Disappointing Q3 for SBI Cards; not much relief ahead on margin

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SBI Cards and Payment Services Ltd's earnings for the quarter ended 31 December were disappointing on many counts. Margin compression, higher costs and a slight deterioration in the asset quality were some of the pain points. Not surprisingly, shares of the company fell by almost 7% since the results were declared.

Net profit rose by 32% from a year earlier to ₹509 crore, missing analysts' expectations. The main culprit here is the sharp sequential compression of 67 basis points (bps) in net interest margin (NIM) to 11.6%. Higher cost of funds and low revolver mix capped margin. One basis point is 0.01%.

Card service providers benefit when more users 'revolve' their credit or pay some of their outstanding in the next billing period instead of paying up all at one go. For SBI Cards, the recovery of the revolver mix has been delayed and is one of the concerns for the stock. In the December quarter, the revolver mix stood at 24%, flat sequentially. "The improvement in the revolver mix is key among the drivers for profitability growth, and we will have to wait for a few quarters before this number starts to inch up," said Nitin Aggarwal, senior group vice president for institutional research at Motilal Oswal Financial Services.

As such, the pressure on NIM for SBI Cards is likely to continue owing to elevated interest rates. Margin is likely to remain under pressure in Q4 as well, Aggarwal said. SBI Cards' operating expenses increased, leading to an increased cost-to-income ratio. But the ratio is expected to moderate sequentially due to the lack of large festival spending.

However, the company's focus on improving EMI transactions to increase interest income and NIM in the next few quarters would mean the operating expenses are likely to remain elevated. The management also expects the NIM compression to be lower as the company intends to offset the rising fund costs by re-pricing the new loans.

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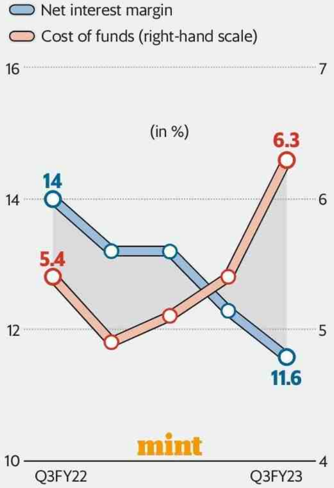
In terms of asset quality, the company's GNPA ratio was at 2.22%, up 8bps. "The marginal increase in GNPA ratio is not worrisome now. However, we are watchful of the longer-term trade-off from the incremental cards-in-force issuance skew towards 'self-employed' customers aimed at improving near-term return ratios," Krishnan ASV, senior vice president, institutional research, HDFC Securities said. In the past year, SBI Cards' shares are down about 16%. A reversal of the declining trend could occur with an improving revolver mix, although forecasting the timeline for that is tough.

Spiralling down

High cost of funds continued to take toll on SBI Cards' NIM in Q3FY23.



Source: Company data

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