cost. So, anything lower from where we stand today and going lower down further, we will be comfortable with that.

Bhavik: Why I ask this is because we used to be at 5%, 6% credit cost, which was maybe a good number to work with, then we went to 7%, 7.5%, and now we're at closer to 9, right? I'm just trying to understand if little lower is like 8%, 7% and our business mix has shifted and there's a lot of items that have got impacted. So, what is the -- like the profitability that will be comfortable with is what I wanted to understand on a steady state basis, not from 2 quarters?

Abhijit Chakravorty: It's not being what we are comfortable about, it's what we are seeing in ourselves with our portfolio and getting influenced by the ecosystem around us. Once the overall things improve, it starts coming down and we expect that, and we should be comfortable in due course with what was prevailing, say, 1 or 2 years back. But then we would wait for that to happen.

Bhavik: Sure. And last question, sir, we've seen some increase in your active rates in terms of cards. It was broadly around 50, it's now going to 52. Is it a function of the UPI or the RuPay card that we were giving out and they have a higher activation rates? What's leading to this increase in activity -- active rates in cards?

Girish Budhiraja: Two factors such as the festival onset happened in last week of September and the UPI transactions on RuPay cards which can be made. So, both of them are adding to the overall activity level.

Moderator: Thank you. The next follow-up question is from the line of Shubhranshu Mishra from Phillip Capital. Please go ahead.

Shubhranshu Mishra: Two questions. The first one is we would be doing the Bureau scrub almost every month. So, what proportion of our customers have more than 2 cards? What proportion of our customers have more than 3 cards? And the second question is that I understand that the customers are delinquent and have over leveraged. But in case they are not paying us who are they paying? Or are they delinquent everywhere?

Abhijit Chakravorty: Nandini, would you like to supplement?

Nandini Malhotra: Yes, we do monthly bureau scrub, and we basically keep on monitoring. The number of customers who have shown an increase in credibilities and we take action accordingly. We cannot reveal what are the percentage of customers who have more than 3 cards of 5 cards. But we take action as per our defined early warning framework. And yes, we have observed that if they are delinquent with us, they are delinquent on unsecured credit lines outside as well.

Shubhranshu Mishra: They are delinquent with everyone?

Nandini Malhotra: Yes, they are delinquent on the unsecured side, yes.

Abhijit Chakravorty: And that's a bureau data available for anyone to see and check.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Abhijit Chakravorty for closing comments.

Abhijit Chakravorty: Yes, I thank everyone present for our earnings call today, and to each of our stakeholders for their unwavering support and trust. Before I close, here is wishing you all and all your loved ones a very happy Diwali. Thank you.

Moderator: On behalf of SBI Cards and Payment Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.