SBI card

February 1, 2023

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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 3Q'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 January 24, 2023 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: 2023.02.01 12:51:04 +05'30'

Payal Mittal Chhabra
Company Secretary & Compliance Officer

“SBI CARDS AND PAYMENT SERVICES LIMITED

Q3 FY 2023 Earnings Conference Call”

January 24, 2023

MANAGEMENT:

MR. RAMA MOHAN RAO AMARA – MD & CEO
MR. GIRISH BUDHIRAJA - CHIEF SALES & MARKETING OFFICER
MS. RASHMI MOHANTY - CHIEF FINANCIAL OFFICER
MS. APARNA KUPPUSWAMY - CHIEF RISK OFFICER

Moderator: Ladies and gentlemen, good day, and welcome to the SBI Cards and Payment Services Limited Q3 FY 2023 Earnings Conference Call. As a reminder all participants line will be in the listen only mode and there will be opportunity to ask question after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star than zero on your touchtone phone. Please note this conference is being recorded.

I now hand the conference over to Mr. Rama Mohan Rao Amara, Managing Director and Chief Executive Officer of SBI Cards. Thank you, and over to you, sir.

Rama Mohan R Amara: Thank you Faizan. Good afternoon, everyone! First let me wish you all a very Happy New Year. I would like to thank you for joining us today for Q3 FY23 earnings call, the first earnings call of the new calendar year.

With continued geo-political tensions and COVID upsurge in China, the world economy is still on unstable ground. In this turbulent macro-economic environment, India continues to be a shining beacon as one of the fastest growing major economies, standing as fifth largest in the world now.

It is reassuring to know that RBI's measures to reduce inflationary pressure have started yielding results, as evidenced by CPI inflation in December cooling to 5.72% with WPI inflation at 4.95%. India's GDP for FY23 has been projected to grow by around 7% as per the Government's advance estimates.

The festive season that started from Sep'22, has seen the strength of India's domestic consumption. From strong consumer sales during Diwali season to busy holiday travel season in December, India's consumer spends have improved further. India's consumer confidence has been improving, which is an encouraging sign of the country's future consumption prospects. Digital transactions have continued to exhibit robust growth in the country. According to a recent report by Worldline India, digital payments grew to over 23 billion transactions in Q3 2022. This shows an 88% increase in volume as compared to Q3 2021. Among other digital payment instruments, credit cards have also registered healthy growth.

Credit card base has expanded from 67.6 million in November 2021 to 80.6 million in November 2022. Since March 2022, industry has been witnessing monthly spends of over Rs 1 trillion, reaching an all-time high of Rs 1.29 trillion in October 2022. Growing customer base and increased usage, along with new and favorable regulations especially linking of UPI and credit cards, will help the industry maintain an upbeat momentum. Given the low credit card penetration and favorable demographics, I would like to reiterate that the growth potential is immense.

Let's now look at SBI Card's Business Overview in Q3 FY23.

At SBI Cards we leveraged this upbeat market momentum in Q3, to build scale both in our new card sourcing and spend base. This helped us partly absorb the impact of changes in the credit card industry. This quarter saw some of our traditional revenue streams being impacted, however the steps taken by us to reset, reinvigorate and build business for the future, has strengthened our acquisition caliber and added revenue generating avenues for the future. We will see the positive results of the measures, quarter on quarter in times to come.

Specifically, the quarter was marked by three key developments:

Implementation of more RBI Master direction guidelines

- It has put the onus on the issuers to make their system and process more customer centric leading to timely resolution of customer issues.
- While these regulations have brought in many benefits for the ecosystem, the industry has seen some adverse impact on the revenue during the quarter, e.g., the changes linked to credit limit increase and non-capitalization of unpaid charges/levies/ taxes.
- SBI Card had anticipated this and has already taken mitigation measures to largely balance them out.

Continuation of festive season

- We continue to invest in initiatives and offers aligned to customers' preferences, including national, regional and hyperlocal offers, with a special focus on EMI transactions.
- Focus of our efforts is to grow our EMI loans portfolio further, so as to improve NIM and Interest Revenue over next few quarters.
- These customer engagement initiatives required larger marketing spends, as reflected in our results too.

Interest rate hikes

- As guided in the past, due to increase in the interest rates, our cost of funds has also increased.
- We have taken measures to transmit the increase in cost of funds where possible, by dynamically revising the pricing of our EMI loans.

Coming to specific details on our performance during Q3 FY23.

I am happy to share that SBI Card continued to deliver robust business performance. The performance was a result of a sharp focus on key priorities.

First - Well calibrated and strong customer acquisition to improve market share

We added about 1.6 million new accounts during Q3 FY23, achieving a 62% YOY growth: the highest ever during a quarter:

- Average monthly sourcing this quarter was at 5.4 lacs Vs 4.3 lacs in previous quarter.
- SBI sourcing was at 49.4% Vs 37% in previous quarter.

We reached 15.8 million cards in force with a healthy 21% YOY growth. The market share for cards in force stood at 19.3% as per RBI Nov 2022 data. This is a result of our well thought through investments in scaling up our traditional and digital acquisition. The results are visible, both in terms of overall numbers and economies of scale that we have achieved. Few months back we had piloted an end-to-end digital acquisition platform ‘SBI Card Sprint’, this pilot has shaped well on expected lines, and we plan to harness its potential. Our traditional Open market and Banca channels too have reached a steady state. Compared to 3 lakh cards per month earlier, our card acquisition per month now is 5 lakh cards and we plan to maintain this run rate, provided the environment is stable. This is expected to give us a net addition 0.9 to 1.0 million cards in a quarter.

Second - Steady and sustainable spends growth

Our spends growth has been steady during the quarter:

- Overall spends have grown by about 24% YoY in Q3 FY23, reaching yet another highest ever spends milestone in a quarter at Rs 68,835 crore.
- Daily average retail spends is 2x of pre-Covid period (Dec19 Jan- Feb’20).
- Retail spends have also shown strong 29% YOY growth at Rs 54,562 crore in Q3 FY23.
- Online spends continue to be strong and contribute over 57% share in our retail spends.
- In PoS too, we have seen a healthy growth across key spend categories, including, Consumer Durables, Apparel, Furnishing & Jewellery.
- Travel related categories have grown at 32% YoY driven equally by online and POS.
- Corporate spends stood at Rs 14,273 crore in Q3 FY23 with around 10% YoY growth.
- As per RBI Nov 2022 data, our spends market share stands at 18% for FY23.

Third - Engaged and active customers to build earning assets

Our strategy of offering fee-based card has been vindicated during past few months. Today, we have a strong base of engaged and active customers:

- Our spend active rate continues to be at 50% plus.
- Spend per average card has grown to Rs 1.79 lakh in Q3 FY23 from Rs 1.72 lakh in Q3 FY22.
- Receivable per card has grown by around 10% to Rs 24,318 in Q3 FY23 from Rs 22,133 in Q3 FY22. Our Gross Credit cost percentage for the quarter is at 5.6% down from 6.2% in Q2FY23.

Our receivables have grown by 33% YoY reaching Rs 38,626 crores in Q3 FY23. Within this, as a result of changing consumer behaviour on seeking attractive lending options, we have focused on increasing EMI assets resulting in higher interest-bearing earning asset (comprising of EMI plus revolver) in Q3 FY23 at 61% compared to 59% in Q3 FY22.

We continued with the expansion of our credit card portfolio and partnered with Punjab & Sind Bank to launch three co-brand variants for millions of Punjab & Sind Bank customers. We are exploring many such customer centric partnerships and opportunities which will close over the next few months.

Coming to the financial performance in Q3 FY23

- SBI Card continues to focus on sustainable and profitable growth, showcasing utmost resilience, despite the dynamic environment we are navigating.
- As I said earlier, this quarter we have consciously invested to build scale with an eye on future revenues. Even though it has moderated few of our metrics in the short-term, we have continued to keep our eyes on the overall long-term potential of the Indian market.
- Our total revenue stood at Rs 3,507 crores and has grown at 21% YoY during the Quarter.
- Our COF has increased this quarter as the lag effect of transmission of market rate increases was felt by us in Q3. We have shared our Daily average COF on Slide 16 of our presentation and as indicated in our last earnings call our COF has increased by 50 bps q-o-q.
- The operating costs were higher this quarter, 15% increase y-o-y, driven by festival spends and higher acquisition.
- The Company has achieved a PAT of Rs 509 crores in Q3 FY23, which is marginally lower than previous quarter. The business model is resilient, and we absorbed the impact of increase in COF and changes in levy of OVL fee through business growth this quarter, which is sustainable for the future. However, we do expect our earnings to be impacted with the residual lag effect of the increase in rates, next quarter. COF is expected to increase by another 30-40 bps in Q4, which can be largely offset through judicious pricing of loan disbursals.
- On asset quality:
    - Our GNPA inched up slightly to 2.22% from 2.14%previous quarter.
    - However, our Gross Credit cost percentage for the quarter is stable in our target range at 5.6% down from 6.2% in Q2FY23. ROAA for the quarter ended Dec'22 is at 4.8%.
    - Our liquidity position continues to be strong and capital adequacy is at 23.3% for the period ended Dec'22. We maintained the LCR at a healthy 85% through the quarter.

In conclusion

- The global economy is still reeling under uncertainties and environment continues to be volatile. Thankfully, domestic economy has proved to be resilient. Certain macroeconomic indicators are encouraging. We, at SBI Card, have taken measured decisions and initiated actions to ensure meaningful and sustainable growth, while ensuring that we continue to generate value for all our stakeholders including customers, investors, and shareholders.

So, Faizan, now we are open for questions.

Moderator: The first question is from the line of Dhaval from DSP Mutual Fund.

Dhaval: I had three questions. First is relating to your comments on the cost of fund increase of 30 bps to 40 bps next quarter. Could you just give some perspective on margins as well? We reported 11.6% margin this quarter, do you think they have bottomed out? I didn't get exactly your comments on yield. So that was the first question. I'll ask the other two.

Rama Mohan R Amara: Given the nature of funding what we have, where 65% of the funding happens through short-term, the last repo revision of 35 basis points will have an effect in next quarter. So that's the reason we are guiding for a 30 to 40 basis point increase. However, during the last quarter also, we have actually changed the pricing of EMI loan disbursal. So, whenever there is an opportunity, we are transmitting and particularly when there is increase in our cost, we are able to transit for the new disbursal.

But current portfolio, unlike banks, wherever it is linked to the external benchmark, it gets re-priced automatically, that benefit is not available to us. But to the extent of new disbursals, slowly the colour of the portfolio changes. So that's the reason we were saying like next quarter, we are very confident of minimizing this compression, whatever compression we have seen, which was at 50 basis points, that we are confident of minimizing that compression. So, it will hover around 11.6%. I cannot say like where it will be but at least we are very confident of managing this compression given the kind of exit rates what they have seen month-on-month.

Dhaval: The second question is relating to the Revolve portfolio. Last quarter, we talked about the festive season sale being there at the end of the quarter and hence, optically, the Revolve rate percentage had come down to 24%. And you said that we need to see about 45 days, up to 60 days timeframe to see how the trends play out. So, could you just give some perspective as to why the percentages have not gone up, some colour around that? I see the incremental mix being shifted. So, at what point do you see or start seeing uptick in your Revolve share? So that's the medium-term question, sir.

Rama Mohan R Amara: When you look at Revolver and perhaps comparing with other players as well, our Revolver share at 24% comes roughly around 65% of level what we used to see pre-COVID. Our information says this is in line with best of the major players as well, but having said that, we have taken several measures. It's a fact that actually some of such kind of self-employed customers who used to contribute to the revolver share, the higher revolver share, the 9% of the portfolio was washed out. And for the remaining portion, hardship tools were extended, the RBI-RE which now hardly comes to percentage of overall share. But last couple of years, we have been sourcing with increasingly higher risk appetite, particularly, we are increasingly targeting segments like NTC and NTCC. We are also targeting younger and self-employed segments. In fact, we have given in the deck as well. 36% of the new sourcing is coming from a younger population with an age of up to 30 years, similarly self-employed constitute around 34%. We are confident that the revolver will improve in future. Within the quarter, in October month was further dip compared to September but November, December, again, revolve rate, this is the metric which we watch close internally, that has come back to pre-festival what we used to see. This is giving us confidence that this will improve in the times to come. But as rightly said, we are, of course, leveraging the EMI portfolio that continues to improve. In order to optimize the interest revenue, we continue to further be increasing the share of EMI.

Girish Budhiraja: Dhaval, just to add, increase in revolver is looking sticky at this point of time because after festival, we were also looking at the customer behavior that the incremental asset spends have happened, and how do you get them converted into interest-bearing assets.

So obviously, there was action at our end also where we also pushed and did a lot of programs for the customer to convert into an installment lending asset and you can see the results of that. If you look at -- and this is just to give you some numbers. So, for example, if you look at on a year-on-year basis, our overall interest-bearing asset has increased by almost 35% or so on a year-on-year basis. When you look at it, the majority of the asset growth, has happened in the installment lending, which is almost close to around 48% to 50% growth is what we see there. The balance when you're looking at even the revolver asset or the transacting asset, revolver asset is growing by almost close to 19%, 20% so that's the range at which it's growing. And that is the range when that transacting asset is growing maybe a couple of percentage points more.

If you take out in the growth of asset, whatever we have put it into the installment lending, the balance revolver and transactor broadly growing at the same rate-- transactor maybe a couple of 2, 3 base percentage point higher. Now the way we are looking at is that we find interest-bearing asset from the installment lending far more stabler, it causes lesser amount of losses, –and it gets us more sticky customer. So, if it continues to happen and we push for it, we are quite okay with it. So, our view is that we would push more for this installment lending assets to go with, yes, it has a bearing of because it doesn't come at a 42% interest rate. So, you will look at that interest income from that perspective, but this is how we are looking at the portfolio growth. If revolve comes on with a due course of time, it comes very good, but we are looking at it like this.

Dhaval: Got it. And just last question is on the cost to income. So, like you mentioned in the previous call that we -- given the rise in cost of funds and the other hits relating to RBI circular changes, the cost to income was supposed to move to about 57.5% to 58.5% for FY'23. Do you still hold the guidance. I see the first 9 months is about 59.3%. So just wanted to reconfirm that.

Rashmi Mohanty: Dhaval, on that one, we do expect the numbers to be below 60%. Obviously, as it has been at year on year, the festival quarter does see a higher cost to income ratio.

Rama Mohan R Amara: Dhaval, the element, we need to take into account is, the overall spends composition vis-a-vis 18 months back or 1 year back, the share of absolute amount of corporate card spends have increased substantially. The share is obviously at around 22% to 25% that's the overall thing, but the absolute amount, because of increase in the B2B volumes, has increased. It has an effect of increase in the cost to income. So, it will not impact the bottom line because, you have both topline as well as impact on the expenses almost to the same degree. It elevates the cost to income but if you normalize for it, we are trending lower than 60% for the pure retail kind of our activities.

Girish Budhiraja: Also, this quarter, absolute new acquisition is to be also higher. So, there is an incremental spend which has happened on that also.

Dhaval: Just a very quick clarification. So normally, in 4Q, we see about 5% to 7% kind of sequential decline in cost compared to third quarter because of the seasonality. Do you see that happening this time given the higher originations? Or do you see things changing compared to your usual trend?

Rashmi Mohanty: We do see a moderation in the cost-to-income ratio. There are two elements that both Girish and Sir have called out. One is the corporate spends that has gone up in terms of absolute value. So therefore, I don't think you'll see a 6% to 7% drop, but definitely the fact that it is going to be a non-festival quarter, but the cost of acquisition will stay, but the festival spending, however one-off seasonal spending, we will see a moderation in the cost to income.

Dhaval: Got it. I was referring to the absolute cost, but I did get the point. All the best.

Moderator: The next question is from the line of Ajit Kumar from Goldman Sachs.

Ajit Kumar: first one is, recently, you have made few changes in terms of reward points and charges. Reward points have been reduced by half on online spends then Amazon processing fee has been increased on all merchant EMI transaction and processing fee has been introduced on all rental payments. So, any calculation that you have done internally how much positive impact it would have on the bottom line? And would it be sufficient to overcome the decline in fee income coming from reduction over limit fee.

Girish Budhiraja: The two changes that you said are correct. The third one I'd like to clarify. The Amazon 10x has come down to 5x but that is only on SimplyCLICK card, that change does not impact any other card. SimplyCLICK is a large portfolio, we have more than a million plus cards there, but that is one portfolio where this impact is present.

The second that you're rightly saying, we have put processing fee, and we have put some other changes in reward points but those are changes where we were looking at discouraging double dipping benefits by the customer. So, the essential moot point there is, wherever the customer was getting for the same spends, different kinds of benefits together and it was becoming more, that is where the double dipping is being stopped. Apart from that, there is no other changes that we have made. This will give some benefit on the bottom line, but not sufficiently to compensate.

Rashmi Mohanty: Will not compensate for the entire loss that we have on changes around the OVL level.

Ajit Kumar: Okay. the second question is on the new sourcing mix. Proportion of new sourcing coming from Cat B within salaried segment has jumped substantially in the last few quarters. So, what is the profile of these customers, their income level, et cetera? And along with this new sourcing coming from Tier 3 city under 30 age brackets has also increased. So do you think this will lead to higher credit costs later on compared to 6-7% that we have seen in steady state.

Aparna Kuppuswamy: A lot of the Cat B is the planned expansion. Also, as the banca proportion goes up, this segment increases this year also. The criteria take lot into account these points. Just because they have Tier 3, doesn't mean that the delinquency of that portfolio is higher. I think the one thing that changed is for the collection abilities are fairly in line in all locations. So, whether it’s Tier 1 or it’s Tier 3, it is the customers own score and profile that drives delinquency, not so much is the fact that it is a Tier 3.

Moderator: The next question is from the line of Mahrukh Adajania from Nuvama.

Mahrukh Adajania: My first question is on your EMI. You said that yes you have enough offset to probably offset the rising cost of funds. But what has been your strategy of pricing EMI loans given that in general, there's a lot of talk about charging the customer fair and not overcharging. There are statements coming from ministry. So, by what rate has your EMI interest on new disbursements gone up compared to, say your cost of funds. Say, over the last 3 months, over the last 6 months, what has been the increase in EMI yield on new loans?

Rama Mohan R Amara: RBI has been encouraging NBFCs to adopt a risk-based pricing and now I think actually everybody has fallen in line, it is where we complied with the regulation during the year. This is more like a -- you look at the intrinsic risk of the customer and align the pricing to the inherent risk of the customer. So that way, a customer having a very good score or otherwise in terms of risk -- low risk customer definitely the pricing will be attractive comparable to what alternatives he has outside, whether it's a bank or NBFC. But it's slowly increased for the medium to high risk, when we come out there. So that's why we look at the risk, we look at the cost of funds, we look at our ability to collect, all these efficiencies do automatically translate into related component in the pricing.

Mahrukh Adajania: Got it. Sir, and how much your yield would have increased in the last 3 months and in the last 6 months?

Rama Mohan R Amara: Our debt covers the overall portfolio, it's not talking about very specifically about the yield of the EMI loan, that way it gets camouflaged, but it can be calculated in a reverse way, right? I

Rashmi Mohanty: So, between quarter 2 and quarter 3, our yield has normally remained the same because some of the higher yielding assets from the previous quarter are running off given that our book is largely a 9- to 12-month average kind of. And the new booking is actually happening with the implementation of the risk-based pricing that we introduced in quarter 2, so the yields quarter-to-quarter has been steady about 16.2% overall.

Mahrukh Adajania: Got it. Perfect. And the other question I had is, on your credit cost. so, what do you see as a normalized level of credit cost? Are we there? or the normalized level of delinquency because now it is best time for the sector as a whole.

Aparna Kuppuswamy: We've been talking about it, it's better to look at a credit cost on range basis because there are some quarter movements that will happen. And I think that's the number we've been giving in the past. We should see around 6%. It used to be 6.5% pre-COVID. Around 6%, 5.75%-6.25%, that range is what we are comfortable with.

Moderator: The next question is from the line of Piran Engineer from CLSA.

Piran Engineer: Firstly, on rental spends, since we started charging INR 99, just wanted to understand how the experience has been in terms of customer stickiness? Have we seen a decline in spend? And does that come in your spend based fee or instance-based fee?

Girish Budhiraja: This processing fee, we started charging from 15th of November. So, this quarter, you have almost 45 days of benefits into it. We have not seen any impact by charging the fees, as of now. It has gone through almost now 75 days because it has been 25 days after month end also. So, we've not seen any change, and it goes into instance-based fees.

Piran Engineer: So, then what explains the higher Interchange in this quarter. So, if I take spends based revenue divided by spend, is it just because corporate spends have gone up?

Girish Budhiraja: So, two things are there. While the online spends have also been higher in this quarter, but it is similar to the last quarter. So that way, online spends gives you higher Interchange. Corporate is higher, so that corporate has also increased and added to the Interchange percentage. And thirdly, the travel has also gone up, which we have been talking about. So Q3, we have seen an increase in the travel side in the month of November, December. So, these three have led to the increase in Interchange. It's not very high, it's marginal, but it has increased.

Piran Engineer: And my second question, last year, our instance-based fees were about INR 1,800 crores. And if you could just give us broad break-up, INR 400 crores are sourced OVL, what about the remaining INR 1,400 crores, what does that look like?

Girish Budhiraja: So, we have not given the breakup of instance-based fee, but it is, there are major key components, are there late fees also one of the components in that one. You have forex conversion fee. There is a processing fee, which is levied there, which is also a component. OVL as talked about was also a component. There are other such fees, as we just talked about the processing fee on rentals, is a component. EMI processing fee will also go there. So, there are other components. So, there are multiple of those. We've not given a breakup of these.

Moderator: The next question is from the line of Param Subramanian from Macquarie.

Param Subramanian: My first question is, sir, this quarter, we've seen an increase in the NPA without seeing a corresponding increase in the revolver, could you explain how that is happening because logically one would assume that the customers should revolve first. So why are we seeing an uptick in NPAs without seeing corresponding movement in the revolver?

Aparna Kuppuswamy: Param, the account first becomes a revolver, then becomes an NPA, you're right. But some of the transactors also move into NPA by not paying up, so that's just a route by which it becomes NPA. And that is we are seeing. We have to look at it from a range perspective. Our numbers pre-COVID, when our revolve rate was still high, were in the range of 2.5%. 2.6% quarter, we were always 2.7%. Again, look at NPA also from a range perspective, don't look at it as an absolute number. If you look at it, we are still with the increase, at 2.2%, which is much lower than what we used to be. You have to look at the credit cost, the NPA and the ECL all together. If you look at our ECL which is more like the quality of portfolio metric, which is expected credit loss, that again, is down to 3.3%, and actually sequential better from last quarter as well.

Again, that number, pre-COVID, was in the range of 3.6%, 3.7%. So overall, the portfolio is trending in the way that we are comfortable with. Quarter movement between 2.14% to 2.2% is just that. It is at the end of the day, yes, we look to operate within a range and like we said the range is to allow us to be able to optimize the credit cost. We are using this buffer to go out, test a few segments, you see that the self-employed has up, you see the some of our Tier 2 salaried has gone up. We are using that to test and learn a few segments because in reality we have to go back and start lending to some of these segments again.

Param Subramanian: Yes, I got that. What I was getting at was, is there a higher NPA that we are seeing in the EMI bucket or is there some behavioral change which is resulting. You are saying that is one of that, is that the correct way?

Aparna Kuppuswamy: No. It's not like, in fact, normally, the way it works is, the customers who take EMI, there are two types of EMI. There are one which the consumers convert the purchases to EMI. That is within that line. And then there are some good customers who we give them a loan over and above the line also. The second one anyways given only to the better customers. So that performance is actually very well.

EMI customers actually tend to behave better because they're slightly more savvy customers, they choose to convert it, rather than revolve. So, in terms of behavioral, you are not seeing any significant behavioral shift.

Param Subramanian: My next question was on the over limit fee. You're showing in your profit walk as INR 81 crores of PAT impact is due to the overlimit fee. So, this is the post-tax impact, right? So, at a fee level, it's higher. So is it right that we lost the largely almost the entire overlimit fee and are we going to recoup this amount, some amount of this going forward or is this on a quarterly basis, is this something that this INR 80 crores of bottom-line impact. Is this something that we are going to work with, going forward?

Girish Budhiraja: You are right, so majority of the over-limit fee seems to have gone, it has not come back. Recovery is hardly anything. We have tried a lot of action in terms of taking consent from the customers and other things. However, as of now for last two quarters, because this particular impact has started to come in from 1st of October itself. So, when we see the impact for the full quarter and even January, the recovery is not much.

Param Subramanian: So, 1 last question if I can just squeeze in, is it right that rental spend would be 10% to 12% of your total spend? Is that ballpark number, correct?

Girish Budhiraja: We've not given the weightages, but it is slightly higher than the number that you stated.

Moderator: The next question is from the line of Shubhranshu Mishra from Phillip Capital.

Shubhranshu Mishra: A couple of questions. The first one is on the total number of cards that we've been issuing either on a monthly basis or on a quarterly basis. Is this largely to do with the activity regulations that have been put in. And actually, the net issuance would come off by a huge margin, which is why we are issuing close to 5 to 6 lakh cards that's the first point. And second is, can we please give the average balances for EMI, revolver and transactors?

Rama Mohan R Amara: To answer your first question, we're only aligning this increase in the volume to take care of attrition. We have also stated like we would like to continue this run rate. we said, we would like to continue to operate at 5 lacs. We have certain natural attrition. In fact, in the past, we guided, we are targeting 300,000 to net addition per month. So, we are now increasing it to 1 million. So, we will operate in a broad range of 0.9 million to 1 million of net card addition in a quarter. That will be the broad range in which we will work

Shubhranshu Mishra: And the second question sir?

Girish Budhiraja: While we have not declared exact balances, average balances, but I can tell you that people who are revolving, their average balances are higher than average. Even the installment lending is close to the average balance that you see there, that is where it is. Transactor balances are slightly lower, so this is how it works out. We've not declared the exact numbers for this.

Shubhranshu Mishra: And if I can squeeze in one last question. On Slide number 10, where we give out the spend categories. Is it that the online spends have higher ticket sizes which is why despite the PoS spend growing slightly faster, the total spends are not growing as much?

Girish Budhiraja: No. You're making that estimate because you don't have the weightages of these categories. It is not so. There is a difference in ticket size on online versus point of sale. If an offer is running, so when you run those 10% cash back offers, then you get a higher ticket size on online spend because they are the minimum qualification level itself is INR 7,500 to INR 8,000 or so. So that fuels the whole thing. Otherwise, in a normal day, where no offers are running, this is broadly similar. So that is point one. Second thing is, when you see this number here, the interesting part is, that I wanted to highlight was, that in last quarter, because festival season was divided into Q2 and Q3, the online spends on an overall basis were broadly at the same value. The increase of majority come from the Point of Sales spends.

Moderator: The next question is from the line of Gaurav Kochar from Mirae Asset.

Gaurav Kochar: A couple of questions. Firstly, I think this question, one of the earlier participants also asked. So, I just wanted to crosscheck. The instance-based fee is down around INR 80 crores quarter-on-quarter. And on a gross basis, I am assuming the impact of over-limit charges is about INR 100 crores. So, is it fair to assume that all the new fees that you have introduced during the quarter amounted to around INR 20 crores, INR 25 crores?

Girish Budhiraja: So, we can't give the exact number, but mathematics tells you that...

Rashmi Mohanty: Because there are other components of instance-based fee that we just pointed out. There is a late fee component. There are other fees, processing fee, etcetera., which has gone in. So, there is a plus, minus, in online item. I think OVL if you see, we have clearly called it out. So, I don't think you need to drive anything that number is right there on the page, but it's not really a simple calculation of x minus y. There is A, B, C, D as well.

Gaurav Kochar: The reason I was asking was I wanted to understand whether the new initiatives, how much of that can recoup this INR 100 crores of gross quarterly run rate that we have lost?

Rashmi Mohanty: Some of the new initiatives we have already launched in middle of the last quarter and while we do have an estimate as we're building up our plan for this quarter and for next year as well, it's difficult for us to give you any guidance at this point in time.

Gaurav Kochar: My next question is with respect to provision. This quarter, we had about INR 5.3 billion provision. And going forward now, given that Stage 2 is already down to 6% prior to COVID, if I look at that number used to be in that 8%, 9% range. Now given that Stage 2 is falling, revolve book is not building, it's about 24%, plus minus 1 or 2 percentage points. Don't you think the credit cost should actually be much lower than the historical 6%, 6.5% range that we are speaking about?

Aparna Kuppuswamy: So, the 8%, 8.5% which is range, that you are saying, also included the RBI RE. that in COVID period, RBI RE, we were considering that as stage 2. And you are right, our stage-wise balance now steadily healthy. The number is generally exactly the way we want to. the point to look at is, there is a range at which we want to operate. And like I said pre-COVID the range was much higher. We were comfortable even with a 6.5%, 6.6% that is not where we are heading at right now. We do want to be 6% already, mostly to the -- in the range of 5.75% to 6% that's the number that we are aiming for, and the way to look at it is at the end of the day, this is an unsecured business. This is a business of taking risk. I'm not aiming to do anything like open up the gate and start booking everybody. But the idea is to use this buffer that we get in the credit cost to test segments. Because the reality is that there are some fairly large cuts that we made during the COVID period in terms of self-employed, second category salaried, in thin files, some of the outer locations that we didn't want to, the idea is to use this to test a few segments. And that is what we are saying that look at our -- on a full year basis in a range, we would be anywhere between 5.75%, maybe 6%, 6.15%. We are not aiming to be that much lower also, because when we are not utilizing that money yet.

Gaurav Kochar: So just mathematically, if the Stage 2 falls to, let's say 5%, in the next couple of quarters. Will that not contribute to lower credit costs, just arithmetically?

Aparna Kuppuswamy: Arithmetically, yes definitely.

Gaurav Kochar: And if you could give a breakup of the Opex into acquisition costs and the corporate spend related cost, the cash back that you give to corporates with relatively higher MDR. If you can call out or maybe as a percentage of spend, how much would that be?

Management: Just again, you want the breakup of the Opex between the acquisition cost and...?

Gaurav Kochar: And the corporate spends related Opex.

Management: We don't share this number, sorry Gaurav.

Gaurav Kochar: Just the acquisition cost if that's appropriate?

Rama Mohan R Amara: Yes, in a corporate card spend, it will be safe to presume that whatever you get will be -- most of it will be transferred back in the form of pass back to the corporates. So, as we always maintained, it is more of a top line gain rather than a bottom-line gain. So based on this, you can model it.

Gaurav Kochar: And just last question on RuPay credit card on UPI. I mean what would be the MDR eventually over there? And what is the spend contribution of RuPay cards in our overall mix right now?

Girish Budhiraja: On the RuPay card, we have close to almost 1.3 million to 1.5 million customers out of our overall portfolio. Spend ratio would be slightly lower on this one but broadly in that range, if you look at the overall mix.

On the MDR side, - the conversation is there, you would have seen NPCI also declaring about it. Less than INR 2,000, for small merchants as defined by RBI. It is only in those cases that the interchange will not be available. Rest they have stated, and it will be as per the normal credit card scenario. So, this is how it's going to be. However, once we start doing this business, we will also see how the mix of customer spending from which categories and how the mix is coming to come to a weighted average MDR. But whatever be the case, it should all be incremental because these customers we have already incurred all the cost. We have given the cost given cost of acquisition has already incurred. So, all the gains should be marginal gains. There should not be any cost impact. It should be just extra spends for that customer.

Moderator: The next question is from the line of Punit Bahlani from Nomura.

Punit Bahlani: Firstly, on the employee expense, that we have also witnessed a hike around 10% Q-o-Q. So, what was the? Do we expect to continue seeing? firstly, on the total number of employees, what is this -- have we added much? Should I expect this trend to continue since we are scaling up in Tier 2, Tier 3 cities? firstly on that. And second bit on the credit cost base. You've highlighted in 2Q that you will be witnessing some reversals in the Stage 1 as it's on account of in the last seven days, there was a higher increase in the receivable book and accordingly you had mentioned that. So has that happened because the number seems to be in line with the 1Q levels on credit costs. So, yes, those will be mine, two bits, yes.

Rashmi Mohanty: Sorry, we didn't get the first question. The voice wasn't clear. We got the second question about the credit cost. Could you come again regarding the first question?

Punit Bahlani: Right. On the first one, that was on the Opex – isn't the employee expense has increased around 10% Q-o-Q. So, like on the trend basis, should I continue to factor in this hike because we are continuing to hire for scaling up in tier 2, tier 3 cities? Was this a nonrecurring one because you just hired, scaled up now, and we'll wait -- any colour on that?

Aparna Kuppuswamy: I'll take the second question first and we'll come to the first question later. So, if you read it, one of the things we said about last quarter 6.2%, there is a large part of spends then happened towards the end of the quarter, and there wasn't enough time for it to get billed, get converted to EMI and get re-billed. And that's why we have seen some increase in the stage 1 in terms of that.

Overall, if you look at that number, we are actually down to 5.6%, we'll be seeing this time in the way that the NEA has grown is a little bit more even in this month. So, the spend happens, it gets billed, it gets paid off, and that's why you see just bit of that normalization of the credit cost. I think stage 1 will not come down because as the NEA will increase, quality of that bill goes to stage 1 only, okay? Our distribution is what we try to manage. And like I said earlier, the 92% of our book is right now sitting in stage 1, okay? And that is one of the best distributions we had even historically.

Rashmi Mohanty: On the first question, if I get it right, your question that employee cost has gone up 10% quarter-on-quarter, you are asking us will this continue to grow in this quarter as well, in quarter 4, is that the question?

Punit Bahlani: Yes.

Rashmi Mohanty: Okay. So, our employee cost is dependent on the number of cards that we're acquiring because that's where the large population of our employee cost fit. So as already guided you in terms of how the card acquisition is going to be in quarter 4 for us. I think that should give you an indication that we more or less kind of at a level where the number of resources we need for that kind of an acquisition is there with us.

Moderator: The next question is from the line of Shweta Daptardar from Elara Capital.

Shweta Daptardar: I have two questions. My first question is when we have buffers on credit cost, why do we emphasize on EMI segment versus revolver? And secondly, if you could throw some unit economics on the newly launched SBI Cashback card, so how it must have translated into potentially new customers? And if there is any ROA dilution fee now? Thank you.

Rashmi Mohanty: Sorry, Shweta, we couldn't get your first question, you have question on the EMI credit costs.

Shweta Daptardar: Cashback card.

Rashmi Mohanty: Second question.

Shweta Daptardar: Yes, that was the second question. First question is while we have ample buffers on credit costs, you are still lower than the anticipated level then why the emphasis on EMI segment versus revolver?

Aparna Kuppuswamy: Shweta, EMI is something that you could sell to the customers, and it will take the EMI offer Revolve is a behaviour that the customer chooses to do. What we can do, and that's what I said when we said we use the buffer is, we try and test new segments we are trying to get self-employed, we are trying to get in some of the thin files customers that you are trying to get in some of those customers whose propensity to revolve is higher. Again, the point is, propensity to revolve. I cannot guarantee that they will revolve or won't revolve. What we have done is we have taken a conscious decision and say rather than having no interest income, at least you will sell an EMI product and get some degree of interest income. So, it's a 0-1 thing. Revolve is something that happens over the period of time, the customers choose to revolve. I can only bring in those kinds of customers. But EMI is something that I can assist and get customers converted.

Girish Budhiraja: On your second question on the cash back card, we are building a portfolio as I stated last time. So, for the first 50,000 accounts that we have got on cash back card, we have seen excellent spends. They are upwards of INR 25,000 to INR 30,000 per month. We are also seeing very good activity behaviour of those customers. We see almost 80% to 85% of the customers using the card every month. They are using the card both for online as well as Point of Sale. While ROA and ROE and those metrics are slightly into the future, but all the early metrics that we have seen for these customers are wonderful. So, we will keep an eye because we also want to see how the instalment lending behaviour and the asset building behaviour of these customers is going to be. So, we will keep you posted.

Moderator: The next question is from the line of Manuj Oberoi from Yes Securities.

Manuj Oberoi: Yes, so the first question is on the receivable mix. So, you've given the receivable mix on a closing period basis. Can we get it on an average basis for the quarter?

Rashmi Mohanty: Average basis a receivable number?

Manuj Oberoi: Yes. The mix between EMI, revolvers and transactors?

Rashmi Mohanty: I take your feedback Manuj but let us think about this.

Manuj Oberoi: Okay. And just the second part is on the corporate spend, So the last quarter, we called out that we will be selective here and we will avoid nonremunerated, less remunerated business. But in this quarter, we have seen corporate spend coming back quite strongly. So, what is your stance here?

Girish Budhiraja: So, if we look at like this -- even now the corporate spends are close to 20% to 21%. We have always stated that we will not go beyond 25% and stay between 22% to 25% to maintain market share, as well as the overall significance in that space. So, when we continue to look at more profitable segments in that wherever we are able to make some margins, look at some large customers whenever we have more relationships so that we can get more actual travel and entertainment spends and where we have a deeper relationship with our customers. So that is where we are looking at all those customers. And we'll continue to maintain it between this ratio.

Moderator: The next question is from the line of Anand Dama from Emkay Global.

Anand Dama: first question that I had was, ICICI Bank has a tie-up with Amazon and lot of other players also have tie-up with lot of these large e-comm players, where you tend to get lot of EMI transactions onboarded. Any plans to have such tie-ups with the e-comm players?

Girish Budhiraja: while we are open to some of these conversations, and we participate with all the RFPs as and when they come up. Even if the RFPs don't come out, because being a large player in this space, almost all the e-comm players get in touch with us also. We will participate, but we also want our profitability metrics should be met on some of these accounts. As you know, we have launched a cash back card, which is a proprietary card for us, specifically targeting these segments. And the nature there was that if we have to give it to a partner just as well share that benefit with the customer itself, so this customer comes out to our STP journey and applies on their own. So that is the model that we would look to follow. However, if we get a partnership which is at the right profitability, matches our customer profile and brand, we will definitely get it.

Anand Dama: But do you suggest that tie up get basically some of the clients -- with e-comm players, the overall profitability on those cards, is relatively lower than what typically you have for your cash back card?

Girish Budhiraja: I won't be able to comment on that portion because I don't know what they are doing, but one thing is definitely there that, when we had looked at some of these partnerships in the past, at least with the large players, large e-commerce players, it was very difficult to find profitability there.

Anand Dama: Lastly, we are seeing a series of resignations in the top management. Any new development over there? Any hiring that we're doing to replace those people?

Rama Mohan R Amara: Yes, yes. I said last time. The selection process is on and at the material time, we will make announcement. As we have filled the position of CFO, so will be the case with any other vacancy. So, we will update. We will apprise as and when they will be filled up.

Anand Dama: Sure. And should we expect at least CRO replacement in next 3 months or so?

Rama Mohan R Amara: Yes, in fact to -- endeavour is to get the new person much earlier, but it all depends upon how it will transpire. So, we will let you know, we will let the largest ecosystem as and when the material event happens.

Moderator: We'll take the next question from the line of Sagar from Anand Rathi.

Sagar: My first question is on the opening commentary where you said the traditional revenue streams have been impacted and you all have consciously built scale with eye on future revenue. If you could throw some colour on that? And the second question is, data keeping question with regards to the overall mix in terms of cards-in-Force split between salaried and self-employed? Thank you.

Rama Mohan R Amara: The first aspect we have elaborated, we have discussed where we talked about like a major portion of OVL, we haven't seen as a clawback or anything, at least for the near future, it looks like a major part it, we will not be able to reclaim. And we also talked about a couple of other measures which have kicked in mid of the last quarter in terms of introduction of processing fees on rental transaction and then processing fee on EMI transactions for a particular tenure, and also cost rationalization, reward point rationalization where it makes sense. So that is what we said. And of course, these are not deterring us from focusing on, leveraging the opportunities available. That's the reason we stay invested and we are making investment for the future. We found a good opportunity to grow last quarter because, banca again started contributing very well. We are designed for a contribution of 50%-50% from both channels and that's how we were able to accomplish last quarter.

And of course, this focus being increasingly on –digital, I mean acquiring the customers through the digital channels. So, for that whatever products need to be launched, we will launch and whatever marketing we need to do, we will do. That is what we said, through a growth-focused strategy, we will try to overcome all these headwinds. That is what we said.

Sagar: Okay. Some data keeping question?

Rama Mohan R Amara: Your second question was break up between -- break up of cards in force, in terms of...

Sagar Salaried and self-employed.

Aparna Kuppuswamy: The self-employed, from a CIF perspective would still be in the range of 21% odd, or lower than that.

Sagar: This data seems to be missing this quarter. Thank you. That was all.

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

Rama Mohan R Amara: Thank you all for attending this Q3 FY'23 earnings call. All the best.

Moderator: 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.