November 3, 2022

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The National Stock Exchange of India Limited
Exchange Plaza,
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Bandra (E), Mumbai - 400 051

SCRIP CODE: **543066**

SECURITY: **Equity Shares/Debentures**

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'FY23 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 27, 2022 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: 2022.11.03 16:07:06 +05'30'

Payal Mittal Chhabra
Company Secretary & Compliance Officer

SBI Cards and Payment Services Ltd.

DLF Infinity Towers, Tower C,
12th Floor, Block 2, Building 3,
DLF Cyber City, Gurugram - 122002,
Haryana, India

Tel.: 0124-4589803
Email: customercare@sbicard.com
Website: sbicard.com

Registered Office:
Unit 401 & 402, 4th Floor, Aggarwal Millennium Tower,
E 1,2,3, Netaji Subhash Place, Wazirpur, New Delhi - 110034
CIN - L65999DL1998PLC093849

SI26102021

"SBI Cards and Payment Services Limited Q2 FY2023 Earnings Conference Call"

October 27, 2022

MANAGEMENT:

MR. RAMA MOHAN RAO AMARA – MD & CEO
MR. GIRISH BUDHIRAJA - CHIEF SALES & MARKETING OFFICER
MS. APARNA KUPPUSWAMY - CHIEF RISK OFFICER
MR. SANJEEV KHURANA – SENIOR VICE PRESIDENT-FINANCE

Moderator: Ladies and gentlemen, good day and welcome to SBI Cards & Payment Services Limited Q2 FY2023 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rama Mohan Rao Amara - Managing Director & Chief Executive Officer of SBI Cards. Thank you and over to you, Sir!

Rama Mohan R Amara: Thank you Faizan. Good evening, everyone! I extend a warm welcome to all of you. Thank you for joining us for the earnings call for Q2 FY23 today. Hope you all had a great Diwali! It was pleasing to see the full festive fervor this season, after two years of caution-led restrictions.

Buoyed by the festive zeal and driven by better sentiments on general economic situation and spending, the consumer confidence in the country has been on the recovery path. While the global economy continues to be turbulent, the Indian economy remains an oasis:

a) Real GDP grew 13.5% YoY in Q1 FY23.
b) Aggregate supply conditions have been improving.
c) All constituents of domestic aggregate demand expanded YoY and exceeded their pre-pandemic levels.

Supported by these factors, credit card industry has also seen encouraging overall growth:

a) Credit card spends have been consistently crossing Rs 1 lakh crore value for straight six months.
b) Total industry spends were 53% higher YoY in September 2022 (September witnessed over Rs 1.2 lakh crore of spends due to an early start to the festival season).
c) The total Cards-In-Force grew by about 19.5% Y-o-Y in September, but, recorded marginal reduction on a MoM basis as the RBI norms on in-active cards kicked in.
(d) The industry has, in fact, seen interesting changes owing to new RBI regulations being implemented from July 1 and October 1, 2022, respectively. Industry witnessed reduction in CIF numbers as millions of Inactive cards got closed. We at SBI Card have always maintained and pursued the strategy of 'fee-based' cards. Since more than 95% of our portfolio consisted of spend or balance active cards, the effect on our portfolio due to this new RBI regulation has been limited. Our fee-based model has helped us in maintaining our 30 days spend active rate at 50% plus consistently.
(e) Regulatory changes to OVL charges have come into effect from 1st October, impacting the OVL fee from this quarter. We have initiated measures to mitigate the impact of this change.

In short-term, we will see volatility in industry card numbers, which is likely to stabilise in next couple of months.

The growth story of Indian credit cards industry is intact, and the journey has just begun. Just to reiterate:

a) Credit cards market remains largely underpenetrated.

b) As per some reports, digital payments are accelerating in a big way and will constitute nearly 65% of all payments by 2026. Also, E-commerce continues to grow, it is expected to grow at the rate of 25-30% annually for the next five years.

Most importantly, linking credit cards with UPI will expand the use cases for credit cards. According to NPCI, UPI user base is likely to grow from current 250 million approx. to up to 750 million in next five years, giving credit card customers more options to spend. As we see it today, we have many exciting milestones to achieve as an industry in the coming years.

Let us now look at SBI cards business overview in Q2 FY2023

I am pleased to share with you that SBI card continuous to deliver a healthy business growth and strong financial performance.

- Our spend growth has been robust. Overall spend share has grown by about 43% year-on-year in Q2 reaching 62,306 Crores.
  - Our spend market share stands at 18% for the half year, but exited the September month at 19%.
  - Retail spends continue to grow strong at 45% year-on-year and stood at 50,895 Crores.
  - Corporate spend stood at 11,411 Crores in Q2 with 34% year-on-year growth. During the past few months, we had undertaken an exercise to calibrate and review our corporate accounts portfolio basis which we had exited a few low margin accounts resulting in moderation of corporate card spend volumes.
- The increased e-commerce activities helped our online spends to grow. These now contribute a 57.8% share in retail spends, as of Q2 FY23, partly aided by the increased festive spends during last 10 days of September 2022.
- In PoS too, we have seen a healthy growth, especially in categories, such as, electronics, hotels, restaurant, entertainment & furnishings.
- Our revolver balances are rising in absolute numbers. However, the strong festival spends during the last 10 days of the September has led to a buildup of transactor NEA, resulting in lower percentage share of revolver asset as of September end. We have seen a high conversion of these festive spends into term assets similar to past trendlines.
- We have over 14.8 million cards in force as of Q2 FY23 and we added about 1.3 million new accounts during the quarter, the highest ever during a quarter. The market share in Cards-In-Force stood at 19.1%.
- Our customer acquisition has also been aided by end-to-end digital journeys implemented for both our ETB and NTB customers, enabling customer acquisition at lower cost as compared to traditional channels.

- Our sustained growth during the quarter has been on the back of some key initiatives:
    - We expanded our core card portfolio and introduced Cashback SBI Card, an industry-first and the most comprehensive Cashback credit card ever. The card witnessed high demand from customers, and we see it as a strong addition to our portfolio.
- We also introduced 1600+ festive offers pan India. Along with national offers, we had also extended a large number of regional and hyperlocal offers across 2600 cities.

Such initiatives have helped us maintain a higher share of active customers portfolio and more engaged customers:

- Our 30 days spend active rate is at 50% plus.
- Our spend per average card has grown from Rs 1.42 lakh in Q2 FY22 to Rs 1.71 lakh in Q2 FY23. What is heartening is the increase in the average retail spend per card growing from Rs. 1.14 lakh in Q2FY22 to Rs1.40 lakh in Q2FY23.
- At SBI Card, our customer-centric approach has always driven us to keep enhancing our customer's experience. And our SBI Card SPRINT is the latest example. This end-to-end digital application platform enables customers to get an SBI credit card in less than 5 minutes.
- All these efforts have led to robust growth in receivables.
    - Our receivables grew significantly by 41% YoY reaching Rs 37, 730 crores.
    - Receivable per card has grown to Rs 25, 445 in Q2 FY23 from Rs 21,257 in Q2 FY22.
- SBI card has been very active on ESG front. I am extremely happy and proud to share with you that we have seen a significant improvement in percentile in Dow Jones Sustainability Index Evaluation, leading to an improved performance overall by SBI Card.
- I would like to reiterate that we have always kept a sharp eye on sustainability of the business, ensuring viable business practices throughout. We are committed to enhance our efforts in this direction so that we are able to positively impact more and more lives.

Please allow me to now take you through the financial performance in Q2 FY23

- Our resilient business model embedded on strong fundamentals have helped us deliver healthy profitable growth.
- The Company has achieved the PAT of Rs 526 crores in Q2 FY23, a growth of 52% YoY.
- Cost to income at 59.4% is driven by investments to drive business growth in terms of Higher volume of new accounts and to drive higher spends during festive season. The cost to income is expected to remain at elevated level as festive period is continuing in Q3FY23 and our continued focus on increased new customer acquisition.
- In Q2 FY23, receivables stood at Rs 37,730 crores with a growth of 41% YoY.
- Our total revenue stood at Rs 3,453 crores and has grown at 31% YoY during the Quarter.

- **On asset quality:**
  - Our Gross Credit cost percentage for the quarter is at 6.2% up from 5.6% in Q1FY23. The increase is largely driven by the Increase in stage 1 assets.
  - Our GNPA has come down to 2.14% as compared to 3.36% at Q2 FY22 and 2.24% at Q1 FY23. Net NPA for the period is at 0.78% as compared to 0.91% at Q2 FY22 and 0.79% at Q1 FY23.
- ROAA for the quarter ended Sept'22 is at 5.4%, which is higher by 41 bps as compared to 4.9% for Q2 FY22; and ROAE is over 24%, which is higher by 404 bps as compared to over 20% for Q2 FY22.
- Our liquidity position continues to be strong and capital adequacy is at 23.2% for the period ended Sept'22. We maintained the LCR at a healthy 82% through the quarter.
- Owing to rising interest rates, the COF has increased from 5.1% in Q1 FY23 to 5.4% in Q2 FY23. The full impact of higher rates will reflect in the subsequent quarter.

In conclusion

Due to global disturbances, external environment continues to be volatile. Though the domestic economy has been able to deal with these disturbances, it is still pertinent to be watchful. We remain optimistic about the future and believe there is plenty of room to expand the company portfolio, generate consistent profitable outcomes, and increase the value to all our stakeholders. With the festive season and the upcoming holidays season, we hope to also see a good traction in consumer discretionary spends.

Having said that, we continue to maintain a cautious approach and take calibrated measures as the situation calls for in the future.

So, Faizan now we are open for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Anuj Singla from Bank of America, please go ahead.

Anuj Singla: Good evening, everyone, and thanks for the opportunity. The first question is on the NIM outlooks. When we look at the NIM for this quarter 12.3%, this is a multi quarter low, obviously reflection of the higher transactor and the higher funding cost as well. So, when we look at the drivers for the upcoming quarters, the funding cost is going to rise and probably offset by improvement in the asset mix. Can you guide us how should we look at the trend in this number maybe over the next couple of quarters? When can we expect it to increase to 13% or more in the coming quarters?

Rama Mohan R Amara: Anuj, you are right. Given the kind of present situation, funding cost to increase further in the next quarter and the full impact will be felt in the next quarter. During the quarter, of course, there will be an opportunity to transmit the increase in the funding cost to the extent possible and there will also be some correction in the base or normalization of the base will also happen with the festive spends maximum lasting up to end of October and some repayments will be there, so some base normalization will be there. We are confident that it (NIM) will be more or less may be with 10 to 20 basis points here and there it can be around the same range that is what we are expecting.

Anuj Singla: Okay, in terms of cost of funding is it possible to give what kind of number increase we can see in the next quarter?

Rama Mohan R Amara: I did not get you Anuj can you repeat?

Anuj Singla: Sir, cost of funding, what kind of increase can we see in the next quarter, sequential increase in the cost of funding.

Rama Mohan R Amara: Cost of fund can increase by up to 40 to 50 basis point minimum, but what is shown in the deck perhaps is also colored slightly by the base effect also. Base also has a bearing, while we have actually seen 50 to 60 basis point as guided in the last quarter, full impact is not felt. It looks like 5.1% is increasing to 5.4% because of base effect, some of this effect will fade away so we are expecting another 40 to 50 basis points increase minimum in the cost of funds.

Anuj Singla: Okay got it Sir. Second question is on the SBI cash back card, obviously very great product and some of the best cash back available in the market right now, so two things there, one, is there a number in mind on absolute side or percentage of outstanding cards where you would like to tap the contribution from this card as percentage or number of cards outstanding? And secondly, again the question to Girish on the economics of this card that is one of the key concerns that is going to be ROA dilutive so any colour you can provide on that.

Rama Mohan R Amara: I think we are in the early stage. Our attempt is to first iron out all the kinks which are there in the journey and smoothen the process. And of course, we also need to figure out what is the right way of reaching out potentially to the new customers, NTB kind of customers. I think it is too early to speculate like, what is the percentage, but definitely we would like the volumes to increase and that is the reason we put it on scalable platform like a digital platform, but Girish will update on the ROA dilution.

Girish Budhiraja: First of all, the numbers have just started. We already have a base of almost 1.48 Crores cards so 14.8 million is already there. This number for Cashback card, as of now not even hundred thousand so it will take its time to grow the portfolio. Second thing is, as we had updated last time also when we were looking at the overall profitability of the product, we have put the product purely for customers who come through digital channels only and do straight through processing. We are seeing the benefits of that also. The monthly active rate, even though this portfolio is very new, is upwards of 70% plus for these customers. These customers are very active, they are using the card. We are seeing better spends per card so, once we build the portfolio of at least 200-300 thousand we will be able to see the behavior and accordingly take, whatever if there is required, any action which is required, we will take but as of now as are as per plan and whatever we are saving in the cost of acquisition, we are putting it back as customer value proposition.

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

Nilanjan: Thank you for the opportunity. Couple of questions so first one is on the ECL, while you mentioned about the higher transactor leading to the stage1 but there is also a foot note which talks about some impairment, if you could explain that and the quantum of that. The second is, if you can talk about revolver balance on a quarterly average basis so basically trying to exclude the last 10 days of spends and how would that be when compared to let us say the 26% that we reported in the first quarter. Also, if you can briefly touch upon how the spending in September and early October, is converting between EMI and revolver and finally, if you can talk also about lower employee cost sequentially and if there has been a change in the head count numbers?

Rama Mohan R Amara: As I said initially in my speech also, the last 10 days of September witnessed a very good growth in the spends on account of our campaign with Amazon. If you take out the kind of spends over and above the normal run rate, we see that the revolver share will almost be equal to what we had at the end of June quarter so, in a way it is stable. We have seen a kind of growth in the absolute amount also, but obviously the growth is not in tune with overall asset growth that is the reason for decline in the share. Some ballpark estimate does indicate that the percentage of customers who are revolving is more or less stable, so that is not a concern. Revolver being slightly stagnant is a kind of industry phenomenon, but in terms of taking necessary steps whether we have taken necessary steps or not, we have taken all necessary steps. You would have seen from the investor deck also that we are permitting more of a self employed and CAT B kind of customers who have better propensity to revolve. We are hopeful, but the pace at which we were expecting obviously is the not the actual case. It is taking longer time like the entire industry. ECL question will be taken by Aparna.

Aparna Kuppuswamy: If you are referring to the footnote on the asset quality base, that a small number of 2 Crores odd that relates to other assets, which are not credit card receivables. It is some other operational assets that we get.

Nilanjan: There is also de-recognition.

Aparna Kuppuswamy: So, these are security deposits.

Sanjeev Khurana: These are other asset related provisions so if you look at our overall impairment losses, out of Rs.996 crore for first half year, Rs.994 crore is related to credit cost.

Aparna Kuppuswamy: It is a small number. It is for some other operational assets that we get.

Nilanjan: The final one on the employee cost and the head counts if you can...

Rama Mohan R Amara: I think employee cost if you are comparing quarter on quarter, the marginal reduction is perhaps pay out of PLP perhaps in the first quarter slightly would have...

Sanjeev Khurana: I will just add to what Sir is saying. There is no change in headcount. In fact, it is marginally higher. The reason you are seeing that a little lower is our C&B cost is largely flattish. There is a change in actuarial estimates on long term employee benefits which is causing this to come lower versus last quarter.

Nilanjan: Any quantification if at all possible**.**

Sanjeev Khurana: 10 Crores versus last quarter.

Nilanjan: Okay thank you so much.

Moderator: Thank you. The next question is from Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Hi Sir, thanks for the opportunity. Two questions, first is relating to revolver book, it has been like almost one month from the quarter end. If you would give initial perspective of conversions into EMI and revolver that would be first question. The second is on the sourcing, could you just provide some colour on how the September sourcing was and in terms of contribution of direct sourcing in that since we just break it between BANCA and open market just if you could split that into direct as well that would be useful. So, what kind of run rate we ended the quarter and your commentary on how it is likely to move forward and the sourcing mix between direct and other sourcing. Thanks.

Rama Mohan R Amara: Dhaval I will take the question on sourcing. I think we exited the quarter particularly in September with a gross issuance of more than 4 lakh 70 thousand cards. Contribution from SBI channel was around 40% in the month of September. As we guided in the past from the month of July onwards the BANCA sourcing started improving. We have been seeing improved traction in both August and September at around 40%. Now it is actually trending at 43% to 44% in terms of share in the overall sourcing. Of course with regard to what is the kind of number we are looking at going forward, our stated stance is we want to target a net growth of 300,000 cards which we almost achieved in the month of August when he reached 296,000 net growth, but later it is colored by some kind of attrition where we ended up reporting like roughly minus 3000 kind of growth in the month of September due to closure of inactive accounts, but again October onwards we are expecting the volumes will continue and our expectation that we will continue to have a net growth of 300,000 minimum that aspiration is there and we are confident of reaching that.

Girish Budhiraja: Festive season started somewhere September 23rd, 24th when the season sales started, and we have seen very good spends continuing in the month of October so festival season has been very strong till Diwali. The percentage of spends converting into EMI is higher than normal because, earlier as we had said that we would see a 10% conversion into the EMIs. This time, because it is festival season as well as more discretionary spending and more consumer durable spending happening, so we have seen a higher conversion into the term balances. Revolve, we will get to see in the month of November only, because it takes 40 to 45 days and our payment cycle plus payment due date to be able to figure out how the payments have come back so we will be able to see that by mid of November to be able to report how much of that is going to revolve and, as MD Sir mentioned even in absolute terms from June to now the revolve balances have actually grown. It is because of the denominator impact that the percentages are looking.

Dhaval Gada: Understood. thank you and all the best.

Moderator: Thank you. The next question is from the line of Ajit Kumar from Goldman Sachs. Please go ahead.

Ajit Kumar: First question is on the attrition rate. Your attrition rate in both set of portfolios whether it is open market or SBI portfolio has gone up significantly in this quarter and as you said earlier impact of RBI circular on inactive cards have been limited for you so what is driving this high attrition in the portfolio.

Rama Mohan R Amara: From the quarter you can make out for the kind of volumes what we have given versus what was the cards outstanding between both the quarters, last quarter and the current quarter, we have more than 7 lakh card kind of attrition is there out of which around 3.6 lakhs cards, the cards inactive for more than 12 months and closed is at 3.5 to 3.6 lakhs. The remaining is normal BAU attrition what we have, on account of both voluntary as well as involuntary.

Ajit Kumar: Okay thank you. The second one is on the interchange fee, so interchange fee as percentage of spends has marginally gone down in this quarter to 1.38%. It used to be in the range of 1.5% to 1.6% pre pandemic so when the large ticket size spends such as travel is back why is interchange fee not going up.

Rama Mohan R Amara: Interchange fee as aggregate, is also a function of share of corporate spends which typically have a higher interchange and as you would have seen like quarter on quarter basis the share of corporate cards spends have come down so that majorly explains.

Girish Budhiraja: But on retail, the interchange has gone up because the travel component is stable in Q1 versus Q2 and e-commerce has grown, so on the retail the interchange has actually gone up. The impact, as Sir said, is primarily because of the lower corporate spends.

Ajit Kumar: Okay and any reason why corporate spends have come down?

Rama Mohan R Amara: We said in the past also that competition intensity is very much there and is impacting the margins also, so we are revisiting our strategy for the last few months. We exited a few low margins, or a kind of negative return relationships and we are recalibrating our strategy. In the long term or at least the medium term we would like to take the share back to 22% to 25% of the overall spends, but in a very calibrated manner we will improve the share of corporate spends.

Ajit Kumar: Okay thank you. Thanks a lot.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: Hi Sir, good evening. My first question is on slide 10. If I look at the spend category especially the POS spend, category 2, 3, 4 are all lower on Y-o-Y basis Also category 4 which is travel agents, hotels, airline again that is lower 5%. The total spends in that is lower 5% Y-o-Y. Why are these lower? the basic understanding was that spends are picking up across the board and also add the POS so can you explain this.

Girish Budhiraja: First I will come on the travel. April, May, June is typically where the travel season is there, so the seasonality typically is that you will get higher spends in April, May, June quarter and then again in the November, December, January period. That is the standard seasonality. What we have seen however is that the decline in travel has not been what it used to be pre COVID numbers so actually travel is going fairly strong in terms of both lodging, airlines and all these categories so 5% change is what I would say is more or less stable in this category. On the point of sales spend...

Abhishek Murarka: Sorry to interrupt but this is Q2 FY2023 over Q2 FY2022 so this is not a quarterly comparison right so there would not be a seasonality impact here.

Girish Budhiraja: I think there is typo error we will have to correct it. It is I think over Q1 last quarter. This is total spend on each category. It is typo error. Thanking for pointing that out.

Abhishek Murarka: Okay sure and what about POS spends again that has come down Q-o-Q if this Q-o-Q data

Girish Budhiraja: So overall if you look at it, POS spends has gone up. In the category, which is consumer durable, apparel because travel is mostly online category but in consumer durables and apparels most of it has moved to online so if you look at online growth in consumer durable as in 39% and 212% because whole lot of e-commerce spends also gets categorized as apparel so online spends is increasing there.

Abhishek Murarka: Right. And just as a clarification the interchange between online and POS would be the same because it is on a MCC basis.

Girish Budhiraja: Yes absolutely. MCC as well as kind of card which is being used.

Abhishek Murarka: Yes perfect, so that explains it. The second one Sir is on yield. Now the drop on yield partially it would be explained by the mix of transactor revolver and all of that but there was also a regulation which said that you cannot charge penal fees, late fees etc., from the date of making the purchase if you have to charge it from the date it becomes overdue have those regulation also impacted your yield overall.

Rama Mohan R Amara: The measures which have some potential impact on the revenue, have come into effect only from 1st October, I think. As RBI has given slightly extended timeline of 3 months for those measures so, September quarter will not reflect any of those changes. We may see the impact, in the quarter, October, November, December quarter. We will not be able to comment on to what degree this impact will be there but definitely there will be marginal impact, and to what extent that impact will be, quantification will take time.

Abhishek Murarka: Sir you would have done some sort of analysis or some sort of estimation of the kind of impact because if you are to offset it you would need to know what kind of impact is going to come so any kind of ballpark indication would be helpful.

Rama Mohan R Amara: Materiality wise we have called it out clearly because the OVL fees the one where we saw a kind of impact. In fact, it accounts for 5% to 6% of the overall fee based income where now there is additional step involved before you permit over the limit of taking an explicit consent from the customer. So, in the initial days any such kind of measures I think unless the customer is aware, or consumer is aware they will not be able to exercise option so this one we have actually taken note of and called it our very clearly. It will take time to plough it back, rest of the things it is too early to comment. At least we did not consider them to be very material while definitely some negative impact will be there, but the ones which stands out is the OVL. There also we are looking at how do we create convenient customer journey where giving this consent or taking the consent from the customer becomes easy, we have been exploring so we are confident of plowing back most of it over a period of time.

Abhishek Murarka: Got it and Sir just one quick question in opex is there any kind of one off?

Sanjeev Khurana: No nothing. No one offs. It has an impact of higher sourcing which is there versus last quarter. Our sourcing of newer accounts has gone up however the impact is not in similar range because of the utilization of digital channels, our overall COA is trending lower versus last quarter.

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

Piran Engineer: Thanks for taking my questions. Just a couple of ones, firstly you mentioned a 10% of your spends convert into EMI, can you give a similar breakup for how many convert into or what percentage of spends eventually revolve and also what percentage of your customers have ever revolved?

Girish Budhiraja: On a percentage of spends going into revolve, there is no specific way to close that number because, the customer keeps changing from transactor to revolver on a month-on-month basis. these days because of lot of EMI options are already available in front of the customer till payment due date so customers revolve as a short term funding requirement for themselves. The movement between customers changing from revolver to transactor and transactor to revolver is quite substantial. We have not declared ever revolve customers or the fully transactor customers but there are set of customers who are continuously transactors and there are a whole lot of customers who revolve occasionally. You can call it one time, two times, three times. There are some sloppy payers also who will forget to make the payment and end up revolving and come back in the next cycle so some of that continues to happen.

Piran Engineer: Sir the next question is very basic? If someone has SimplySAVE or SimplyCLICK SBI Cards and wants the Cashback Card, do you then lower the credit limit on SimplySAVE or do you simply have to cancel one of the cards? Just want to get a sense of whether a lot of your existing customers itself in a way upgrade to the cash back cards.

Rama Mohan R Amara: The customer will have an option of flipping it, if he feels like he is better off closing the existing card and then opting for new Cashback card or otherwise we can split the existing limits or at the time of exercising this option if the customer is eligible for a higher credit limit, he will get that incremental limit on the new card. So, it all depends on the customer profile actually.

Piran Engineer: So, broadly if you can give a sense after 100,000 or so customers you have given this card how much are just from our existing base and how many are truly like open market?

Girish Budhiraja: No, first of all there is no 100,000 number at this point of time so, let me clarify. We have not given the numbers out, as of now. The point made initially was that this cash back card portfolio is not substantial enough at this point of time for making impact on the overall portfolio so, that is point number one. The second point here is that, as Sir was mentioning, it is the choice of the customer. Also, you have to note that Simply SAVE and Simply CLICK cards are at Rs.500 annual fee and cash back card is at Rs.999 and the spend base annual reversal is also at a higher value so there will be customers who will be switching over and taking it, but whatever trends that we are seeing for the initial lot of customers we do not see more than 10% to 15% of the existing customers coming in. Most of the customers are new customers, which are coming in and that was the whole idea. We were targeting customers who have ecommerce specific cards with other banks, and they are taking one card with one bank and another card with another bank and third card with third bank. It is to that population, younger segment that, we are targeting to start that with one card you should be able to utilize this benefit across the ecommerce platforms.

Moderator: Thank you. We will take the next question from the line of Karthik Chellappa from Buena Vista Fund Management HK Limited. Please proceed.

Karthik Chellappa: Thank you very much for the opportunity, Sir and belated Diwali wishes to the management team. Two questions from my side. Sir my question is basically on the revolver, even if we normalize for the spend increase towards the end of the quarter, when you look at the cohort of the revolvers those who revolve once a year or three times a year or five to six times a year at which cohort do you think the deterioration has been the steepest?

Aparna Kuppuswamy: It is even across all. There is no one particular category where it is high. It is in line with the overall distribution. There is no particular one that we call out in between any more than normal decrease or increase in that.

Karthik Chellappa: Okay got it, and to the point on the new sourcing mix where you are actually seeing a category B rising as well as self employed rise, if I couple that with let us say your 2.14% gross NPA and a provision coverage north of 60% can we say that your credit risk appetite is actually improving at the margin?

Aparna Kuppuswamy: If you recollect that is something we have been saying now for the last one or two quarters that whatever cushion that we have built up on the credit cost we are using that to test the different segments and that is evident with the increase in self employed or the category B that we see, that is a conscious decision. However, I think it is important to note like we have said earlier this will always be calibrated. We will test the segments, see how it does and only then move forward. We are not going to do anything in a very rash manner.

Moderator: Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Sir what explains this Rs.200 Crores jump in operating expenses on Q-o-Q basis? It is roughly 19% Q-o-Q and if we look at any other parameter whether your spends or whether your new card origination that is not increased by the same margin so from where this extra opex has come in this quarter?

Sanjeev Khurana: As we said earlier it is driven by two things broadly. One is our new account sourcing has gone up. It is up about 44% versus last quarter and second is, our spend based cost is running higher because we participated in the festive campaign with e-commerce partners so those two are the factors which are driving the cost to be higher versus last quarter.

Pankaj Agarwal: Okay and right now I think we are at 59% cost to income in this quarter. Right?

Rama Mohan R Amara: Yes.

Pankaj Agarwal: So, once we see your new additions comes down and all these festive offers are over do you think we can manage your cost to income at roughly 55% to 56% which was like pre COVID level?

Sanjeev Khurana: As MD Sir indicated initially that, the festive period this year is continuing from Q2 and extending to Q3 so the cost to income will remain elevated that is what he initially mentioned. However, as the festive period gets over our cost to income should come down because our spend based cost would come down. However, our focus on new accounts sourcing will continue and those costs will come in. We will see efficiencies coming in because our new accounts sourcing is coming at a lower cost compared to past due to our focus on digital sourcing.

Pankaj Agarwal: Thank you and one more question about your credit cost it has gone up by roughly 50:55 crore Q-o-Q, though your overall mix of revolvers are still down Q-o-Q though it is up on absolute basis but as a percentage it is down, right so what explains this extra credit cost during the quarter?

Aparna Kuppuswamy: You have to look at two or three numbers together. Credit cost is only one of the indicators and yes, the credit cost has gone up quarter-on-quarter. The way to look at it is two things. One is, the new book that comes in the stage one, we will obviously provide for it and the repayments will obviously come only over a period of time however, we will be booking the stage one provision. The other piece is that, as we have recalibrated our risk appetite, we have seen some increase on the stage three also however, please read that number in conjunction with the NPA number as well as the ECL rate. If you look at our ECL rate which is a better indicator of what we are expecting in the future, the quality of the portfolio, the ECL rate has been stable at 3.3 now. Pre COVID, that number used to be in the range of 3.5 to 3.75. Like I said, we have been taking steps in terms of expanding our risk appetite, however nothing has yet impacted the quality to that extent. The way to look at credit cost is more on a range basis and not at a number at a particular quarter. That is the point we have been making. We used to operate at 6.5 pre COVID. We will see the number move in a particular range over the next two quarters.

Moderator: Thank you. The next question is from the line of Param Subramanian from Macquarie. Please proceed.

Param Subramanian: Thanks for taking my question. My question is actually is an extension of the last question that was asked. On provisioning, on percentage basis why has the credit cost increased quarter-on-quarter? Basically, I picked up some explanation on stage one assets but that has inflated your denominator as well, so I did not understand why the 5.6% has moved to 6.2% quarter-on-quarter. And also, 6.5% was your pre COVID credit cost but that was on a revolver base of like 27% to 28%, considering it is at 24% now this will be much lower so that is my first question?

Rama Mohan R Amara: Thank Param. The stage one is provided at 1.7% even though the stage one is a kind of transitory. Some part of it may revolve, some part of it may convert into some kind of FlexiPay EMI based loans and most part of it may get repaid during the quarter, still we provided 1.7% which in annualized terms has an effect of almost 6.8% over a base rate of 5.6% in the previous quarter, so this has an effect of momentarily increasing the gross credit cost.

Param Subramanian: Sir, if I understood correctly this should reverse over the next quarter right, because we have seen a very abnormal last 10 days, right? Is that the right understanding?

Rama Mohan R Amara: Absolutely so to the extent stage one NEA comes down, we will automatically get relief.

Param Subramanian: Got it. Sir, my next question is on the over limit fee? You touched upon that, saying it is 5% to 6% of the fee income. but any analysis you have done on how much could be the EPS impact that we could see or because of this coming into effect from Q3 onwards. Also, on the opex trajectory, how much of the increase in the opex trajectory that we are seeing is more structural, considering we have moved to a higher run rate of net issuance, those are my questions? Thank you.

Rama Mohan R Amara: We have not computed anything on the EPS front. You were talking about impact on the EPS, I gave a kind of quantification based on the current run rate what we see as a monthly which we did not disclose earlier so that is the reason we wanted to clarify that 5% to 6% kind of OVL is there. This is not permanently lost. As I said earlier, we are creating a right journey which is convenient for the customer to express or convey his mandate so we are confident of plowing it back but of course we will also be consistently looking for other opportunities to realign our pricing in line with the competition, wherever opportunities are there. You would have seen that we have already come out and communicated to the customers around charging some fee income for the rental, which is in line with other players also. So, those opportunities anyway we will explore. Overall, we do not feel it as a complete loss or anything, but it will take some time for a complete plow back.

Moderator: Thank you. The next question is from the line of Nitin Aggarwal from Motilal Oswal. Please proceed.

Nitin Aggarwal: Good evening, everyone. Sir I have a question around the revolvers on the self employed segment? Now as a strategy we have been increasing the mix of self-employed. This segment share is at 30% for the quarter versus 17% at the portfolio level so just curious to know what the proportion is of the revolve rate in this segment so as to better understand how this approach can help.

Aparna Kuppuswamy: The self employed portfolio tends to revolve higher and that is something what we have noticed and that is generally the case. So, whether it is the second tier salary or the self-employed, the propensity to revolve is higher and that is continuing and that is one of the reasons why, when we have said we have gone back and recalibrated the risk appetite, we have brought some of these in just to be able to see how they perform.

Nitin Aggarwal: I understand that but sorry if you can just indicate some range as to what is the typical revolve rate in this self employed category that you have seen over the last couple of years?

Aparna Kuppuswamy: We have not given the segment level revolve rates. Like I said, it is higher than the salaried and again within salaried, obviously the government is lower and the second tier salaried is higher. Self employed is higher than that, so we have not really given the segment level revolve rate.

Nitin Aggarwal: Okay and secondly a very small question is on the economics of the newly launched Cashback card. How do you really see that? Will this product take longer time to scale up on the profitability curve? Any thoughts on that?

Girish Budhiraja: So, as we have stated earlier, when we looked at the economics of coming out with the card like this, in the present scenario we look at the cost which had to be incurred. So, for example, cost of participating with the co-brand partner, pay out to the co-brand partner, cost of acquisition. We took all that and decided to convert it into a customer value proposition, okay. So, that is why this card is only available when the customer applies on their own through digital channels so, thereby we save a majority of our Cost of Acquisition. We are also saving money which could have been a potential partner payout, which is quite substantial in these days. The third part is that it also gives us strategic freedom to be able to tinker with the product at some date looking at the way the consumer behavior is happening. Given these three parameters we came out with this product. When we look at internal parameters, we see that the profitability is similar to what we see on a SimplySAVEor a SimplyCLICKcard. Now you have to also note that SimplySAVE and SimplyCLICK card are Rs.500 product. This product is now available, at this point of time first year free till March 31, at an annual fee of Rs.999.

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

Rohan Mandora: Good evening Sir. Thanks for the opportunity. Sir could you share what was the fresh delinquencies in this quarter and also the provision number if you could share between stage one, stage two and stage three?

Aparna Kuppuswamy: If you could just go to the asset quality page, we have actually given the provision number also on that, so I am not sure I understood the question. The question is on what the delinquency is.

Rohan Mandora: Fresh NPA delinquency during the quarter, fresh slippages?

Aparna Kuppuswamy: So, the increase in the stage three is largely made up of mostly fresh slippages only. We have not given the split. If your question is on the slippages, then we will get back to with the specific number. It is not part of this however overall if you look at the GNPA the number is at 2.14 which is down slightly from last quarter.

Rohan Mandora: Sure, I will touch base separately for the fresh delinquency number and the provision that we have done in this quarter how will it split between stage one, stage two, and stage three?

Aparna Kuppuswamy: We have given the rates if you look at it. The stage one book we normally provide at 1.7% and stage two is about 5.2% and stage three is at 64% so that is the breakup, and it is already available. If you look, we have given you the breakup of the stage of the receivables as well as the provision rate so that break up should be very easy to calculate.

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

Shweta Daptardar: Sir my question is on subscription bills fee share, we share which is standing stagnant if I compare both sequential as well as on annual basis so any color on this vis-à-vis your new account company sourcing or should we attribute this to any spends based reversal that might have happened?

Sanjeev Khurana: Shweta, I think we have answered this earlier also in the last quarter, so this is linked to the higher share of spend based reversals which is coming in due to which subscription based fee is marginally low.

Shweta Daptardar: Sure, and Sir if I might squeeze in the second question. You have mentioned because of the new RBI norms, 95% is where you are standing in terms of active portfolio so would you see the CIF improving month-on-month basis and that impact is almost behind?

Girish Budhiraja: Yes, so in the month of September if you have noticed that we reported a decline of almost around 3000 cards so as MD Sir mentioned 4,70,000 plus new cards in the month of September itself, we have taken the complete impact of the RBI guideline and closed all those cards. From now onwards, October onwards we should an increase and we are targeting at least 300,000 net growth on a monthly basis.

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

Shubhranshu Mishra: Thank you for the opportunity. Could you please split out the revolvers into accidental revolver, periodic revolver, and chronic revolver with their loss rate and the second question is on the category four where your travel, hotel and airlines has come off even on a Q-o-Q basis? All these rates have actually gone up and if you look at the Airport Authority data the domestic arrivals and international arrivals and departures have all increased on a volume basis? All the hotels across the travel websites are at their peak so it seems quite out of that but the category for spend should come up even on a Q-o-Q basis because the growth has also gone up so the travel tickets have escalated even on a Q-o-Q basis so if you could throw light on these two questions?

Girish Budhiraja: I will first answer the travel category. Category four travel agents, hotels, airlines, railways, entertainment, and restaurants. We club this all together more as a travel and entertainment as a category however travel itself and lodging itself are the large components of these. Now while in April, May, and June quarter the travel bookings a whole lot of travel booking happen at least 30 to 45 days prior to when the people are travelling so this seasonality what we have seen is what you see actually on the ground. The booking happens slightly earlier on. In the past what we have seen is pre COVID that May and June and November and December are the high seasons of ticket booking. Ticket bookings start on April or so and by the end of May and early June most of the ticket bookings get done. Similar trends you see by November also. Regular travel and emergency travel all that stuff will continue, but the children's holidays and the leisure travel typically follow these patterns.

Shubhranshu Mishra: Right the first question?

Aparna Kuppuswamy: We have not really shared that split of revolvers into those categories in the past also. We only share it on a total basis.

Shubhranshu Mishra: Thank you. Best of luck.

Moderator: Thank you. The next question is from the line of Mohit from BOB Capital Markets Limited. Please go ahead.

Mohit: Thanks for the opportunity. My first question was the active rate so if you look at the active rate for the quarter was 50% which was the same as the previous quarter so because of the festival season we have not seen any decent active rates so any expectations on that which have not been met?

Girish Budhiraja: Active rate in September has gone up but because we have given this quarterly number and we saw higher activity in the last seven to eight days in the last quarter, but if I talk about July, August and September, August was better than July and September was better than August so that has been the trend line.

Mohit: The share of retail and corporate effect if I talk in terms of spends it used to be around 75% to 76% retail and the balance 23% to 24% corporate but now that your certain corporate spends have come off the ratio looks very skewed at 82% retail and 18% corporate so going forward should we expect that this ratio will continue?

Rama Mohan R Amara: As I have said earlier, we are targeting a kind of improvement and taking it back to the earlier levels but in a calibrated fashion. As I said because of the competition intensity some relationships are not working, they have become more like a cash burn, and we do not want to be in that game so that is the reason we have actually exited some relationships but at the same time we are building the pipeline. We are confident of taking the share back to the earlier levels over a period of time.

Moderator: Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Thanks for the opportunity. I wanted to check on your cost of funds which you have said that you are expecting 40 to 50 basis point rise? Is this your total cost of funds or you were saying about the cost of funds from banks and specifically Sir would it be fair to assume that all your bank loan would this be on MCLR, or you would be drawing from T-bills or may be EBLR?

Rama Mohan R Amara: As per liability sourcing profile, 34% to 35% is from long term and the remaining are short terms. Short term is the bank lines which are linked to external benchmarks. It can be a treasury bill, or it can be REPO kind of rate also, but short term is mostly linked to the treasury bill so depending on the movement and depending on the tenure at which they are availed they will get reset. With regard to your other question on the cost of funds which we have given at 5.4% is the cost of borrowing on an average for the entire portfolio.

Sanjeev Khurana: Just to add what Sir said, 5.4% also is little colored because of the base effect of borrowing in the last one week in the quarter. It should be in the range of 5.7% for this quarter and from next quarter Sir already said that it will be higher by 50 to 60 basis points.

Moderator: Thank you. The next question is from the line of Mohit Surana from CLSA. Please proceed.

Mohit Surana: I just have one question is how has in your open market sourcing what is the percentage of customer that are new to credit and if you can also comment in terms of how it has trended over time?

Rama Mohan R Amara: It will be very low because generally we get more of NTCC and NTC from the Banca channel where we have the comfort of looking at their financial transaction profile, etc. In case of open market, it is negligible. Mostly it will be to some extent it will be NTCC but predominately it will be like a credit kind of customer.

Mohit Surana: Thank you.

Moderator: Thank you. We will take the last question from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Sir thanks just two clarifications. One is relating to the full year cost to income so I remember in the Q4 call you mentioned that this 57% kind of zone is where we target and then there could be quarterly volatility in the cost to income is that the same thought process that you have at the moment, or you will take some percentage point, or it could be meaningfully higher just some clarification around that. And the second one is, on cost of funds again just to be a bit clearer in terms of where we ended this quarter, we should see another 50 to 60 basis points increase in the next quarter is that correct?

Rama Mohan R Amara: Yes, coming to your cost to income, when we guided in the past may be a couple of quarters back obviously the kind of increases what we have seen in the interest rate scenario and the NIM compression was not even there in the reckoning at that time, so we were confident about the NIM. But it (Cost to Income) will have an upward basis. I think 58% perhaps 57.5% to 58.5% kind of range we can think of that to over a period of 12 months. I am not talking about quarter-to-quarter because as I said like festival spends are again are spilling over to the month of October, November, and December quarter as well so obviously we said it will continue to remain elevated but that will not be the case coming to Q4 when it will be lower so over a period of 12 months when you average it out it will be hovering around may be 50 basis points here and there around 58%.

Dhaval Gada: Understood and on the question of cost of funds 50 to 60 bps Q-o-Q increase is that correct?

Sanjeev Khurana: No, I think what Sir said was that 5.4% which you are seeing is getting colored. The number after taking out the last weeks' borrowing from the denominator, it would be 5.7%. So, on top of that it will be 50 to 60 basis points.

Dhaval Gada: Okay so sequentially you could see like around anywhere between 80 to 90 basis point increase Q-o-Q that is the kind of magnitude we could see?

Sanjeev Khurana: Dhaval, you have to think from the perspective that in Q4 of last year, we were at 4.9%. What you are seeing right now is 5.4%. This is just a 50 basis points higher in six months however, the rates have gone up by 190 basis points already so the impact is not visible and it is colored as we are saying because of the last weeks borrowing. The full borrowing cost impact has not come in the quarter. That is the reason it is 5.4 however it should have been in the range of 5.7 for the quarter and in the next quarter it will go further high.

Dhaval Gada: Understood and you are saying NIM to be stable because of the optimization on the mix to offset the cost of fund impact hence NIM could be plus or minus 10 to 20 bps on a sequential basis?

Rama Mohan R Amara: Yes what I alluded to is more like say we are confident of managing it around 12%, confident of keeping it around 12% but definitely it will be lower than 12.3% given the kind of pressure what we are seeing.

Dhaval Gada: Got it very clear. Thank you and all the best.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Rao, MD, and CEO of SBI card for closing comments.

Rama Mohan R Amara: I would like to thank my colleagues at SBI card for their continued commitment, hard work and support that have contributed greatly to our continued success. I am also grateful to our shareholders, investors and business partners who have believed in us and supported us throughout. Lastly, I would like to reiterate our confidence in our agility and adaptiveness which has helped us ensure sustainable and profitable growth. Wishing you all a wonderful festive season. Thank you and good night.

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