



“SBI Cards and Payment Services Limited

Q2 FY 2024 Earnings Conference Call”

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MANAGEMENT:

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Moderator: Ladies and gentlemen good day, and welcome to SBI Cards and Payments Services Limited Q2 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the 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 a touch-tone phone. Please note that this conference is being recorded.

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

Abhijit Chakravorty: Thank you, Neerav. Good evening, everyone. I'm pleased to welcome you to the quarter 2 of Financial Year 2024 Earnings Call, along with my senior management team at SBI Card. While the world's economic recovery remains uneven and uncertain, Indian economy broadly continues to stay resilient. India's GDP growth year-on-year in Q1 FY '24 was 7.8%, RBI estimates India's GDP growth in FY '24 to be 6.5%.

As per later RBI survey, consumer confidence is also at a 4-year high. India's digital economy is playing a critical role in enabling this growth. Digital payments have grown at the rate of 58% year-on-year in FY '23. With Indian Government estimating the share of digital economy to be over 20% of country's GDP by 2026, the quantum of digital payments is expected to increase significantly.

Amidst this growth, credit card continues to be one of the popular digital payments' instruments, having grown at 30% year-on-year in last fiscal year. September 2023 has seen a number of credit cards in circulation increasing to around 93 million. Card spends reached a new high of INR1.48 trillion in August 2023. While the growth has been strong, the industry also needs to sustain this with care.

Credit card uses have gone up by 30% year-on-year to INR2.18 lakhs crores as of August 2023. Amidst this strong growth, the regulator has been highlighting the need for prudent risk management, the industry data from credit bureau too suggests some deterioration in delinquency in cards and Personal Loan.

The regulator continues to focus on customer centric approach and the recent circular on 'Arrangements with Card Networks for issue of Debit, Credit and Prepaid Cards' is another step in that direction. We have built an extensive reach when it comes to card and merchant network and continue to enhance it, offering our customers easy access and opportunity to use their SBI credit cards for varied transactions. In line, we already have partnerships with all major card network platforms - VISA, MasterCard, RuPay, and American Express.

Let us now look at SBI Cards business overview in Q2 FY 2024.

In Q2 FY '24, SBI Card registered a strong business -- growth in business performance while underlining the strength of its business model. The business continues to exhibit resilience even amidst a dynamic environment.

In Q2 FY24, SBI Card registered a strong growth business performance while underlining the strength of its business model. The business continues to exhibit resilience even amidst a dynamic environment.

During the quarter, we added net 530K cards. On a gross basis, we added 11.42 lakh new accounts. Our total attrition for Q2FY24 has come down on YoY basis, but slightly increased on QoQ basis, owing to KYC related attrition. Our cards in force reached 1.79 Cr in Sep'23, showcasing a 21% YoY growth. SBI Card's market share in cards in force stands at 19.2%.

Q2 FY24 has seen a very strong growth in card spends with SBI Card achieving the highest-ever quarterly spends which stands at over Rs 79,000 Cr. Card spends have seen a growth of 27% YoY. Notably, our overall average spend per card has also grown from Rs 1,71,000 in Q2 FY23 to Rs 1,80,000 in Q2 FY24. With around 18% market share in Q2 FY24, SBI Card continues to be the second largest credit card issuer in terms of card spends for the quarter. During the quarter our retail spends have seen a strong growth, reaching Rs 61,446 Cr while witnessing a 21% YoY growth. Corporate spends too witnessed healthy growth registering 55% YoY increase to reach Rs 17,718 Cr. During H1 FY24, we have seen good growth in both PoS and online spends across various spend categories that include departmental stores, health, utilities, education, travel, entertainment, and restaurant, among others. In fact, PoS spends across all key categories including consumer durables, furnishing & hardware, apparel & jewellery etc. have increased significantly, indicating consumers strong preference for offline shopping experiences as well. Online spends continue to be strong and contributed 57% of total retail spends in Q2 FY24.

I am happy to share with you that during Q2 FY24 we introduced the functionality of UPI on SBI Card-issued RuPay credit cards which enables SBI Card users with RuPay cards to make transactions using UPI-enabled apps. It has been one of the key initiatives for SBI Card and is aimed at enhancing our customers' convenience through ease of payments, seamless transactions, and increased accessibility. We have received an excellent response just within a few weeks of its introduction. Already 9% of our RuPay cardholders base have enrolled for the UPI usage. As expected, department stores & grocery, utilities, and fuel have been among the top categories for UPI spends. Interestingly, restaurants and consumer durables also feature among the top spend categories. Our monthly average UPI spends per account have already reached Rs 11,000.

With 19% YoY growth our receivables have grown to Rs 45,078 Cr as of Sept'23. I would like to highlight that our share of interest earning receivables has been stable at 62% QoQ in Q2 FY24 while increasing from 59% in Q2 FY23. Our receivables per card are stable at Rs 25, 220 in Q2 FY24 Vs Rs 25,445 in Q2 FY23.

Besides UPI functionality, we rolled out various new initiatives during the quarter too. We introduced new features on our super-premium card AURUM. The card now extends enhanced benefits to card users and offers more rewarding and richer experience. Another key initiative has been the launch of SimplySAVE Merchant SBI Card that is curated for MSMEs. The card has been designed to cater to short-term credit requirements of MSME merchants while also offering them various benefits.

We continue to bolster our digital customer acquisition capability. We have extended the SBI Card end-to-end digital acquisition platform 'SPRINT', through YONO. The access is currently in CUG for testing. This will enable the SBI bank customers to digitally apply & get a new SBI Card on successful approvals and KYC verification. We plan to roll out this facility in the current quarter.

As you are aware, in July 23, SBI Card ESOP Scheme 2023 was approved by the shareholders. The core objective of the scheme is to enhance the culture of ownership & performance in the organization along with retention of key talent. We plan to make grants to identified employees during this quarter.

Coming to financial performance in Q2 FY 2024.

We continue to see healthy revenue and profit growth. Our total revenue in Q2 FY24 has been at Rs 4,221 Cr., registering a 22% YoY growth. In H1 FY24, our total revenue stood at Rs 8,267 Cr. with 23% YoY increase. In Q2 FY24, our revenue from operations was Rs 4,087 Cr. with 24% YoY growth. While in H1 FY24, revenue from operations has been at Rs 7,999 Cr. with 25% YoY growth.

Interest income has also grown to 47% of overall revenue from operations. Our PAT for Q2 FY24, is Rs 603 Cr with 15% YoY growth.

Our Cost of Funds have been stable at 7.1% vs previous quarter. We benefitted from the increased long-term borrowings taken in previous two quarters, limiting our repricing risk this quarter and hence had a stable CoF at 7.1%. However, with the short-term rates again experiencing volatility, we expect CoF for next few quarters to be marginally higher. The yield is lower marginally by 14 BPS in the quarter owing to a larger share of short-term interest-bearing term receivables in the overall IBNEA. During the quarter has seen NIM slightly compressed by around 10 BPS during this period.

On asset quality, As of Q2 FY24, GNPA is at 2.43%. Our Gross Credit Cost is at 6.7% in Q2 FY24, lower as a result of actions taken at portfolio level and collection strategy. While we will continue to grow, we will continue to take portfolio actions to mitigate the risk. Collections intensity has also been re-strategized with different swim lanes for riskier segments. Our newer sourcing vintages too continue to perform better, and going forward too we will continue to take appropriate measures as needed. Our credit cost has reduced Q-o-Q although industry data is showing stress.

Our Cost to Income for Q2 FY24 stood at 57.1%. The marginal increase is owing to higher corporate spends, pass back, and cashback costs.

In conclusion, India's economy continues to be resilient and has been at a sturdy growth path while domestic consumption remains robust. And with the current festive season period, we are confident of witnessing a healthy volume of spend across categories, including discretionary. It is encouraging to see that we have been able to maintain the momentum of strong performance across most key business parameters since the start of this fiscal year. Keeping all current and

foreseeable macroeconomic dynamics in mind, we continue to take a balanced approach with a focus on sustainable and profitable growth. And while doing so, we are committed to create value for all our stakeholders.

So now we are open for questions.

Moderator: Thank you very much. The first question is from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: Good evening. Three questions from my side. Firstly, you mentioned about RuPay cards. You said about 9% of your RuPay card base has enrolled for credit on UPI. So, I just wanted to understand, what would be the proportion of RuPay cards in your total cards? And if you can give, what would be your market share in RuPay cards?

Girish Budhiraja: The proportion of RuPay cards in our portfolio is close to 10%, as of now. It is increasing with every new month acquisition that we do. We wouldn't be aware of the market share because the data is not available in the public domain. But we know for sure that we are one of the larger players of RuPay issuance.

Gaurav Kochar: Sure. And in terms of, let's say, right now, the enrolment is 9%, but have you identified set of customers who would be enrolling and by, let's say, year-end, can this number be 30%, 40% of the total card base? Do you see that as possible?

Girish Budhiraja: This number is as of September end because that is what we have declared. Every passing day, we see more number of people getting their RuPay cards attached or as a source of fund for doing UPI payments. This number is growing rapidly. Where it finally lands up at the end of Q3, we will declare in the next call, but we see that rapidly increasing.

Gaurav Kochar: In terms of spends as a percentage of total spends, is this meaningful? May be not as of now, but going forward, do you believe this could be meaningful?

Girish Budhiraja: Well, that is the intent. Because as of now, it is just a start, but it is a good start.

Gaurav Kochar: It's a good start. Okay. Sure. And my second question is with respect to the credit cost, gross credit cost, you mentioned around 6.7% in this quarter. Write-offs were elevated even sequentially. And despite all this, the slippages still remains at 2.4%. So just wanted to get some sense on where these slippages are coming from. Is it essentially the 2019 cohort which is causing the pain? Or is it beyond that?

Secondly, if that pain is largely behind and incrementally, one could see probably lower slippages? And in that context, your credit card guidance for the remaining half?

Abhijit Chakravorty: So, 2019 cohort, we have sort of controlled. In our earlier calls, we have stated that what kind of steps we have taken over there. And those portfolio level actions have done us good. We were expecting good results out of that during the quarter, trajectory should have been lower. But where we find ourselves in the present credit card scenario is somewhere the unsecured loan environment prevailing in the ecosystem. Somewhere we are finding that we are not untouched

from the sentiments on unsecured loan scenario. So, while we were expecting better trajectory, downward trajectory from where we were in Q1, we are finding slight stress, not in any particular cohort. But generally, there are customers who are under stress are not able to pay during the period.

This somehow has offset whatever gains we would have got, not only on the 2019 cohort because somewhere we found that those type of cohorts would have prevailed during the subsequent years also. But then the portfolio actions were uniform, and we were expecting better results out of those portfolios. But then somewhere we are not untouched out of the overall unsecured loan scenario prevailing, which is quite prevalent and well known.

Shantanu Srivastava: Just to add more colour to what MD sir mentioned. In terms of the composition of the NEA, the '19 cohort has actually come down in weightage in terms of our NEA. It used to be 16% last quarter. It's 14% odd right now. And the newer vintages, that is '21, '22, '23, they now together account for more than 50% of our NEA. That's also moving up in the right direction. The early delinquency numbers for these new vintages are more benign. On back of that, we are quite hopeful that, this will improve the quality of the asset mix.

Gaurav Kochar: Okay. So, in the second half, can we expect moderation in credit costs and overall stress loans?

Abhijit Chakravorty: Difficult to say entirely for the second half, but Q3, we expect the levels to remain elevated.

Gaurav Kochar: Okay. If I were to just ask a little more on this. I mean, what has led to this? Is it the open market sourcing that we did or the share of self-employed that were increased post COVID. Can you give some colour as to any particular pockets where the stress is coming from?

Abhijit Chakravorty: As I said, we are not attributing this to any particular cohort or any particular segment. We are seeing individuals; certain individuals are under stress. And we believe it is part of the overall ecosystem. It's not particular to any specific sourcing or any specific cohort or any specific vintage. We are not really seeing that. But as we stated during our earlier speech that the new onboarding has been good. We see better quality over there. But there is no specific indication of any vintage or cohort. It's somewhere, we are finding that certain individuals, certain customers may be under stress. And we believe it is due to overall ecosystem prevailing.

Moderator: Gaurav, sorry to interrupt you. I'll request you to come back in the question queue for a follow-up question. Next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Sir, two questions, the first question is on the stress, which you're indicating that is in certain segments and customers, you can see that. But then how are we to look at really the revolve rate and the mix of overall EMI customers? And should that not also move higher in line with the stress and the overall delinquency that you are witnessing?

Girish Budhiraja: Nitin, I'll first talk about the revolve rate. You have seen the revolve rates have been fortunately stable for the last four quarters, five quarters. So, we are at, around 24% or so. We have worked towards getting the EMI balances up so that the overall interest-bearing asset is up to around 62% or so, okay.

Now what is being mentioned is, in an overall sense, if you look at a long-term scenario, there will be people who will go into ex-30 and further buckets, will initially be looked at as a revolver but after 90, they are not looked at as a revolver. So, that is not a condition which is there.

Second, that number has been fairly stable at 24%, while your credit costs have been moving up and down. So, you can't exactly say that if one goes up by 10 bps the other will also go up by 20 bps. That kind of thing does not exist in this scenario.

What MD sir has been reiterating is that the overall portfolio at this point of time, while we have done a lot of actions to get the credit cost to come down, what we see is that there is a generic sense in the environment also, which is working as a headwind at this point of time, and not any specific cohort related. When it was a cohort related stuff that was also declared in the last quarter. And as Shantanu mentioned, because of the actions, the weightage of those cohorts has already come down.

Nitin Aggarwal:

The second question that I have is on the margins. We are seeing a very calibrated fall this quarter, again, a 12-odd basis point fall. How have you been looking this trend going on? Are we expecting more decline from here and has there been any change in the interest rate to our EMI customers to accommodate for higher risk that we are witnessing?

Girish Budhiraja:

On the margins, you have seen that the overall change in the margin is around 14 bps or so. While cost of funds has been stable. Whatever we have seen on the yield side of it is essentially the interest-bearing asset was 62% last quarter also, it is 62% this quarter also. However, there is a marginal movement in asset mix, –the term assets books have different rates. Our Flexipay has a different rate compared to what we get in the subvention versus what we get on Encash. The mix can change in a quarter on a certain way. For example, in the month of August, we did an Amazon sale. So, you get a lot of subvention. It might show as a lesser amount in the yield because it is at a slightly lower rate, but you also get an interchange income because of the incremental sales volume, which is not showing here. So, there is no change in the rate of interest that we have done with any products in the last quarter, it's just about the mix, which has led to this.

Moderator:

Thank you. Sorry to interrupt you, Nitin. I'll request you to come back in the question queue for a follow-up question. The next question is from the line of Mahrukh Adajania from Nuvama Wealth. Please go ahead.

Mahrukh Adajania:

Sir, my first question is on margins again, and then I have a follow-up question on credit costs. So, we've seen the list of festive offers from SBI Card. It's well highlighted. And the scale this time in this festival looks much higher than in the previous years. So how would that impact, if at all, your margins or Opex in the coming quarter?

Girish Budhiraja:

You're right, and this we have been stating earlier also because the cashback costs when it goes up, your Opex to revenue or Opex to CV (Contribution Value), whatever you look at, will also go up, and that has been a trend in and seasonality, which is seen in every festival quarter. Last year, this was over two quarters because it started in the last week of September. This time, it will all be in the Q3. On the margin side, we won't be able to give you a guidance as of now

because now we see a very strong pick-up at the point of sale, when people are purchasing consumer durables from the e-commerce website, we see a lot of tendency to convert them into instalment lending products. But the overall mix as how it will land up, as there are other things in the play here also so, we would be able to tell you only later. The only thing I can say is that we have not changed the interest rates for any product, not reduced it. They're all at the same rates as they were earlier.

Rashmi Mohanty: Let me add here, Mahrukh, that MD sir stated in the speech as well, we do expect the cost of funds to go up marginally over the next one quarter or two quarters. And that could impact the NIM a little. But as Girish mentioned, that on the asset side, while we haven't changed the rates, the mix could impact the overall yield.

Mahrukh Adajania: Got it. And you did mention about credit card delinquencies rising in addition to other unsecured loans. Sir, is that an industry-wide thing because we've heard only about unsecured loans BNPL?

Abhijit Chakravorty: No, I don't think we said anything about credit card delinquencies increasing. What we are saying is, in specific query to our credit cost, we are saying that all of us have read what is being stated in the domain, what is happening in unsecured loan scenario. So, what we are saying, we are not untouched. We are not saying that is industry-wide, we won't be able to comment on that.

Moderator: Thank you. Next question is from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.

Bhavik Dave: Two questions. One is, on when you see the mix being quite stable, like you mentioned, the earnings assets at 62%. Just want to understand with the kind of delinquencies or the customer behaviour that we are seeing, is it worthwhile to look on the pricing front, considering the yields has come this time around. So are we pricing the product right in terms of the EMI as well considering the revolvers are not going up and they maintained that 24%. On the EMI side, is it worthwhile to maybe look at the pricing?

And second question is on the write-offs. The write-offs seem to be quite elevated at INR660 crores-plus, like almost INR630 crores to INR670 crores that we've clocked for a few quarters in a row are INR1,000 crores kind of GNPA book. So, I just want to understand the trajectory that we are -- in terms of writing-off loans. I understand it has to be written-off within 120 days to 180 days. But just that this number seems to be quite high.

And what are the risk management practices that we are taking to control incremental business that we are doing. As the previous participant asked, we have been reasonably aggressive this time in festive season. So how do you risk manage our book to ensure that we don't go out of proportion? Thank you.

Girish Budhiraja: So, on your first question, which is about driving the term loan book, yes, you're right. The term loan book typically because the product Encash, we give it to people after we have seen their behaviour for at least nine months on book. Even the Flexipay or subvention products or the conversion of spends into EMI, is within the already approved credit line of the customer.

So, we see a better behaviour on the instalment products, from a credit perspective. obviously better because customer is showing his or her intention to pay us back by booking the amount into instalments. So that's a lower rate, which is there, and we want to push that.

The second part of pushing that is also, we also want to keep our interest-bearing assets above a certain percentage because the revenue profile is also very, very critical. So that is the second part on which we work at. On the revolver front, there's no actioning from a portfolio that we are doing to push the customer to become a revolver that as of now, we are not doing any of those activities.

Bhavik Dave: Sir, just my question was on pricing the encash in the pricing?

Rashmi Mohanty: I'll answer that. On the pricing front, there are two triggers that will make us change the pricing on the EMI product, which is, one, of course, is you have to always keep the industry in mind. We can't be out of the industry. So, you can't have a very high pricing or a lower pricing as well. And the second, we are also driven by –Cost of funds. So, there has to be a rationale for us to be increasing the pricing to the customer as well. We keep both of these things in mind as we look at the pricing to the end customer on the EMI loans. As required, we have been taking actions, we've shared that with you in the past as well. As and when, it has warranted us to change the pricing, we have done that in the past.

Bhavik Dave: On the risk management side, considering you are aggressive this time around and the write-offs have been quite high. So, if you could just throw some light on that?

Shantanu Srivastava: I'll add some colour to what MD sir mentioned earlier. So, write-offs can't be viewed in isolation. You have to view write-offs in relation to recoveries also and to the other elements of credit cost, which is changes in our provisions. The net effect of all of that is what finally feeds into what is called credit cost and that number has trended positively for us. It's come down by 13 basis points in the quarter. So, we can't look at right-offs just in isolation.

Also, in terms of actions that are being taken, they straddle the entire continuum of the customer life cycle management. So, that includes underwriting standards, it includes portfolio management actions, it includes marketing decisions and marketing campaign related decisions and, of course, collection strategy. So, all four elements are being worked upon, and we've given colour to you on this subject in the previous call.

These include things like, for example, i) using the analytics and insights that we have around figuring out which customers to exclude from certain types of campaigns, ii) tightening our customer selection filters on the underwriting side, iii) getting aggressive with line decreases and auth declines to manage exposures on customers, iv) figuring out which types of customers to be exposed to which type of strategy, whether calling or whether field visits or a combination of the two, v) decentralizing our collection efforts, vi) using digital measures to get customers to pay us more frequently and more on time. So, those are the types of actions that we've been taking in the past and we will continue taking them based on the insights that we get from our portfolio analytics.

- Moderator:** Thank you. Next question is from the line of Abhishek from HSBC.
- Abhishek:** My question is on the repricing of your book of FlexiPay and Encash, which last quarter also we discussed that it's a continuous effort. So, how much of the book remains to be repriced? When you look at the yield, it has not really moved up, it's actually gone down. So, this means that there is some offset to the repricing that would have happened this quarter in the EMI book. So, can you just talk about that part?
- Girish Budhiraja:** Most of the Subvention book has been repriced because it is around eight-to-nine-month kind of thing. FlexiPay is 11-12-month tenure, some part of it would still be pending for repricing. However, you should also note that on FlexiPay, earlier we used to charge higher rates, because we moved to risk-based pricing on that. So, the rates were higher. So, there was some contra movement there also. Encash, because the average tenure there is 33 months or so, so, most of it is still to be priced as of now. So, this is how the movement is.
- Abhishek:** What was the rate on FlexiPay earlier versus now? And what's the rate on Encash now?
- Girish Budhiraja:** So, Encash rates are broadly similar. They have not changed. Subvention rates have gone up. We have taken that up by 100 to 200 bps higher. FlexiPay had, if I would say, a U-shaped curve on that one. It came down when we changed the methodology of pricing, which was before the cost of fund moved up, before Quarter two or quarter one, I think. So, there was a downward trend there. And then after one downward trend, then it has been a constant upward trend to almost, I think, 200 to 250 bps higher. So that's how the trend line has been.
- Abhishek Murarka:** I thought you said the FlexiPay rates have come down?
- Girish Budhiraja:** So FlexiPay rates came down around nine months back. July, August of last year they came down. And after that, they have been going up.
- Abhishek Murarka:** So how much is that increase? That's what I am asking. So, from July, August to till now?
- Girish Budhiraja:** From July, August, till now, it is almost 200 basis points plus. You should also note that it's not a onetime increase. It's happened in three tranches. So, as the cost of funds kept on going up, we started passing on the interest rate to those guys. So, the full FlexiPay book has not yet been repriced.
- Moderator:** Thank you. Next question is from the line of Dhaval from DSP Mutual Fund.
- Dhaval:** I just had one question relating to the portfolio Insight. It seems like the open market, Tier 1, category A customer base is the problem based on the past delinquency and the index numbers right now. I just wanted to understand what course correction are we taking any certainly in these filters? And also, when you think about the sort of elevated delinquency that you're seeing, if you were to sort of map the bureau check of these set of customers, this cohort of customers, which is giving extra problem. Are there any common patterns related to leverage or multiple carding, etc.? I mean, any insight that you could provide on this cohort of customers? Thank you.

Shantanu Srivastava: Just to go back to the point you made about what you mentioned earlier. So self-employed sourcing, as we mentioned last time, has been increasing to the index values that we shared last time. So, compared to Q3 of '20 we were doing 1.64 more in terms of self-employed in Q1 of 24, that trend continues, we're doing even more self-employed. At the same time, delinquency of the self-employed segment is coming down. So that's a positive development. Similarly, we also mentioned last time, Tier 3, Tier 4 locations, there also the sourcing in that geography has been increasing. That's somewhat plateaued out. So relative to Q3 of '20, for example, we were doing 1.67x more in Q1 FY24, that's remained flat at about 1.67x only in Q2 FY24. So, in that sense, the trend from the last quarter has continued in both in terms of sourcing and in terms of delinquency for both of these segments.

Girish Budhiraja: Dhaval, you said that open market Tier 1, you see it higher, can you point out to that because I'm sure you're reading this on Slide number 14. So how are you looking at that?

Dhaval: I was just looking at March '23 data because last two quarters when the elevated credit cost has been a problem. So, if you look at March '23, has a similar slide and where we are today, the biggest delta is basically in the Tier 1, category A, open market, if that's where the index levels have gone up, so that's the reason I was trying to?

Girish Budhiraja: Dhaval, I think what you're looking at is three separate points. And while from an indexing perspective, because if the overall index goes up, then you will see that. But from a trend line perspective, what we see in various markets is yes, Tier 1, at this point of time, is overall cards in force is 0.99. I don't remember the March number, so we'll check that. But where the changes, what we had done was initially Tier 3, Tier 4, we were seeing some problems. So, we cut down certain set of cities. And in fact, we declared that last to last quarter that certain cities we exited out. We said, we will not source in some of these cities, and that led to Tier 3, Tier 4 now improving, okay, that is why from an indexation perspective, you will see something there. Because Tier 1 was 0.97 and it is now 0.99. So, that marginal changes are happening because of that only. And if you look at, Tier 3 was, it was 1.05. So, it has come down. Because we've stopped sourcing in some of those cities, some markets. So, all that has happened. While you should also recognize we have always been saying that open market will be giving you higher revenue, it will have slightly higher losses. And Banca will give us slightly lesser revenue because the spend per account is lower, revolve rates are lower. And hence, at the same point of time lower delinquency. So, it is a good mix of these two is how we have been operating our strategy there.

Shantanu Srivastava: And importantly, the indexation values are relative to the mean of that time period. They are not indexed to history.

Dhaval: I appreciate that. So maybe I'll just simplify the question by asking that if from March to now, is it correct to assume that we've not made any major changes to our risk filters. And the strategy that we've continued, we've just continued that in the last six, seven months and so there's no change. And the outcome that you're seeing is in line with what you're expecting. Is that the way I should read it?

Girish Budhiraja: No. On the contrary, we have made specific changes to the way we are sourcing. We have cut sourcing in the areas that we were finding problems in, and we reported that in the last quarter itself. In fact, we were taking those actions way back in December as well. So those actions take time to show up and they are showing up now.

Dhaval: Okay. And could you give some strategy about the cohort of customers is extra pain that is coming through? Is there a common point from a bureau data perspective that you've been able to identify if there is any extra over leverage or I think other behaviour small ticket personal loan being in excess, any pattern that you could provide here?

Abhijit Chakravorty: As we said, we have not noticed any cohort. We have earlier also stated, we have not noticed any cohort. But yes, how we look at and as we stated, that we have improved our collection strategies based on the early warning signal. So how we look at it, we do compare our cards' performance in our books as well as with the information available in the bureau. So, we do compare, and we do find that how the movement is taking place. And that's how we redirect our collection strategies in that account. But then, as I said, that we are not noticing any specific cohorts.

Moderator: Thank you. Next question is from the line of M.B. Mahesh from Kotak Securities.

M.B. Mahesh: Just a couple of questions. One, there has been a significant slowdown in the receivables growth this quarter, just to amid about 30% and it's come down 20%. What explains this?

Girish Budhiraja: Mahesh, Last year September, last five days, you had a jump up on the spends. So, it's more of a denominator thing, receivables growth is intact. If you take that out the last four, five days of spend, if you remember that quarter had also impacted our revolve rates because the festive season started 25th of September last year.

M.B. Mahesh: Yes. Just one clarification on this entire credit cost and the new fresh cards trading a problem, how often do you scrub the data back of your customer base to see what kind of indebtedness do they carry?

Rashmi Mohanty: We have a defined portfolio review strategy. There are segments where we do monthly scrub, there are segments we do a quarterly scrub, and for every customer, six months on board.

Moderator: Thank you. Next question is from the line of Hardik Shah from Goldman Sachs.

Rahul: This is Rahul here. I had two or three questions. Number one, again, on the portfolio quality. Just slightly confused, I just wanted to seek some clarity. You said that you've not really noticed any specific consumer cohorts. And yet our write-off has been going up over the last few quarters. While, of course, there is concern in the market, but that's more about small ticket personal loans. In credit card portfolio, I think we are the only one who has kind of seen the increase in write-offs. So, what explains this? I think there's been a lot of questions around the consumer cohort of where the problem is coming from. But if you can help us really understand and how do we plan to correct this, would it have any bearing on the business in the coming quarters?

- Abhijit Chakravorty:** I think I will have to repeat what I have stated earlier. And I'll not repeat. In fact, it will be repetition again and again on the credit cost thing. Let me share some more thought process. We are looking at our credit cost at 6.7%. It was 6.8% in the last quarter. We explained what all measures we have taken. And we have stated that how all of us, you and I together are looking at unsecured loan portfolio. All this taken together, what could have been an aspirational credit cost? We ourselves stated that we aspire to be, say, around six or six plus a bit. We are at 6.7%. We don't think it's a runaway scenario. We have taken adequate majors; those have given us results. Somewhere, we may see a bit of this scenario prevailing, but we don't see that it is a runaway scenario where we can end up in a huge credit cost escalation. So, we are on it, we have been working on it, the results are there for all of us to see. It's on the declining trend. Yes, not the trajectory, that we had aspired for. And we are not out of the market, somewhere we are impacted in whatever is happening in the ecosystem.
- Rahul:** Got it. That's helpful. The reason I was asking this question is because none of these large credit card players have been complaining about their portfolio. So -- and even their unsecured portfolio. And hence, this question came about, but I appreciate the answer.
- Moderator:** Thank you. Next question is from the line of Pankaj Agarwal from Ambit Capital.
- Pankaj Agarwal:** My question was that, can you give more information on the use of ESOP scheme in terms of number of employees covered?
- Abhijit Chakravorty:** We have opened the scheme for a certain designation and above in the company. As of now, how we look at it is a miniscule part of our overall book. And what details can I share here? If you want something, we can always share over later. We have already disclosed it and the disclosures are there. We can share the data with you, I don't have that readily available with me.
- Rashmi Mohanty:** Pankaj, what exactly are you looking for? I mean, the ESOP was approved by the shareholders and the information was put up on the stock exchange. It's typical to any other organization above a certain level. There are identified employees who have been rewarded through the ESOP program. Is there anything specific you are looking for?
- Pankaj Agarwal:** Yes. So earlier scheme, I think, only few employees were covered in the SBI per 10 employees?
- Rashmi Mohanty:** This is a little broad-based ESOP scheme, as I said, and as MD sir said earlier, covering a large set of employees above a certain level. It includes middle managers as well this time.
- I may just add to the response that MD sir gave on the credit cost and the subsequent remark that came in about the other players in the industry not reporting. We are the only standalone credit card company. The other players report their credit card as part of their overall portfolio, which is why you don't see that as standing out. I think the point that sir also made earlier is that there is stress building up in the retail consumption consumer loan portfolio. And we are also part of the industry and seeing the same headwinds.
- Moderator:** Thank you very much. Next question is from the line of Rohan Mandora from Equirus Securities.

Rohan Mandora: Sir, just to touch base upon the delinquency part again, in the initial remarks, you had indicated that in FY'21, FY'22 portfolios, the delinquencies are relatively benign. So, if we were to index the overall delinquency to 100, if you can indicate how is the trends here in the newer cohorts of portfolio?

And secondly, the just judging by from the cohort part, internally, while there have not been any specific cohorts, but if we do an external scrub, are there any changes on the number of products per customer or credit lines per customer, which are elevated where we are seeing some higher delinquencies?

And also, on that portfolio scrub in case we find some stress customers, what are the actions that we take even if they are currently behaving on the portfolio? What kind of exit strategy do we follow? Thanks.

Shantanu Srivastava: I'll take the first part of the question. You're right. FY'21, '22, '23 sourcing vintages are indeed showing benign early delinquency. We don't disclose the number by vintage, but we are quite satisfied with the progress that we're making. And that is giving us comfort that our newer sourcing is indeed behaving in line with expectations. And it is increasing in value as a percentage of our NEA. I think I mentioned that earlier. And relative to overall, it is certainly showing us lower delinquency levels than the overall average.

Rohan Mandora: Is it meaningfully different or just marginally different?

Girish Budhiraja: If you look at our last quarter declaration, where we had shown the vintage chart, you could see at the same point of time, the newer vintages are at around 60% to 65% of what the early 2019 vintages were. so that trend continues. So that is why we showed those vintage charts last quarter.

Shantanu Srivastava: And just to complete the picture, the problem cohorts of 2019, which we were saying showed elevated levels of delinquency, that cohort is behaving better and normally now and is trending downwards as per expectations. Likewise, for '18.

Rashmi Mohanty: If I may just respond to the second part of your question where you asked us as to what you are seeing in the bureau. Obviously, when we pick up the bureau data, typical to any portfolio review that we do, we do look at what does the behaviour offer with the other lenders? How many trade lines have they added incrementally? What is the trend happening on the repayments in the scrub? So, it's in the bureau. So, all of that data is picked up by us. And based on whatever we pick up there are differentiated actions that are decided. Some of that data is also passed on to the collection team for them to focus more and keep a watch on those collections. So there are differentiated steps that we picked up from the bureau.

Shantanu Srivastava: And not just the trade lines, but also inquiries

Rashmi Mohanty: Yes, inquiries by the clients, so to say...

Shantanu Srivastava: They are indicator of credit hunger.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as the last question. I will now hand the conference over to Mr. Abhijit Chakravorty for closing comments.

Abhijit Chakravorty: Thank you. I must thank you for joining with us and looking at some insights with our numbers. So we will continue to be watchful of our portfolio. While being watchful, we are bullish on our numbers. We are doing the metrics, the other parameters and metrics are looking good. The profit is on increasing trajectory. So all taken together, we will be continuing to do good business. Thank you.

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