

NIMs Hold Firm; Credit Costs Likely Turn the Corner

Est. Vs. Actual for Q2FY26: NII – **INLINE**; PPOP – **MISS**; PAT – **MISS**

Changes in Estimates post Q2FY26

FY26E/FY27E/FY28E (in %): NII -1.3/-1.3/+1.0; PPOP -7.6/-4.0/+2.8; PAT -15.3/-9.5/+0.9

Recommendation Rationale

- **NIMs to Stabilise:** SBIC's NIMs remained flat QoQ in Q2FY26 at 11.2%. While the cost of funds (CoF) improved sharply, an adverse shift in the product mix towards transactors led to a yield compression of 50 bps. **The management believes that the repo rate pass-through on borrowings is largely complete, and CoF is expected to stabilise at current levels, barring any further rate cuts.** SBIC is making conscious efforts to improve the share of EMI balances in the receivables mix, while revolver balances continue to move with a negative bias. As credit costs continue their downward trajectory, the company will resume its focus on improving revolver balances. Additionally, it is implementing strategies to improve the mix of IEA assets. **With CoF expected to remain steady at current levels, we anticipate NIMs to stay within a narrow range of 11.2–11.4% over FY26–28E, supported by disciplined pricing and an improving EMI mix.**
- **Credit Costs to Trend <9% in H2:** SBIC's credit cost concerns appear to be easing, as Stage 2 assets, forward flows, and slippages continue to decline. **The management remains confident of further improvement in asset quality in the upcoming quarters. Consequently, credit costs are expected to decline and settle below 9% over H2FY26.** The company has strengthened its underwriting discipline, while enhanced caution in new customer onboarding and proactive portfolio monitoring have contributed to better asset quality outcomes. We expect this trend to continue into FY27–28E, with credit costs gradually normalising. **We project credit costs to range between 7–7.8% over FY27–28E compared to ~8.8% in FY26.**
- **Growth Buoyancy to Kick-in Gradually:** SBIC's cautious approach to new customer sourcing has kept the gross new addition run rate at 0.9–1 Mn customers, a level the company is comfortable maintaining. SBIC plans to leverage its open-market channel by expanding co-branded partnerships while continuing to source profitable, high-quality customers through the banca channel. **The festive season supported strong spending growth, and SBIC observed similar trends continuing through Oct'25, though some moderation has been seen post the festive period.**

Sector Outlook: Cautiously Positive

Company Outlook: Asset quality concerns and elevated credit costs have been weighing on profitability. However, the management's confidence in credit costs finally turning the corner and gliding below 9% in H2 is encouraging. **Gradually normalising credit costs remains a key lever to drive RoA improvement.** Retail spends continue to remain strong (ex-rental), and SBIC is eyeing healthy growth in the corporate spends, without compromising on profitability. **SBIC is expected to deliver a receivables/NII/earnings growth of 16/16/46% CAGR over FY26–28E. Furthermore, we project SBIC's RoA/RoE to improve to 4.5+%/20+% from FY27E onwards vs. 3.2/15.1% in FY26E.**

Current Valuation: 29x FY27E EPS; **Earlier Valuation:** 25x FY27E EPS

Current TP: Rs 1,035/share; **Earlier TP:** Rs 985/share

Recommendation: We maintain our **BUY** recommendation on the stock.

Financial Performance

- **Operational Performance:** CIF grew by 10/1% YoY/QoQ. The company added ~9.4 Lc cards during the Q2FY26 (+4/+7% YoY/QoQ). Spends growth was better than expected and grew by 31/15%, driven by healthy traction on retail spends, corporate spends gaining momentum gradually, and further supported by the festive season. Retail spends grew by 17/9% YoY/QoQ, while corporate spends picked up pace and grew by 61/16% YoY/QoQ. SBIC's spends market share (as of Aug'25) improved QoQ and stood at 16.8% vs 16.6% in Jun'25. CIF Market share remained steady at 19.0% vs 19.1% in Jun'25. Receivable growth was marginally ahead of our expectations at 8/6% YoY/QoQ, with the mix of interest-yielding assets sharply declining to 56% vs 60% QoQ.
- **Financial Performance:** Despite the sharp mix shift towards transactors, NII grew by 15/3% YoY/QoQ with NIMs remaining steady QoQ at 11.2%. Yields declined by 50 bps QoQ; however was offset by a sharper CoF improvement of 70 bps QoQ. Fee income growth was healthy at 16/3% YoY/QoQ, primarily driven by spend-based fee income (+33/10% YoY/QoQ). Opex growth was significantly higher than expected, owing to festival-related spends and higher corporate pass-backs. Opex grew by 24/17% YoY/QoQ. C-I Ratio stood at 56.8% vs 53.4/50.3% YoY/QoQ. PPOP grew by 8/-10% YoY/QoQ. Credit costs tapered to 9% vs 9.6% QoQ. PAT grew by 4% YoY but was down 24% QoQ.
- **Asset Quality** improved sequentially with GNPA/NNPA at 2.85/1.29% vs 3.07/0.42% QoQ, mainly aided by w/offs. PCR improved slightly to 55.3% vs 54.3% QoQ.

Key Financials (Standalone)

(Rs Cr)	Q2FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	1,730	+2.9	+15.2	1,724	+0.3
PPOP	1,892	-9.9	+7.7	2,074	-8.8
Net Profit	422	-24.1	+4.3	551	-23.4
NNPA (%)	1.3	-13 bps	+10 bps	1.4	-9 bps
RoA (%)	2.5	-90 bps	-18 bps	3.3	-82 bps

Source: Company, Axis Securities Research

(CMP as of 24th October, 2025)

CMP (Rs)	930
Upside /Downside (%)	11%
High/Low (Rs)	1,023/660
Market cap (Cr)	88,532
Avg. daily vol. (6m) Shrs.	12,23,653
No. of shares (Cr)	95.2

Shareholding (%)

	Mar-25	Jun-25	Sep-25
Promoter	68.6	68.6	68.6
FII's	9.9	9.9	10.1
MFs / UTI	9.7	9.7	10.1
Others	11.8	11.8	11.2

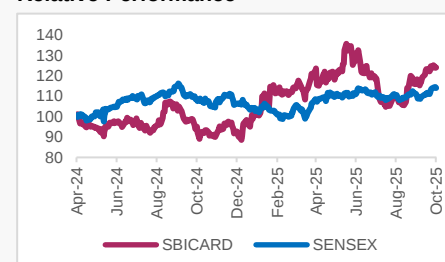
Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	7,051	8,102	9,470
PPOP	7,947	9,529	11,611
Net Profit	2,217	3,394	4,731
EPS (Rs)	23.3	35.7	49.7
P/E (x)	39.9	26.0	18.7
P/ABV (x)	5.6	4.8	3.9
RoA (%)	3.2	4.5	5.4
NNPA (%)	1.3	1.3	1.3

Change in Estimates (%)

Y/E Mar	FY26E	FY27E	FY28E
NII	-1.3	-1.3	+1.0
PPOP	-7.6	-4.0	+2.8
PAT	-15.4	-9.5	+0.9

Relative Performance



Source: Ace Equity, Axis Securities Research

Results Gallery

[Q1FY26](#)

[Q4FY25](#)

[Q3FY25](#)

[Q2FY25](#)

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Key Highlights

- **Corporate Spends to Gain Traction; Retail Spends Remain Healthy:** The company is witnessing strong traction in UPI-linked credit cards, alongside improved momentum in corporate spends. While corporate spends accounted for approximately 20–22% of total spends, their share has declined following the Feb'24 regulations. SBIC aims to enhance the share of corporate spends, provided they remain margin accretive. Within retail spends, the company has experienced a notable slowdown in rental payments following the imposition of a fee. However, excluding rentals, retail spending continues to grow at a robust pace.
- **Opex Ratios to Inch-up:** In Q2, operating expense (Opex) growth was elevated due to festival-related spending and higher corporate spending. As the company looks to further scale up corporate spending, Opex growth is expected to remain at the upper end of the guided range of 54–56% for FY26.

Outlook

We have revised our NII estimates marginally downwards by 1–2% over FY26–27E, factoring in steady margins versus our earlier expectations of improvement, given the headwinds on IEA within the receivables mix. Similarly, higher operating expenses are expected to offset the positive impact of improving credit costs. Consequently, we have reduced our earnings estimates by 15% and 9% for FY26E and FY27E, respectively. We broadly maintain our FY28E estimates with minor tweaks.

We believe that improving credit costs will remain the key lever driving RoA improvement. We expect SBIC to deliver RoA/RoE of 4.5–5.4%/20–23% over FY27–28E, marking a significant improvement from 3.2%/15.1% in FY26E.

Valuation & Recommendation

We maintain our **BUY** recommendation with a target price of Rs 1,035/share, implying an upside of 11% from the CMP. We value SBIC at 29x FY27E EPS (vs current valuations of 26x FY27E EPS).

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall spending, and new customer sourcing momentum would impact the revenue generation capability of the company.
- Another key risk area for SBIC is an unfavourable receivable mix with a skew towards non-interest-yielding loans (transactors), which will continue to keep margins under pressure.
- Continued asset quality headwinds, resulting in elevated credit costs, could potentially derail our earnings estimates

Change in Estimates

	Revised Estimates			Old Estimates			Change %		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	7,051	8,102	9,470	7,145	8,206	9,373	-1.3	-1.3	1.0
Fee Income	9,031	10,619	12,442	9,309	10,709	12,263	-3.0	-0.8	1.5
PBP	7,947	9,529	11,611	8,603	9,924	11,291	-7.6	-4.0	2.8
Provisions	4,983	4,991	5,286	5,101	4,907	5,024	-2.3	1.7	5.2
PAT	2,217	3,394	4,731	2,619	3,752	4,687	-15.4	-9.5	0.9

Source: Axis Securities Research

Results Review

Rs Cr	Q2FY26	Q2FY25	% YoY	Q1FY26	% QoQ	H1FY26	H1FY25	% YoY
CIF	2.2	2.0	9.7	2.1	1.4	2.2	2.0	9.7
Spends (Rs Cr)	1,07,063	81,893	30.7	93,244	14.8	2,00,307	1,59,022	26.0
Avg. Spend per card	2,00,586	1,68,852	18.8	1,77,608	12.9	1,89,097	1,65,401	14.3
Market share - CIF	19.0%	18.5%	50 bps	19.1%	-10 bps	19.0%	18.5%	50 bps
Market share - Spends	16.8%	15.8%	100 bps	16.6%	20 bps	16.8%	15.8%	100 bps
Interest Income	2,490	2,290	8.7	2,493	-0.1	4,983	4,533	9.9
Interest Expense	760	788	-3.5	813	-6.5	1,573	1,555	1.2
Net Interest Income	1,730	1,502	15.2	1,680	2.9	3,410	2,979	14.5
Fee Income	2,265	1,957	15.7	2,191	3.4	4,457	3,885	14.7
Other Income	381	309	23.5	351	8.6	5,189	4,512	15.0
Total Income	4,376	3,768	16.1	4,223	3.6	8,599	7,491	14.8
Operating Expenses	2,484	2,011	23.5	2,123	17.0	4,607	3,827	20.4
Staff Cost	158	149	5.9	161	-2.4	319	283	12.8
Cost-Income Ratio (%)	56.8	53.4	339 bps	50.3	649 bps	53.5	51.1	244 bps
Pre-provision profit	1,892	1,757	7.7	2,100	-9.9	3,992	3,664	9.0
Provisions	1,293	1,212	6.7	1,352	-4.4	2,644	2,313	14.3
PBT	600	545	10.0	748	-19.9	1,348	1,351	-0.2
Taxes	178	141	26.4	192	-7.5	370	346	7.2
PAT	422	404	4.3	556	-24.1	978	1,006	-2.8
<u>Asset Quality</u>								
Gross NPA (%)	2.9%	3.3%	-42 bps	3.1%	-22 bps	2.9%	3.3%	-42 bps
Net NPA (%)	1.3%	1.2%	10 bps	1.4%	-13 bps	1.3%	1.2%	10 bps
PCR (%)	55.3%	64.4%	-910 bps	54.3%	100 bps	55.3%	64.4%	-910 bps
<u>Spread Analysis</u>								
Yields	16.5%	16.4%	10 bps	17.0%	-50 bps	16.8%	16.6%	15 bps
CoF	6.4%	7.4%	-100 bps	7.1%	-70 bps	6.8%	7.5%	-70 bps
NIM %	11.2%	10.6%	60 bps	11.2%	0 bps	11.2%	10.8%	45 bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	6,169	7,051	8,102	9,470
Fee Income	8,003	9,031	10,619	12,442
Non-Interest Income	1,287	1,500	1,599	1,784
Total Income	15,459	17,581	20,320	23,696
Operating Expenses	8,007	9,635	10,790	12,085
Pre-Provision Profits	7,452	7,947	9,529	11,611
Provisions	4,872	4,983	4,991	5,286
PBT	2,581	2,964	4,538	6,325
Tax	664	747	1,144	1,594
Profit After Tax	1,916	2,217	3,394	4,731

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Equity Share Capital	951	951	951	951
Reserves & Surplus	12,830	14,715	17,599	21,620
Net Worth	13,782	15,666	18,551	22,572
Borrowings	44,947	49,859	55,860	64,968
Other Liabilities	6,817	6,088	6,471	7,613
Total Liabilities	65,546	71,612	80,882	95,152
Cash & Bank balances	2,738	3,206	3,217	3,785
Investments	6,235	6,096	6,076	7,148
Loans	53,935	59,858	68,819	80,961
Fixed Assets & Others	2,638	2,452	2,770	3,258
Total Assets	65,546	71,612	80,882	95,152

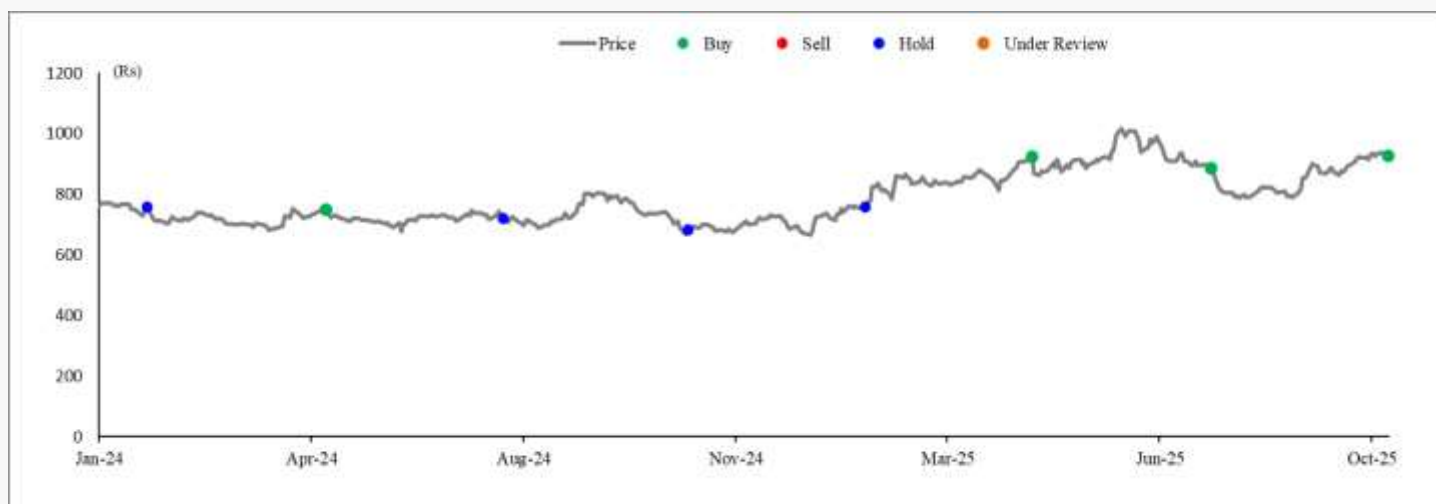
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
ASSET QUALITY				
GNPA	1,718	1,719	2,003	2,315
NNPA	800	775	901	1,041
GNPA Ratio (%)	3.1	2.8	2.8	2.8
NNPA Ratio (%)	1.5	1.3	1.3	1.3
PCR (%)	53.5	55.0	55.0	55.0
PROFITABILITY & EFFICIENCY RATIOS				
Net Interest Margin (%)	10.8	11.2	11.4	11.4
RoA (%)	3.1	3.2	4.5	5.4
RoE (%)	14.8	15.1	19.8	23.0
Cost to Income (%)	3.1	3.2	4.5	5.4
CAR (%)	51.8	54.8	53.1	51.0
Tier 1 (%)	22.9	23.5	23.4	23.6
VALUATION RATIOS				
EPS	20.1	23.3	35.7	49.7
Change	-20.4	15.7	53.1	39.4
Price-Earnings (x)	46.1	39.9	26.0	18.7
BVPS	144.9	164.7	195.0	237.3
Price-BV (x)	14.0	13.7	18.4	21.7
Adj. BVPS	6.4	5.6	4.8	3.9
Price-ABV (x)	136.5	156.5	185.5	226.3
Dividend Per Share	12.0	14.7	18.5	22.0
Dividend Yield (%)	6.8	5.9	5.0	4.1

Source: Company, Axis Securities Research

SBI Cards & Payment Services Price Chart and Recommendation History



Date	Reco	TP	Research
29-Jan-24	HOLD	810	Result Update
29- Apr-24	BUY	850	Result Update
29-Jul-24	HOLD	750	Result Update
30-Oct-24	HOLD	625	Result Update
29-Jan-25	HOLD	780	Result Update
25-Apr-25	BUY	1,050	Result Update
28-Jul-25	BUY	985	Result Update
27-Oct-25	BUY	1,035	Result Update

Source: Axis Securities Research

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