"Suryoday Small Finance Bank Limited
Q3 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Suryoday Small Finance Bank Q3 FY2022 earnings conference call hosted by DAM Capital Advisors Limited. 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. Pritesh Bumb from DAM Capital. Thank you and over to you Sir!

Pritesh Bumb: Hi! Good morning, everyone, on behalf of DAM Capital I would like to welcome the MD and CEO and other senior management members of Suryoday Small Finance Bank. We will have a brief remarks and presentation from the management team followed by Q&A. Now, I would like to hand over the call to Baskar Sir. Thank you.

Baskar Babu: Thank you. Good morning, everybody, on behalf of Suryoday Small Finance Bank I extend a warm welcome to everyone to this Q3 and nine months ended December 2021 FY2022 earnings call. At the outset I hope that all of you and your loved ones are safe and doing well. During the quarter we saw a stable business recovery and are hopeful that it will progress to exceed pre-COVID levels in the coming quarters. The company is optimistic about growth due to tailwinds coupled with opening of the economy and belief that the worst is over and things will return to normalcy from Q1 of FY2023. I hope you all have received our revised investor presentation and had the chance to go through it before the call.

I will give you a brief highlight of the performance for the quarter and for the nine months period ended. The bank disbursed Rs 1121 Crores during Q3 FY2022 compared to Rs 1066.9 Crores in Q2 and Rs 785 Crores during the Q3 of FY2021. The cumulative disbursements for the nine-month period stood at Rs 2547.6 Crores up by 119.7% on a Y-o-Y basis. The company employed a cautious and calibrated approach in disbursing loans to new customers throughout emphasizing more disbursing loans to existing customers with regular repayment cycles with us and with the healthy credit history with other lenders. The focus is on retaining microfinance clients who have exhibited good repayment behavior while also onboarding new customers in the micro as well as in the non-micro loan segment and specifically expanding the affordable home loan portfolio and secured business loans.

On the collections front for the month ended December 31, 2021, the bank’s one EMI adjusted collection efficiency was 84% marginally higher than 83% for the month ended September 30, 2021. In December 2021 overall collection efficiency was 109% compared to 108% in September 2021. Our gross advances grew by 25% to Rs 4872 Crores on a Y-o-Y basis. At the end of December inclusive finance constitutes 67.3% of the book while affordable home loans, commercial vehicles and secured business loans comprise of 8.4%, 6.8% and 4% respectively. In the next two to three quarters, Suryoday plans to maintain a portfolio mix of 60%: 40% towards inclusive finance and non-inclusive finance loan segments. We are targeting a growth rate of 25% during this financial year and targeting a growth rate of 30% to 35% in FY2023. Our total deposits declined marginally by 5% to 3170 Crores as on December 31, 2021, while there was a degrowth the granularity in our deposit base increased significantly, retail deposits formed 88.4% of the total deposits on December 31, 2021, compared to 72.4% during December 31, 2020, the balance comprising of bulk deposits. Furthermore 100% of bulk deposits are noncallable in nature. Our CASA improved to 19.2% as of December 31, 2021, as compared to 13.3% during the same quarter previous year resulting in steady improvement in line with our strategy. Retail deposits grew by 15.7% in Q3 on a Y-o-Y basis. Similarly bulk deposits have reduced substantially by 60% in FY2022; saving deposits increased by 38.9% and current account balance has increased by 18.5% during the quarter. Our borrowings as of end of December constituted 31.8% of total liabilities majority of which is 87% was from refinancing institutions. Our bank has also drawn down SLTRO limits to an extent of Rs 750 Crores for a three-year tenure at 4% per annum fixed rate of interest, which will further reduce our cost of borrowings. At the end of December 2021, we had a total branch count of 564 branches out of which 97 branches were primarily liability focused, our 360 branches were primarily asset focused branches and the balance comprising of rural centers. Through this branch network the bank services 18.5 lakh customers of which total asset customers are 16.2 lakhs and the total liability customers are 11.6 lakhs and the balance being unique customers. GNP as of December 31, 2021, stood at 10.5% compared to 10.2% as of September 30, 2021. Our net NPA stands at 5.6% as of December 31, 2021. Net NPA excluding ECLGS loans stands at 4.8% as of December 31, 2021. Our provision coverage ratio for the quarter ended is at 67.9% including tech write-off.

Delinquency in the portfolio marginally increased due to the impact of the third wave of COVID during the month of December. Collections were difficult; however, customers are in touch despite the COVID wave. Our 90 plus portfolio as on December 31, 2021, stood at 4.6% of the overall loan book. Our total standard restructured book currently is at 11.9% of our advances. The collection efficiency of the restructured book currently stands at 65%. We continue to monitor restructured portfolio for our clients.

On the earnings side, our net interest income increased by 52.6% year-on-year to Rs 167.3 Crores and net total income increased by 37.6% year-on-year to Rs 193.4 Crores. Our NIM currently stands at 9.9% for the quarter ended Q3 FY2022 compared to 9.1% for Q2 FY2022 and 7.4% in Q3 FY2021. Other income mainly included income from sale of investments of Rs 8 Crores. Our cost of funds reduced to 6.8% in Q3 FY2022 compared to 7.1% in Q2 FY2022. Cost of income during the same period moderated to 66.6% compared to 65.7% in Q3 FY2022, which was primarily due to rise in income coupled with the lower cost of borrowing. The company incurred a profit of Rs 4.7 Crores in this quarter as against a sequential loss of Rs 1.9 Cores in Q2 FY2022. Our PPOP increased from Rs 48.2 Crores in Q3 FY2021 to Rs 80.5 Crores in Q3 FY2022 a 67% increase. Excluding MTM that the PPOP was Rs 36.5 Crores in Q3 FY2021 increasing to Rs 91.2 Crores in Q3 FY2022. As of December 2021, we continue to hold a floating provision of Rs 91 Crores on our books. On the capital adequacy we continue to maintain a high capital, as of December 31, 2021, our capital adequacy of our bank was 41.4% compared to 41.1% as of Q3 FY2021. Our Tier-1 comprises 37.8% and Tier-2 comprises 3.6%. We have managed our liquidity prudently and from peak liquidity of Rs 1,684 Crores in June 2021 we have brought this down to Rs 650 Crores as on December 31, 2021. There is a significant thrust on the digital front with launch of technology transformation program, which we are migrating to our new CBS platform Infosys Finacle. We are planning to complete this exercise later by FY2023. We have done collaboration with Fintech companies through digital partnerships to provide value-added products and currently we have lending programs with PayTM and lendingKart. The overall digital transactions have been increasing sequentially with the rise in UPI transactions as well as online transactions through our net banking.

Just to summarize the business has witnessed a moderate impact of Omicron variant of COVID; however, we see a clear indication of stability and growth and reach the pre-COVID levels. Our endeavor is to maintain a consistent 25% growth, which we will see in the year FY2022 and marginally increase in FY2023. The company plans to scale up our affordable home loan and the MSME book in the future specifically secured business loans. So, we plan to achieve Rs 400 to Rs 500 Crores of monthly disbursement run rate from Q2 of FY2023. On the deposit front, we foresee great opportunity in leveraging our JLG customers and offer them our liability products. We would expand our branch banking network meaningfully. Suryoday aims to expand its presence cautiously in new states and strengthen our foothold in existing states. Going forward we plan to target Rs 40 Crores of PPOP monthly from Q2 FY2023. Funding has been rationalized through SLTRO lines borrowing and the cost of funds is expected to go down further in this quarter. No impact of legacy portfolio is likely to be carried forward beyond Q1 of FY2023. We are confident that with the focus on good governance and solid regulatory compliance both in letter and spirit and with customer focus including deepening our relationship beyond microfinance loans to our core microfinance customer segment and impactful digital initiatives build a very respectable and sustainable profitable market. Thank you and over to you for the questions!

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Renish Patel from ICICI. Please go ahead.

Renish Patel: Hi! Sir, good morning and congrats on a good set of numbers. Just a couple of things one is on the PAR portfolio, so industry has been now sort of approaching towards the sort of 10%, 15% kind of PAR 1+ portfolio wherein we are still at 22% reflecting marginal sequential improvement so what are the primary reason for such a sticky PAR 1+ portfolio for us?

Baskar Babu: As a policy given that majority of our segment is in the inclusive finance portfolio, our approach to collections and right from since inception has been in terms of being in touch with the customer and enabling the customer to pay without exerting any pressure. This is not a commentary on the competition and with this our focus has been by and large even including the severe COVID wave one was to be in touch with the customer and tell them that we have their back and we are continually kind of there to enable the multi things. So, our overall including in our own collections policy is that the intent is to get the customer paying on a month-on-month basis regularly and to that extent the PAR 1 may look higher, but on overall basis in terms of portfolio we measure our quality of the portfolio in terms of expected credit loss by the number of customers as well as the portfolio, which is making payment on a continuous basis. Sometimes when the customer makes a partial payment it will spill over into 1+ but nevertheless they are not customers who either by intent or the ability are likely to slip into credit loss.

Renish Patel: Got it. So, with this 22% plus PAR portfolio what could be the customer activation rate in that portfolio separately?

Baskar Babu: I would specifically on 1+ and we do not have the immediate numbers, but on overall portfolio approximately closer to Rs 450 Crores of customers which includes customers who is accounted for GNPA have not made payments into sequential month in terms of November and December, our intent is to really reduce this Rs 425 to Rs 450 Crores of portfolio not made payment so it is accounted for JNPA or it is already in 120 plus to reduce this amount of kind of over specifically in this quarter the spill over at the next quarter approximately Rs 100 Crores to Rs 150 Crores.

Renish Patel: What is the write off we took in this quarter?

Kanishka Chaudhary: Hi! Good morning. For this particular quarter we have taken write offs of Rs 93.4 Crores.

Renish Patel: What is the total provisioning number for this quarter I am sorry I just not able to recall that number?

Kanishka Chaudhary: So, the total technical write offs end of December 31, 2021 is Rs 288 Crores.

Renish Patel: Te total provision this quarter we make is how much?

Kanishka Chaudhary: We have made a provision of Rs 75 Crores for the quarter incremental.

Renish Patel: Got it. So that is why there is a hike in net NPA?

Kanishka Chaudhary: Yes, there has been a marginal increase in the net NPA, but overall, I think we have tried to be within the 5.5% number.

Renish Patel: What is the let us say a sustainable PCR you would like to maintain on our kind of per year mix?

Kanishka Chaudhary: Ideally, we would like to be closer to the 70% number and that is what we would try to achieve definitely by Q1 2023.

Renish Patel: Got it Sir that is it from my side. I will come back in the queue if I have any other questions.

Baskar Babu: Just to add for the question that in terms of activation rate 71% of our delinquent customers which includes 1+ are activated customers that are paying customers.

Renish Patel: Got it. This is very helpful. Thank you, Sir.

Moderator: Thank you. We have the next question from the line of Deepak Agarwal from Axis Mutual Fund. Please go ahead.

Deepak Agarwal: Sir, basically wanted to understand now how should we look at FY2023 one is in terms of growth and second in terms of the credit cost clearly, we are seeing growth coming back so any broad numbers we should work with the kind of growth and credit cost?

Baskar Babu: So we kind of seeing a pretty strong growth for this year and based on our own detailed analytics and drill down around closer to 25% of the microfinance customer are very strong good customers for other secured products and where at least the lady of the household herself is a co-applicant and many of the products like two-wheeler they may not be even be the co-applicants so our focus for FY2023 is to deepen our relationships substantially with our very good microfinance customers who have been with us for more than two years, which numbers to around closer to 6 lakh customers displaying tears and solid intent as well as ability to rough out all the three COVID waves and are current with us and we are also growing our affordable home loan and secured business loan portfolio both to our existing customers existing customers in the sense could be liability customers could be inclusive finance customer, could be MSME customer increase the days as well as target new customers through our branch network. We have not activated our entire branch network for retail assets the intent is to really take it at least to 100 branches during the FY2023. So, we are in the current run rate of around closer to 350 to 400 producers move clocking and likely to be around the same number a little more for this quarter we project a growth between 30% to 35% in terms of assets. As far as the sticky portfolio is concerned it was pretty volatile for few quarters back, we clearly see lots of stability and activation happening on the customers who have not paid even for a period of 90 days or 120 days. The intent during this quarter is to activate furthermore of closer to Rs 100 to Rs 150 Crores worth of portfolio specifically from inclusive finance segment who have been if either paid to us a couple of months back or currently paying to other lenders in the market through the credit bureau data, which is available with us. Probably we have not been in active touch with it because it probably happened to be in centers whether the centers have become inactive, and the customers are few in numbers and the reach probably has got missed out in the last couple of months. So, we do not see any increase in the non-paying customers beyond what we have, which has been closer to Rs 425 to Rs 450 Crores and the intent is to reduce it by at least 100 Crores during this quarter and you would also make provisioning as required for this quarter and as guided last time we expected the provisioning to be fully complete in this quarter as well as a small spillover going into Q1 of FY2023. FY2023, we see it as a year of enterprise profit and we are kind of guiding ourselves current closer to Rs 40 Crores of the PPOP from July and with broadly the provisioning near complete we would expect a substantial piece of this PPOP also to translate into PBT starting from July, August of FY2023.

Deepak Agarwal: Got it. Anything incremental to share obviously we have shared in the past anything more so on that on this Fintech part?

Baskar Babu: There are two sets of Fintech partnerships which are growing one is on the lending side which currently we have with PayTM and lending-Kart, on the other side we are working with a few Fintech partners yet to really frutify into a relationship, which will be substantially on the deposit mobilization side. So given the changes in the overall regulatory environment and also the expectations from the regulator specifically to comply clearly as a bank with KYC as well as in terms of credit decisioning we are making our process far more robust to comply with the existing regulations both in letter and spirit and we believe that we will activate it and the run rate from these partnerships is very strong during the previous quarter, this quarter we are really, really looking at it to strengthen it further and we will activate during this quarter, next quarter but however as a cautious strategy our overall portfolio from these partnerships specifically on the lending side will be kind of not more than 5% to 10% till we really have a full-fledged experience in terms of at least a cycle going through what happens, but however overall at this point of time the portfolio behavior as well as our own scale has been reasonably good I think as of December we have done closer to around 60 Crores through this partnership in terms of our assets.

Deepak Agarwal: Got it. Thank you, Sir.

Moderator: Thank you. Thank you, the next question is from the line of Varun Ghia from Dimensional Securities. Please go ahead.

Varun Ghia: I wanted to know that your other expenses jumped around 15% quarter-on-quarter around 10% year-on-year so what has led to that increase and secondly how are the disbursements standing out in the Q4 because major portion of third wave impact was post January so are you seeing further pressure on the NPAs in this quarter?

Baskar Babu: I will answer the second question first and then request Kanishka, our CFO to answer on the other expenses the reasons for the increase. So in terms of the COVID 3 the impact was marginal as we speak now specifically in terms of January around a couple of 10 to 15 days we are kind of clearly impacted both due to our own employees getting infected as well as a little bit of a small scare among the customers during that period, but however has the month settled down the impact was very, very marginal or I would say that we are close to nil. As a strategy since given the little uncertainties of what could be the impact even in terms of an unlikely further waves, we are deepening specifically in microfinance segment to our existing well-paying customer or that is for more than two years which is a very large number at around closer to 6 lakhs. So based on all of that and we have not been very aggressive in terms of increasing our disbursements our run rate has been steady at around closer to Rs 350, Rs 400 Crores both for Q2 and Q3, we would see there is a similar momentum for Q4 marginally may be higher but around the overall Rs 1200 to Rs 1400 Crores is what we are really looking at. With the specific focus would be in terms of increasing our non-microfinance book even at the continuing run rate of 70% in microfinance and 30% in non-microfinance given that the door-to-door of microfinance is only two years and the rest of the loans is minimal from four to seven years depending on the product. So, the tilt will be in favor of non-microfinance even at this to closer to 60% to 40%, 60% is from the microfinance and 40% in terms of non-microfinance specifically secured assets by around Q1 and beginning of Q2 and the intent is to take it closer to 50%:50% probably by end of FY2023.

Varun Ghia: About the other expenses?

Kanishka Chaudhary: Hi! Good morning. So far as the other expenses are concerned increase has largely been due to payoffs to our partners like PayTM as well as servicing of collection service points with our partners.

Varun Ghia: So, this run rate would continue going forward or will it drop from here?

Kanishka Chaudhary: We expect uptick in the partner programs especially with PayTM so there is likely to be an increase but that will be commensurate with the increase in the fees that we earn from these programs.

Varun Ghia: Okay, got it thank you.

Moderator: Thank you. Our next question is from the line of Rajat Bansal from Lok Capital. Please go ahead.

Rajat Bansal: Sir my question is on the secured book that we have primarily HL, small business loan and CVs can you talk a little bit about what are the customer segments we are going after here what is typically the LTVs on this book and what is the competition you are seeing on the ground?

Baskar Babu: Yes, specifically on the books in terms of home loans we have two separate verticals one focusing on micro home loans which are similar to our microfinance segment, which has gotten total household income of anywhere between Rs 30,000 to Rs 50,000 one of the family members may be kind of formally or semi-formally engaged that ticket size is around 5 to 10 lakhs and that is mostly self construction where the LTV will be in the range of 60% to 70% considering that they already own the land it is only for the construction in majority of the cases. In terms of the other regular affordable home loan portfolio the average ticket size is now varies between Rs 12 to Rs 15 lakhs on an average, but the range of disbursement is from around Rs 10 lakh to around Rs 30, Rs 35 lakhs and above Rs 15 lakhs is a very, very small segment and LTV that is anywhere between 80% to 84% depending on the quantum of the loan and in terms of secured business loans we target to kind of have around 60% to 70% max LTV; however, for existing customers with various other relationships or substantially proven track record with an underlying established business as an MSME we go up till even 75% to 80% in terms of secured business loans and our entire secured business loans comes for the sale underwriting is predominantly on the underlying cash flows on the business and partially on the security it is not the security first and the underlying cash flows next and we have clearly implemented it and intend to kind of continue the same.

Rajat Bansal: Sir how the competition in these segments are you seeing more players getting into especially the small business loan segment?

Baskar Babu: Very true in terms of competition, but the fact is that based on our own substantial percentage of our existing customers either liabilities or inclusive finance or retail assets our customers for secured business loans including in terms of a takeover. On a targeted basis if you are able to reach out to the customer where you are originating rather than getting originated by the DSA which means it is not just one DSA it could be a couple of DSAs taking to various then the pricing becomes a primary point of negotiation. So currently and also our cost of fund they have brought it down as we kind of would have seen to 6.9% which makes it meaningfully competitive to play by enlarge the entire gamut of spectrum starting from the loan against property were off around even 10% were very well established with a solid track record and then very good underlying cash flows to operating at around 14% range currently in terms of secured business loan is between 10% to around 14%, in terms of regular affordable home loans it is from 9.5% to around 12.5%, in terms of affordable home loan is between 14% to 17% loan.

Rajat Bansal: Got it and the experience on LGDs for especially the micro affordable home loans, affordable home loans?

Baskar Babu: We have just started it is a very, very small piece of portfolio but the clear learning if you have to migrate our experience from inclusive finance it is relatively clear intense collection focus on a month-on-month basis it cannot be treated like a typical retail asset where you expect a 80% check clearance so here the check clearance initially will be around 55%, 60% but if you match them and create that behavior since majority of the households which where we are doing micro home loans have gone financially digital not necessarily just the borrower they happened with the lady has happened to be the spouse but their sons and daughters will move on. Our focus is to really kind of make it as meaningful as in terms of repayment to the digital form right from the beginning, it is a question of in terms of creating that customer behavior right from the beginning, we do not see anything substantial beyond probably 1%, 1.5% LGD, because it is not the sprinkler that means it is not across the segment we do a clear cut analysis and then only fund and the size is between Rs 5 to Rs 10 lakh. We have done well I think it can be less than 1% credit loss product.

Rajat Bansal: Okay sure Sir, thank you.

Moderator: Thank you. Our next question is from the line of Saili from Old Bridge. Please go ahead.

Saili: Just a couple of questions from my side, I just wanted to get a sense on our deposits. So basically, our bulk deposits are almost declining by 60% any particular reason for that?

Baskar Babu: It was an articulated strategy we had called out much earlier even before we reduced it. So we wanted to increase our granular sticky deposit, actually they are a little more expensive than bulk deposits, bulk deposits currently for a similar tenure of one year we will be able to mobilize at around 100 to 125 basis points lower than the granular retail deposits, but it is a conscious strategy we wanted to really move into granular smaller deposit which is pretty hard to kind of lay the tracks in terms of increasing the momentum and the bulk deposit we believe that as and when required purely from a cost management perspective will be able to kind of accelerate as required. So hence we wanted to increase our retail consciously, kind of increase it and also given our substantial excess liquid which we are carrying at closer to Rs 1,600 Crores in June of last year we wanted to reduce it even as part of our liquidity management strategy, surplus liquidity management strategy.

Saili: Secondly on your CVP so the gross NPAs over there are quite sticky over almost 14% remain largely flat this quarter so what is the sense on the asset quality there I know the customer behavior in that CV segment that you are facing since we have already seen the cycle starting to pick up so just want to get a sense on how you are looking at it and what is your customer feedback in this particular segment?

Baskar Babu: As you know that while the moment when we picked up some segments which were deeply hurt have not really recovered and part of our NPA is on account of a few transactions to very well established interstate route bus operators, so that I think the reason why it is staying sticky, the good news is that there has been no addition any meaningful addition to the GNPA accounts in terms of CV and somehow we are able to also see a pullback, specifically we saw during the last quarter we intend to kind of now see the similar project and some of the restructuring which I did in IRAC is also classified in GNPA some of them have paid out for the entire year and there is one specific account large account clearly kind of the paid out which will come out of a GNPA during Q1 of FY2023 and we are moved away from doing large ticket CV transactions which is what we wanted to build to make sure that the loss ratio was substantially lower COVID really changed that so we have moved into only granular funding specifically looking at refinance and small vehicle funding at this point of time. The wide space we see in CV, where we are sharpening our product is working capital for mid-size fleet operators, the large fleet operators have a substantial access to working capital funds from banks were established for public sector banks or large private sector banks. The segment between 3 to 15 vehicle fleet operators do not have access to regular working capital except the refinance mechanism, so we did introduce the product we have run close to 900 customers around close to Rs 7 Crores of outstanding at this point of time. We are working in terms of making it and since we are doing digital transformation to a new IT system that will be completely digital and that will be a focus area where it will be wide space, very well track record establish customers and our pricing also could be in the range of around 14% to 15% that will be the focus and other than that would be in terms of refinance small portfolio currently our run rate at this point of time cautiously we have reduced it to around close to Rs 10 to Rs 15 Cores per month completely what we are doing at around 30% to 35% per month.

Saili: Lastly you just want to get a sense on basically asset quality in unsecured segment has now almost improved half the gross NPAs and what it was in last quarter so was it on account of some collections or it is written off like how is that?

Baskar Babu: One is the collection we have been continuously focusing in terms of customers who paid in one month not paid for the subsequent month or subsequent two months so as we said that we are kind of and that portfolio remains same ,does not increase, there has been no spillover, this quarter was kind of guided, earlier is to pull that down by at least Rs 100 Crores on the minimum but we are targeting around close to Rs 150 Crores of customers getting activated so around closer to around Rs 425 to Rs 450 Crores of customers specifically in the JLG segment have not paid for two consecutive months in terms of November and December is Rs 40 Crores of that have paid in the month of January, so our intent is to really accelerate that to around close to Rs 150 Crores so what we are seeing at the overall broad level, to kind of say that from a GNPA point of view till the time stamping the customer is not paid for 90 days it gets stamped. Even if they pay one installment it is not possible for customers in the JLG segment specifically to repay all the three installments and come back to a standard book. So while it will linger on as part of the GNPA our core focus in terms of customer behavior. As long as the customers are continuously paying given that the overall tenure of the loans are only two years and non-repayment of a month and then after two months one more month while it will get standard GNPA they will be for us regular paying customers. The intent is to really pull back from close to 70% of the customer and current bucket marginally increase it at least by 5% by the end of this quarter. What we are seeing in a broad level and then deliver that we see far more stability than we saw about two quarters back, when even internally guiding ourselves was not very easy so we see that we are stabilizing and improving and we also seen collections coming from customers who are not paid continuously for 90 days and 120 days. It is not probably just a change in customer behavior, it is kind of planned strategy to reach out to the customer on a continuous basis. for Rs 2,000 outstanding or at least Rs.2000 customer is not going to be reaching out to the institution to repay and we will have to kind of take all the efforts to reach out. That I think has been our strategy for Q3 and specifically in the month of Jan we started focusing on activating which is clearly reflected in Rs 40 Crores worth of customers who are not paid previously for the last two months paying in the month of January.

Saili: How much of our customers in the JLG business would be linked, that the income will be linked to essential services?

Baskar Babu: On low income households by and large have multi streams of income severely impacted wherein cities in Mumbai, Pune where there were lockdown in terms of train services getting kind of suspended for a very, very long period, so people in the outskirts like

Nalasopara, Ambernath, Kalyan, where their substantial livelihood depended on coming to work into the city was impacted and that is the reason that we saw a little higher stress comparatively in these places. But other than that in the lower income households it is just the uncertainty which led to apart from income loss the uncertainty also added to the compounded the lack of payments coming in from the segments. I think that is fairly stable now there is no way of going to scare in terms of health, but from an economic point of view majority of them are tied to things which are essential in nature majority.

Saili: Just last one thing so basically our other income has declined Q-o-Q and Y-o-Y so any particular like lumpy on the base?

Kanishka Chaudhary: The movement has been primarily on account of the mark to market on the AFS portfolio and the yields have been fairly volatile and we have had about 12 Crores of it that we had to take this quarter and that was the primary reason driving the movement.

Baskar Babu: We also given separately that free operating profit were excluding the MTM which is kind of now around closer to Rs 90 Crores.

Saili: That is, it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Nishant Rungta from Premji Invest. Please go ahead.

Nishant Rungta: I had a question again on the PAR book in fact we are going back to one of the questions asked earlier in the first quarter the PAR book has sort of increased on a sequential basis I was just trying to understand that third quarter was one of the best quarters on the pandemic and the movement of people and revival in terms of livelihoods then logically things should have reflected in the PAR book as well and this is sort of unlike about the other MFI players which have reported a decline in the PAR book so obviously two reasons there were organic collections of our write offs but if you can share your thoughts here what really is happening in your operating geography?

Baskar Babu: I was not able to kind of hear clearly but whatever I heard is that if I kind of get it right, the question is in terms of the PAR book. So there was certainly a little bit of an aberration, but clearly as I kind of said what we are really looking at as one of the core is that at the headline in GNPA, NPA is extremely important, the percentage of the portfolio which has not paid for two consecutive months is a target and as I said that inclusive finance it is kind of around closer to Rs 425 Crores and we activated around closer to 40 Crores of customers in the month of Jan, that is customers who did not pay in the month of both November and December started paying in the month of Jan is around Rs 40 Crores. The intent is to really increase out of this from this Rs 425 Crores to closer to around Rs 150 Crores of activation, Rs 40 Crores has been done in the month of Jan the focus has to be kind of not reactivate continue to collect from them even in the month of February, the spillover happens on a continuous basis in inclusive finance as you would have seen , which is now stabilizing that ,customer paying in one month, did not really pay the next month, and then coming back and paying in the third month and the fourth month, which then takes the customer to three EMIs outstanding get stamped as a GNPA so the better picture would be to see our own PAR 90 and the percentage of customers who are paying from the delinquent portfolio 71.2% of our customers in the 1+ bucket are paying customers, the remaining 30% is what is not a non-paying customers, which is what the value I gave you which is what we are really working in, in terms of reducing it by one third during this quarter but of that has been done of Rs 150crs is what you wanted to activate. Rs 40 Crores has been done in January the intent is to really do another Rs 50: Rs 50 Crores in both February and March.

Nishant Rungta: Did you see any impact of the third wave in January how are your PAR numbers tracking in January now?

Baskar Babu: For a few days it got impacted clearly around 10 days specifically in terms of both infection of our own staff as well as in terms of not really reaching out to the customer very intensely, so I think the 10 days between January 1, 2022 to around January 15, 2022 did really impact, but it came back to near normalcy towards the end of the month, there was a small impact.

Nishant Rungta: Alright and out of your disbursement in the MFI segment in third quarter what proportion would have been towards the new customer acquisition here, is that also sort of reviving?

Baskar Babu: Around one third of our disbursement is currently going to new to bank customers, now again we are sharpening that and saying that at least we will reduce our reliance on new to credit at this point of time, at least for the next two quarters. The focus is very well so around 30% of it will come from new to bank, but predominant of that even by now around 60% of that is not new to credit, only one third of 30% is around 10% or little less than 10% is NPC, cautiously we want to kind of slow down on this NPC customer into the inclusive finance at least for the next two quarters this quarter and next quarter before we see full stability.

Nishant Rungta: Understood Sir and just lastly on the PayTM relationship there I just wanted to check with you on underwriting and the loans being originated here, is there a risk sharing arrangement with PayTM?

Baskar Babu: No the payouts that we make to them is dependent on the collections that we make, so clearly we have never kind of and we did not go into any arrangements in the past or now or not likely to go into the future, as well where our comfort will be based on the FLDG or with the performance guarantees, but the payouts in terms of the portfolio generated to the partnerships would be dependent on the collection efficiency over the period of time not just on a month-on-month basis. So, to that extent it acts as a cushion but clearly the underwriting and the credit decisioning will be with us so we kind of own the portfolio and do not do any underwriting they are purely based on the comfort of FLDG do not intend to do so as well.

Nishant Rungta: But the payouts are linked to collections ultimately then it has come from a performance guarantee which getting incentives?

Baskar Babu: Yes, it is not a performance guarantee, it kind of gives you a cushion in terms of the collections not where you have a targeted collections of 98% so the collection efficiency were to be 95%, so to that extent your payouts will be lower to that extend your earning will be higher and hence you can say that no it kind of absorbs the loss, it is not a performance guarantee, performance guarantee would be kind of committing upfront a percentage of the portfolio which will be returned directly or indirectly by the partner. In our case obviously that excess income which we get your targeted income is x and you are getting a little more than that purely because of a reduced payout, which will cushion in terms of any credit losses. What it does is that it kind of makes you take a portfolio which you are really comfortable with and even in terms of the cycles which kind of happens we are also making sure that we are kind of going in funding only in cities where we have our own infrastructure our ability to create an infrastructure as required.

Nishant Rungta: Right, sure in that context the reduction in payout to PayTM will be over 100% of your loss on that portfolio?

Baskar Babu: No, to kind of get back the underwriting is on us, we kind of have our own parameters to do it and the reduced payout will only absorb part of the credit losses that you will kind of take, so it is not anything closer to what you are really talking about.

Nishant Rungta: Okay alright thank you so much, Sir. Thank you and wish you all the best.

Moderator: Thank you. Our next question is from the line of Manav Vijay from Deep Financial. Please go ahead.

Manav Vijay: Yes, thank you very much for the opportunity. I just have one question basically so from the current run rate of PPOP monthly PPOP is around Rs 35 to Rs 40 Crores that we are at so for next two quarters, Q4 and Q1 so you will use that money to basically make provisions for the Rs 450 or Rs 425 Crores of the portfolio, that you have where you have delinquency and then from Q2 onwards as that cost stabilizes and a large part of that PPOP will start to show down to PAT would that be a safe assumption to make?

Baskar Babu: Currently if you look at our gross NPA to net NPA the portfolio which is not provided for is approximately around Rs 257 Crores with the percentage of portfolio out of the GNPA paying is approximately around Rs 200 Crores. So in some sense, kind of the portfolio which is paying is equal to the unprovided portion of the GNPA. The next one is the restructured portfolio, around 60% of our restructured portfolio is paying and the intent is to take it to closer to 70%, 75% which we called out earlier and this 60% are kind of not paying but not necessarily on a consecutive basis on month-on-month once that gets activated to 75% which the standard restructured portfolio currently stands at 10%, 11% of our book around 40% of that number which is 4% of our overall book is what we will have to kind of manage and increase the collection efficiency. The PPOP that we are making now which is around close to our run rate of around Rs.30 Crores not including the MTM which we took at Rs10 Crores hit. In the quarter is around Rs 80 Crores gross of that is around Rs 90 Crores. At the current range of disbursements we expect that it will be in the same range go to around Rs 90 to Rs 100 Crores, so we will have to make the provisions out of that. Probably for this quarter and part of that will spill over into Q1 of FY2023 and FY2023 as a whole year. Specifically starting from Q2 we see it as an year of enterprise profit. How much would that be, yes mathematically speaking the substantially lower provisioning should lead to straight PBT and PBT should lead to PAT, so we are kind of first focusing in terms of reducing this portfolio which is non-paying and kind of looking at pre-operating profit of closer to Rs 40 Crores. In inorganic growth not accounting for any treasury profits or other ways.

Manav Vijay: So, Sir correct me if I get your number wrong so roughly 4% of the current AUM which is approximately let us say Rs 200 Crores kind of a number is where the problem is, that is what you have to provide for over next two quarters, Q4 and Q1 and then from Q2 onwards it will be normal story?

Baskar Babu: I do not want to kind of go ahead so much for some of them, but the question is that out of the Rs 200 crores the focus is in terms of activating part of that substantial part ,how much will it be we will kind of get a full clarity in the month of February and March so not all of the Rs 200 crores need to be provided for. You may take how much of that exactly the number kind of which put in all the execution efforts things that are far more stable now we are able to connect with the customers we are able to reach out to the customer yes I would say that part of that 200 has to be provided for which is what we have said even in Q2 will be done in Q4, Q3, Q4 and the small spillover into Q1 and hopefully by Q1 which should have kind of provided for comfortably and from Q2 onwards obviously the businesses do not really operate in a pure linear manner barring any other thing that our own organic profit should be higher closer to Rs 40 Crores plus from Q2 which the substantial piece of that should translate into PBT and part of that obviously is PAT.

Manav Vijay: Sir, my next question is, so regarding the growth rate that you are saying that is actually for FY2023 you are saying 30% to 35% kind of an AUM growth if I remember you correctly in Q2 call you were mentioning you are actually guiding for around 25% to 30% kind of a growth so that means are you upping your guidance for next year or so basically since the environment has become more conducive you are getting more confidence with your team so that is the reason why you are upping the guidance for next year?

Baskar Babu: Partially yes and also what we have done we have kind of invested in a very intense analytics platform which gives view in terms of our customers in terms of exposure to various other products including the track record that gives the confidence in terms of deepening relationship with our existing customers, one the touch point is a lot more easier the comfort is substantially higher so the strategy is to really increase the non-microfinance secured business to our existing well-paying microfinance customer segment and given that the small base and the infrastructure which you created even pre-COVID, which we have not really sweated it out during the last two years, except for using it for the collection machinery the growth in business organically should really be a little more higher than what we are clocking for this year and that leads us to the 30%-35%.

Manav Vijay: The last thing from my side so if I look at the Q3 balance sheet you are approximately around Rs 2,400 Crores of cash plus investments that you are sitting on if you can help me with the excess cash, this investment that you are sitting on basically the cash that is as of now giving you low yield and which you intend to shift to other high yielding portfolio to basically improve the NIMs without having any kind of impact on your cost of funds?

Kanishka Chaudhary: We have over the last nine months rationalized the amount of free cash available down to Rs 600 Crores from a peak of Rs 1,600 Crores the natural growth that we are targeting in our loan book will help us reduce this number for over the next couple of quarters.

Manav Vijay: Thank you and all the best.

Moderator: Thank you. Next question is from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijeet Sakhare: First is a clarification on slide #21 where we have given a number of 6.4% which is 90+, but on the next slide on the movement of path that number is 4.6% so just trying to understand it these are two different numbers that you are taking?

Baskar Babu: Abhijeet I will come back to you with this kind of numbers.

Abhijeet Sakhare: Secondly just to pick up on Nishant's question earlier the recovery on JLG seems to be somewhat more gradual even when we look at the one EMI adjusted collections or the paying overdue customers so just if you could break it up in terms of is this geographical or a state skew or is it an urban versus rural skew. If you could give us some broad indicators on that side that would be helpful?

Baskar Babu: Abhijeet predominantly we are an urban and a semi-urban player, but however in the smaller towns outside in terms of the 5-kilometer radius itself will become semi-rural and then it will become rural so around 70% of our portfolio is urban and semi-urban around 30 is rural and hence the rural behavior on the outskirts probably will not be very divergent from what we have in the urban, semi-urban. The thing we did restructure the loans and only around 60% of them are kind of paying customers the spillover happens after the moratorium is over. When they come into it that is where it is steady at around 83%- 84%. While we activate more there is one EMI adjusted collections is likely to kind of increase, I would not really guide out for how much would that be, but what we have seen certainly in the last three quarters is that there was absolute volatility in it the 84 was not constructed by even 90% of the same customers paying month-on-month which trend is what we have started seeing around close to around 10 lakh of our customers continue to be incurring and we are trying to pull in as many customers back into at least current or 1 to 30. So, we will see an increase in terms of this 84% and the intent is to while it is not a guidance the intent is to really take it to around closer to 90% by Q1, but majority of it is all the legacy pre-COVID portfolio and activation piece of that will increase the collection efficiency.

Abhijeet Sakhare: Just secondly, I want to understand what is the normal policy on customers who remain on overdue, but ultimately kind of reach the end of their loan durations. So do we look at the near-term track record and renew the lines? How do we kind of treat them and what happens with the overdue amount which is still left?

Baskar Babu: See the challenge which specifically comes in where the entire center and the customers have become enacted which means that all their installments have fallen due and then there is no regular installment which is kind of happening that is a very small piece of the portfolio. But we will have to be very, very conscious of that. That number cannot become higher because the touch points then diminishes substantially. So let us keep the customers even before they go out of it activated or we will need to have a special focus in terms of what we call as a term close centers which is that all the customers in that center do not have any installments which is fallen in due. As of now it is a very, very small piece of the portfolio but as it grows I think one, we are targeting the existing good customers which means the centers will continue to be active and which makes it a lot more convenient for us to keep in touch even with the customers who are not active but belonging to those centers. So that is what we were kind of planning to do this quarter. Good question.

Abhijeet Sakhare: Sir second one is on PayTM, is this our merchant loan if you could just tell us what sort of a loan are we sourcing for them?

Baskar Babu: It is merchant loans for customers who have been kind of having relationship with PayTM for a period of at least six months and they are all for business purposes and we are not into any consumer lending to them or into it we are not just with PayTM with any partner we are not into BNPL or consumer loans we are only business loans for merchant and the average ticket size is around closer to 2 lakhs.

Abhijeet Sakhare: What would be the yields the card rate on the product?

Baskar Babu: The net of payouts the rates will be around closer to 12% to 14% depending on the size of the loan, the credit score of the customer all the factors but the range is 12% to 14% net of payouts.

Abhijeet Sakhare: It is a fixed rate on our loan?

Baskar Babu: We are EDI loans Equated Daily Installment loans.

Abhijeet Sakhare: So just to understand the loan is sourced on the app right so you have reached an agreement with PayTM where they are able to pick up customers in your geography and kind of offer them a loan where you or the lender at the backend because it may not be a PAN India relationship right?

Baskar Babu: No it is not a PAN India related, it is for specific cities majority of the cities we have operations, some of the cities where we are not fully operational the ability to put in the collection network as and when required, currently the entire servicing sourcing partial servicing and collections happens through our partners. But as and when and we also visit those customers as a sample it does 15% to 20% of customers are met post funding just to align that what we are intending to do and what we are doing is exactly on the same base. Credit listing is done by us, they do the short listing, white listing the final credit selection based on the credit scoring is done by us. So there is a limited loan which is new to credit but they are suffered by the track record of the customer including quite a few of them even unsecured loan track records. So they are not necessarily new to bank. Majority of them or partial of them are new to credit which means that new to banking system.

Abhijeet Sakhare: Sure, and Sir, finally on this one like we had an unsecured business loan product which had like a 30%, 35% delinquency and this one it probably, has a similar customer profile so do you think having a payment relationship materially changes the tendency of default if you have any thoughts on that piece?

Baskar Babu: See the measurement of delinquency on a rundown portfolio will not be a reflection of the quality of the portfolio so we kind of put it on pause during the pandemic that we did not want to increase the portfolio and hence what the number, but on an ongoing basis what we saw at that point of time was around closer to 10% delinquency and we continued on an overall basis the credit losses in that business would be around closer to 5% to 7%. There are obviously, when we started the product, we knew there was quite a bit of a learning. One of the key learnings is that in terms of the stability of either the residence or for the shop if there is an ownership offered then the track record is very different there is a delay but there is not a credit loss, but if both are kind of rented and they are new to credit then I think it is a risky segment which we do not, we are restarting it with our own experience in terms of digital but in a specific geography. Also, it is very important that when you are doing on a one with their own collection machinery the geography has to be sharp. It has to be deep rather than spreading outside even in a city like Mumbai you cannot say that we are operating in Mumbai as an entire city we will have to pick the pocket because the potentials are so large, done well I think the credit losses would be in the range of around 5% to 7% max.

Abhijeet Sakhare: Got it Sir. This is super, thanks a lot.

Moderator: Thank you. We have the next question as a follow-up question from the line of Renish Patel from ICICI. Please go ahead.

Baskar Babu: Before that just kind of clarified to Abhijeet question in terms of 90+ over to Kanishka please.

Kanishka Chaudhary: The differential that you observed between the two numbers is largely on account of the Rs 93 Crores of write-offs that we have taken in this particular quarter.

Baskar Babu: Thanks, Abhijeet for pointing out we will do that correction. Over to you.

Renish Patel: Thank you my questions have been answered. Thank you.

Moderator: Thank you. The next question from the line of Pritesh from DAM Capital. Please go ahead.

Pritesh: One question on the restructured book we seem to have 25% types of a provision coverage, any plans there to increase the coverage ratio and second how much do you feel that will not slip into NPA?

Baskar Babu: See these are all resettlements in touch with the customer requested by the customer and we also did where at least we have paid one out of the previous three installments. So, touch points established, the behavioral pattern reasonably established, so intent even when we were doing was to really kind of activate at least closer to 80% of the customer 80% to 90%. Across the industry also we are seeing the range of around 70% to 80% of the restructured customer have started paying not necessarily on a month-on-month basis. Currently we are at around 60% the intent for this quarter with a focused effort in terms of getting them active because there was a moratorium, there was slackness. ould have certain in terms of touch points and then following with the customer as it gets activated as installments are falling in due the intent is to really take you to at least closer to 70%, 74%. We will have full clarity visibility offered what we will have to provide for in RC by end of March.

Pritesh: So that is when the majority of the portfolio starts paying right because I assume that restructured would have ended on March 31, 2021?

Baskar Babu: No, we did restructuring even in September.

Pritesh: Okay Sure and second question basically was on the borrowings I see the borrowings being a little bit higher this quarter any specific reason?

Baskar Babu: We have borrowed Rs 750 Crores in SLTRO window which is a 4% fixed for a three-year period since we had excess investments we leveraged that to reduce our cost of borrowing and consequently the cost of funding which is where you see the drop from 7.1% was the cost of funding and cost of deposits last quarter currently the cost of deposits continue to be 7.1% on overall portfolio basis but our cost of funding has come down to 6.8%.

Pritesh: What is the tenure average on this one TS?

Baskar Babu: TS 64%.

Pritesh: How do you feel on the deposit side especially the CASA. I mean the CASA is slightly slower do you feel that we will see some more traction on CASA going forward?

Baskar Babu: Our articulated CASA strategy is in terms of focusing on granular CASA specifically on the southeast and not really kind of raise that SA anywhere closer to our fixed deposit rates, so we did kind of reducing the rates. To ensure that what we get is accounts which are kind of having flow which is leading to float and we also kind of said that we see a CASA increase happening gradually quarter-on-quarter and our target one is to really kind of increase it by 1%, 1.5% on a quarter-on-quarter basis. So, what we are aiming to in terms of build on the platform predominantly is in terms of retail granular SA which will lead to a reduced cost of deposits rather than an increased cost or deposits or maintaining at this level. So, we again reduce the pricing by effective off in January our current overall I think cost of CASA would be less than around 5%.

Pritesh: That is helpful. Thank you, Sir.

Moderator: Thank you. Ladies and gentlemen, that would be the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you!

Baskar Babu: Thank you for joining in we are kind of glad that we are able to have a lot more visibility and stability coming in back into the sector as a whole and specifically for us as a bank we have seen a good traction in retail liabilities. Our cost of funds coming down and our overall cost to income ratio is stabilizing and we see that coming down in the quarters. Our focus will be in terms of strengthening our relationship with our large customer base who have exhibited excellent prepayment behavior and the ability to manage the cycles through COVID 1, 2 and 3, which gives us hope that we will be able to build a very substantially good sustainable portfolio and we should be back in terms of reasonable profitability track starting from Q2. We see FY2023 as a year of meaningful enterprise profit. Thank you for your support. Thank you very much and have a great day.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of DAM Capital Advisors Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.