"Suryoday Small Finance Bank 1QFY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Suryoday Small Finance Bank 1QFY22 Earnings Conference Call hosted by Ambit Capital. 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. Ajit Kumar from Ambit Capital Private Limited. Thank you and over to you sir.

Ajit Kumar: Thank you Malika. Good evening everyone. Welcome to 1QFY22 conference call of Suryoday Small Finance Bank. In this call we have the entire top management team led by Mr. Baskar Babu – MD and CEO, Mr. Bhavin Damania – Chief Financial Officer, Mr. Narayan Rao – Chief Services Officer, Ms. Leena Devadiga – Head, FP&A, Mrs. Radhika Gawde – VP Financial Analysis, Mr. Rahul Kotabage – VP Business Analytics, Mr. Chintan Shah – Investor Relations and Mr. Amit Singh from the Investor Relations team. We thank the management team for this opportunity of hosting you on this call. The call will start with opening remarks from the management team and then we will open up for Q&A. Now I handover to Baskar sir for his opening remarks. Over to you sir.

Baskar Babu: Thank you Ajit. Good evening everybody. Welcome to our earnings conference call for the first quarter of fiscal FY22. I hope that all of you and your loved ones are safe and well. The second wave of COVID was challenging and had impact in terms of loss of lives as well as impact on the business. Since April, 2021 over 10% of our workforce, approximately 528 employees got infected with COVID and we unfortunately lost two of our dear colleagues to the second wave. Although difficult we continue to move on and focus on business.

Since we last spoke on 27th May business environment has steadily improved. Although we virtually lost 2 months of the business in the first quarter of this fiscal since then the June business sentiment has improved considerably in July and we can see the momentum going forward in August. In terms of the June and July our collections on one EMI business improved to 70% and 79% respectively after it dropped to 68% in May. Similarly on the disbursement front we disbursed Rs. 361 crores in Q1 FY22 but achieved the same number in the month of July itself. With local lockdowns being lifted in many places and train services including in Mumbai likely to be started soon we believe that the recovery is going to be reasonably quick.

We have been proactive and continue to track the vaccination amongst all our employees. We successfully concluded the first round of vaccination drive at all our offices and are scheduling the second round soon. We are engaging with employees to ensure their families well-being and extend financial support to them whenever and wherever required. With incremental traction from the vaccination drive of the government, we are hopeful of normalization of business environment soon. While we are hopeful of the same, we continue to practice safety protocols at all times at our offices as well as for our employees in the field.

I hope you all have received our investor presentation and had the chance to go through it before the call. However, I will give a brief highlight of our performance for the quarter and the year as of date. On the business performance, our disbursement of Rs. 361 crore for the 1QFY22, was lower primarily due to the second wave of COVID-19, wherein as I mentioned we lost two of our dear colleagues. Business environment has subsequently improved. Disbursement is picking up and is evident from the numbers achieved in the month of July. For the month of July, the disbursement was Rs. 360 crores, the same as the disbursement for the entire quarter of 1QFY22 and the business momentum continues in the month of August as well.

On the collection front, similar impact has been seen. Collection efficiency on one EMI basis fell to 70% in the month of June as compared to 87% for the month of March '21 but recovered significantly to 79% in the month of July '21. Our gross advances as of June was 4,004 crores and fell marginally by 4.3% since 31 March 2021. As of end of June the inclusive finance business comprises of ~68% of the asset book while affordable home loans, commercial loans and secured business loans comprise of 8.1%, 8.3% and 4% respectively. As the market environment improves, we will focus on growing our book in a stable and sustained manner across all product categories and geographies.

On the deposits and borrowings, our deposits grew marginally to 3,317 crore as on 30th June, 2021. While the growth was flat, the granularity in our deposit base increased significantly. Retail deposits formed 86% of the total deposits as on 30th June as compared to 80% as on 31st of March, the balance comprising of bulk deposits. Furthermore, majority of our bulk deposits are non-callable in nature. As on 30th June, 90% of our bulk deposits i.e. deposit more than 2 crores, were non-callable in nature. CASA improved to 16.2% as on 30th June as compared to 15.4% as on 31st March, showing a steady improvement in line with our strategy.

Borrowings as on 30 June formed ~25% of total liabilities, majority was from refinancing institutions like SIDBI and NABARD. In terms of our distributional reach, as on 30 June 2021, we had 555 branches, of which 97 branches were primarily focused on deposits, while 351 branches were asset focused branches and the balance comprises of rural centers. Through this branch network the bank serviced 15.3 lakh customers of which total asset customers were 13.3 lakh and total liabilities customers were 5.6 lakhs which had an overlap of 3.6 lakh customers with our asset customer base. On the asset quality, our GNPA increased marginally by 11 basis points to 9.5% as of 30th June compared to a GNPA of 9.4% as of 31st March. Similarly, the net NPA showed a marginal decrease though to 4.5% as compared to 4.7% as of 31st March. Provision coverage ratio as of 30th June was ~71%. It is worthwhile to note that our GNPA and NNPA excluding ECLGS loans is lower at 8.9% and 3.9% respectively. Delinquency in the portfolio increased due to impact of the second wave of COVID. Collections were difficult in majority of the places across the country in April and May which led to increased PAR. As things have normalized, the situation has improved. Of the delinquent bucket 68% of the customers continue to be paying PAR i.e. the ones who have paid at least one EMI in the last 2 months of May and June. The same number has improved in the month of July. The paying PAR for the month of July is 73%. As of 30th June, we have restructured 10.5% of our total book across various schemes. Of this total restructuring done in Q1 FY22 was 7.1%. This is excluding the recoveries.

On the earnings side, net interest income increased by 116% quarter-on-quarter to Rs. 124 crore in Q1 FY22. The NIM has increased to 7.6% in this quarter as compared to 3.7% for Q4 of FY21. The growth was primarily deflected due to an impact on the last quarter numbers where majority of the interest reversals for the full year was taken in Q4 FY21 post Supreme Court judgment on 23rd March, 2021 which led to a lower interest recognition in Q4 of last year.

Our other income comprises mainly of income from sale of investment of Rs. 8 crore and PSLC income of Rs. 8 crore. Though we have booked the PSLC income of Rs. 32 crore during the quarter, on amortization basis we have recognized Rs. 8 crore during the quarter. Cost of funds reduced to 7.4% in the Quarter 1, QOQ while cost to income during the same period moderated to 63.1% as compared to 105.7% in the last year, though not comparable. We have reported a loss of Rs. 48 crores for the last quarter primarily due to lower disbursements in the quarter and after considering a technical write-off of approximately Rs. 79 crore and an additional provision on restructuring of Rs. 28 crore. As of June, '21, we continue to hold a floating provision of Rs. 91 crore on the books. We continue to remain highly capitalized. As of 30th June, 2021 our capital adequacy was 52.1% as compared to 51.5% as of 31st March. Tier I of this comprises of 47.6% and Tier II comprises of 4.5%. With this I would like to handover to the team for any questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ayushi Somani from SBI General Life Insurance.

Ayushi Somani: I just wanted to know that for credit cost we have already provided Rs. 110 crore in the current quarter. So, how will you guide for the FY22 and FY23 on the credit cost side?

Baskar Babu: In terms of our overall (+90) as of 30st June was approximately Rs. 302 crores, (+ 90) whereas our GNPA was around Rs. 381 crores. As we have presented that ~67.9% of our delinquent customer in the 1+ bucket are paying PAR i.e. they have paid at least one installment during the month of May and June which happened to be one of the tough quarters in terms of the impact of the wave 2. The focus is on terms of keeping in touch with these customers considering that most of these loans are short-term loans and as long as we are in touch with our customer and are able to keep collecting at least one EMI every one month, every one month, a half months, the tenor may get extended, and it may get tagged as an NPA but we are fairly confident that ~70% of the delinquent customers we will be able to keep in touch. As of July, the momentum has picked up. While we refrain from giving any clear-cut credit cost guidance, what we would like to refer to is that broadly we are going to handle in terms of what was the negative impact as of QE June. We expect that the momentum will be positive, both in terms of collections as well as in terms of business in this quarter which is Q2 of FY22.

Ayushi Somani: Even your gross advance yield has been changed approximately if we compare on YOY basis, earlier it was 22% and now it is 18%. With the change in the asset mix, with higher focus on secured business loans, what is expected to be the year end yield on gross advances?

Baskar Babu: In terms of our microfinance portfolio inclusive finance portfolio continues to be upwards of 24% except for the Smile OD which is an overdraft product which we are currently offering at 18%. The 18% you see is also an impact in terms of not recognizing the income on the GNPA part of the portfolio which is approximately 9% of the overall book. On yield basis for the incremental disbursements, we continue to see upwards of 20% in terms of our yield.

Ayushi Somani: You already mentioned that we have seen the growth in AUM in July month, so can we expect this to be continued in the upcoming month?

Baskar Babu: The short answer is yes, we are seeing momentum continuing in the month of August, in fact little more accelerated than what we saw in July. We expect the momentum to continue but not kind of caveating without any impact, if at all there was wave 3. On a normal basis we see the momentum continuing this quarter.

Moderator: The next question is from the line of Prabal Gandhi from Antique Stock Broking Ltd.

Prabal Gandhi: First question on the write-off, so what's our write-off policy in general across various segments?

Baskar Babu: Let Bhavin answer that. But, what we have been doing is that we recognize whatever stress that is really coming in terms of write-off, this is little different from the usual policy we would have guided ourselves in normal circumstances. Wherever we are recognizing, our customer is not paying and specifically out of our data where the customer is not only not paying us but also not paying anybody else (where he has borrowed from), we are taking a conservative approach in terms of providing for in cases like in JLG writing-off of the loans which we did in Q1.

Bhavin Damania: I think as Baskar mentioned, in fact there is no policy, we only do technical write-offs. We are not following actual write-off, so the field level still continues to see the customer in the books so they continue to carry out the collection as well.

Prabal Gandhi: But for the MFI book any typical number of days after which we write-off the loan, for example 180 days or maybe after one year to be completely write-off a loan, anything of that sort that we follow?

Bhavin Damania: No. So, we don't have a policy. As Baskar and I said, we go by the data where the customers are not able to pay us or to anyone else in the industry then accordingly, we will take a call and based on the field level feedback which we receive from them. Write offs are taken even if the customers belong to a particular pocket irrespective of a specific policy for 90 days, 180 days etc Till 60 days, we go by the data that we have from the industry level and the data that we own, our profile data for the customers.

Baskar Babu: For instance, if you look at our (+90) it's constituted around 6% of the POS and the paying customers out of this (+90) was around 25.6% which is they paid at least one installment in the month of either May or June and that was one of the toughest quarters though June which was an improvement over May. So, in July if we keep the momentum, the intent is as Bhavin mentioned that while there are technical write-offs, the field continues to be in touch with the customer and continue to look at customers as paying customers.

Prabal Gandhi: How much was the ECLGS as a percentage of book at the end of this quarter?

Bhavin Damania: So, we have a total ECLGS book of around Rs. 120 crores on the entire book of ~4,000 crores, so roughly 3%.

Prabal Gandhi: And from the disclosures we understand that some of the ECLGS book has also slipped or has gone into the NPA, is that correct?

Bhavin Damania: That is mainly because of the cross provisioning, ECLGS loans by themselves have not gone bad significantly. So, the delinquency on ECLGS loans is many because the customer would have defaulted on the original loan on which we would have given the ECLGS loans and as we have to do the cross provisioning we end up classifying the ECLGS loans as an NPA. But ECLGS loans by themselves would be hardly anything compared to the overall number.

Prabal Gandhi: But just want to understand the process. In case the ECLGS loan goes bad, do we have to apply on the portal and thus the money would be credited in our account, is that correct the understanding?

Bhavin Damania: Yes, that’s right. There is a process which you have to follow as per the government guidelines. So, we have to upload on the portal then we also demonstrate that we have done all kinds of recovery process. Then after demonstrating those as per the process defined, we can get the claim approved. But it's not a very lengthy process. We have already started the process. But the amount is hardly anything in our books, only ~Rs. 20 crores. So, anyway we start the collection process.

Prabal Gandhi: I think the first 75% will be credited and then we have to demonstrate and then the remaining 25% will be given by the government or from the starting itself we have to demonstrate the process?

Bhavin Damania: No, so after our account goes bad only then do we have to initiate the process. After the account becomes an NPA, we have to start demonstrating that we are trying to get a recovery, so after the reasonable demonstration we will get 75% and then after certain processes we get the balance 25%.

Prabal Gandhi: On the restructuring, so incrementally we have 7% of the restructuring in the current quarter. What's a typical moratorium for a customer here?

Baskar Babu: 2 months to 3 months is what the general moratorium is.

Bhavin Damania: For this time in July for whatever the restructuring we have done at the end of the June. Our collection efficiency is not adjusted in the month of July, in fact they have also raised the billing for the month of July. If we compare to the other published numbers of other SFBs, it's not directly comparable because we have a demand generated and that said there have not been given moratorium. There must be hardly some loans but very limited quantum other than micro finance loans.

Prabal Gandhi: What is the pipeline of restructuring?

Bhavin Damania: It is still under evaluation, so it is an ongoing process and so, it is difficult to say at this point in time, because we take a stock generally before the end of the quarter.

Baskar Babu: But where we do the restructuring it is for customers who have exhibited circumstantial default rather than intentional default. So, where the customers have been paying, but some of it has spilled over or is spilling over purely because of the time lag is where we are kind of approaching the customers or the customers are approaching us. It is not across the board restructuring for all customers who are not able to pay or who have not paid.

Prabal Gandhi: And lastly on the disbursement side, so we had pretty good disbursements of Rs. 360 odd crores in the July. Is the momentum continuing in the August as well? We are halfway in the August now.

Baskar Babu: Yes, the momentum is continuing in August. As I said that what we saw in July the momentum seems to be absolutely continuing in August.

Moderator: The next question is from the line of Nikhil Walecha from SBI Life Insurance.

Nikhil Walecha: Is there any overlap in the restructured and SMA account?

Bhavin Damania: No, so we don't have any overlap as of now including the restructuring, there will be hardly which will be sitting but percentage will not be very high.

Baskar Babu: Except in commercial vehicle segment.

Nikhil Walecha: And secondly, we have made the floating provision of Rs. 91 crores and Rs. 5 crores on restructured loans. So, is it fair to say that the remaining 86 crores is for the SMA pool that we have made?

Bhavin Damania: We have Rs. 91 crores floating provision on the micro finance which is separate and in the restructured book we have made ~Rs. 36 crores of a provision till date. During the quarter we have made ~Rs. 28 crores. On this Rs. 420 crores of restructured book which also includes the NPA restructuring and continues to be NPA is now Rs. 53 crores of pool. So, we apply the IRAC norms and also make the provisions as well. So, I think numbers are Rs. 36 crores and Rs. 91 crores, not Rs. 55 crores and Rs. 91 crores.

Nikhil Walecha: So, Rs. 91 crores minus Rs. 36 crores, is the provision you have made for SMA 2?

Bhavin Damania: No. These are all independent things, so it's not included. So, Rs. 36 crores is not a part of Rs. 91 crores. So, Rs. 91 crores is created as per the policy is to make floating provisions on the micro finance pool which is completely separate from the restructuring.

Nikhil Walecha: Currently we don't have any provision on the SMA pool?

Bhavin Damania: No, so currently we don't have except as Baskar mentioned there will be some overlap of minor amount of commercial vehicle loans but not otherwise.

Nikhil Walecha: What was the thought process in giving ECLGS loans to such customers when we've seen 0.6% of slippages coming from these, so why didn't we give ECLGS?

Baskar Babu: Probably we are one of the very few where we have started extending ECLGS loans to our inclusive finance customers. Although it was a small amount where it could be varying anywhere between Rs. 2,000 to 10,000, the intent was that in terms of in our inclusive finance customer segment across the board, there is a very thin line between being in touch with the customer and pursuing follow-up or making them feel like the defaulters. This event was completely beyond our control, as usual delinquencies or default happens either out of natural calamities or out of any external disturbances. This was the first time where it impacted customers across the board and hence most of the defaults we saw or delays we saw, did not really border into default. This meant that it was more circumstantial in nature rather than an intentional nature or inability to pay for various other reasons. So, as things improve we are pretty confident that as long as you are in touch with the customer and customer is transacting with you, except for the fact that the loan tenor may get extended from 24 months to maybe 30 months but these customers will come back into the paying fold and continue to remain probably very good customers.

Nikhil Walecha: One of the leading MFI banks has used CGFMU guarantee which is from the Central Government, have we used that scheme for us or are we planning to use?

Baskar Babu: Yes, we are planning to.

Nikhil Walecha: Can you give some details like how much of the benefit we can get from that scheme?

Baskar Babu: The scheme is broadly states that 50% of whatever we want to take guarantee should be given to MFR 2 and below in terms of micro-finance grading. It is not linked to rating. If you want to have an exposure of Rs. 100 crores, you will have to necessarily give a disbursement of minimum of Rs. 50 crores to MFR 2 and below, so the universe of that is very limited in terms of absorption. To that extent where we are able to get such customers and where we can extend these loans or an equivalent amount of loan can be given for MFR 1 and plus, the amount gets frozen. But we are in touch with all good MFIs which are in MFR 2 because once we freeze that amount we will also be able to reach out and then extend the equivalent amount or little less than the equivalent amount to MFR 1. Thus, it comes with a condition that minimum of 50% should go of the guarantee that we take to MFR 2 and below category. This universe is very small in size as compared to the overall market for the NBFC MFIs.

Nikhil Walecha: The last question is, the interest on advances which is around Rs. 185 crores, how much are we accruing from the restructured account because I believe we are still incurring interest from the restructuring accounts as well in this?

Bhavin Damania: So, out of these Rs. 420 crores of a pool of restructuring as I said Rs. 53 crores is NPA, so on the remaining roughly around Rs. 370 crores we did accrue interest.

Moderator: The next question is from the line of Pranay from Lok Capital.

Pranay: Just one quick question around the collection mechanism efficiency. Of course, the GNPA seems to be quite stagnant between March and June and I'm guessing a bulk of it is because of the Q1. But the pressure is more so on, what are the strategies that the company is adopting to recover these NPAs and any on the ground collection strategies let's say beefing up the team or something like that? And what are the timelines that you are looking at for it to normalize from a NPA perspective like are you looking at it for the next 3 months or 6 months or a year? Do you have some view on that?

Baskar Babu: Well, we mentioned earlier while our GNPA is Rs. 381 crores of which 90+ only Rs. 301 crore is in the 90+ category. This means that there is a continuing paying momentum in terms of these customers. Even within the (+90) which is around 6% of the portfolio as of June, 25% of the customers have paid at least one installment either in the month of May or June. It is the ability to be in touch with the customer and as things become normal, I think you will get a fairly good picture at end of this quarter as to much of that would be paying customers. As long as the customer has paid, it is one out of every two installments, you can be fairly confident that it is a question of elongated time and if they have not paid anything when things are getting normalized in the month of say July-August and September that would put pressure in terms of credit loss.

Moderator: The next question is from the line of Jai Mundhra from Batlivala & Karani Securities.

Jai Mundhra: First on restructuring. Did you apply any filter when you got that restructuring request or these are the total requests that you received in terms of restructuring?

Bhavin Damania: I will talk about the JLG first. In the case of JLG, we apply a filter for giving the restructuring. Somebody should have shown intention of repaying us. At least one payment in the last 3 months should have been done in that particular quarter. Only then do we go ahead for the restructuring because the customer has shown some interest. In case of non-microfinance book, we go by the request which we receive based on which we also assess the financial condition of the customer.

We do the entire credit process for the customer again, only then do we do the restructuring. Thus, in micro-finance we apply the filter while in non-microfinance, it is based on the request.

Jai Mundhra: I am just curious to know that the people while let's say if I look at our micro-finance book, only 63% of them are current and the rest of them are into lagging or delinquent or have shown early signs of delinquency. Why would they not apply for restructuring or safe to assume that they would have applied and you would have said no I mean you would have restricted the restructuring?

Baskar Babu: While you look at 65.6% is in current, there is 1 to 30 bucket which is 14.1% and 31 to 60 which is 7.5%. As long as these customers are paying and have one installment due or two installments due, and they continue to pay, they are fairly confident that they will come up the curve rather than asking for a restructuring. And usually, the restructuring was limited to one or two installments which is due, being given an extension rather in terms of asking for future installments because the ability to pay the current installments is pretty high, once they are back in business. But what they will not be able to cover up is the backlog. That also we are not forcibly making sure that, they are paying as long as, they are paying. The fundamental way in which you handle these customers is as that as long as we are in touch with them and the customer is paying, treat them as regular customer rather than treating them as delinquent customers which will be a little different from probably other asset class products.

Jai Mundhra: In terms of disbursements, if you can broadly bifurcate the disbursement to the delinquent customers. And a maybe zero DPD kind of a customer. I understand it is not unusual for the business of this type to hand hold customers, but just to get an understanding that how much disbursements actually went to the zero DPD kind of a customer?

Baskar Babu: I don't have the exact number. I can broadly say that it will be very insignificant if at all it will be there. Where we really nudge the customer is to come back to current. When the principal outstanding is substantially lower, we will give another loan. We have not given any top-up loans to customers is already in delinquency and if they have repaid the installment post taking their loan, I don't think there will be anything significant at all. Not as a process, we don't have a policy to pursue that.

Rahul Kotabage: Just adding to that. Majority of the disbursement of the Rs. 360 crores that we did was done to customers who are paying and were current and some new funding which happened. Again, this is after appropriate credit assessment of the customer is done in the market. Like what Baskar mentioned, it is only to those customers who is making a payment and is sitting into maybe a very early bucket where we have taken into consideration a disbursement to such customers on closing off their particular loans from their side.

Jai Mundhra: If I look at the slide #15, which keeps the business unit wise collection efficiency for the month of July. The micro-finance has increased from 67% to 78% but it is still low as compared to peers at 78%. So, I mean considering that even the July collection efficiency is 78%, why did you not go for contingent provisioning. I mean why not go for extra provisioning or contingent provisioning?

Baskar Babu: We believe better way is to fairly provide for and as in when it comes, we recognize it quickly. But the fact is that 78% is one EMI adjusted collections. That is if the customers who are one EMI adjusted is around probably 78% and there are customers who would have paid at least paid 1 EMI totaling to ~10%. Leading to ~89%-90% of the customers who have paid at least one installment. We did not see anything that will be required as provisioning for this set of customers.

Bhavin Damania: And also, just to add on this. If you compare to the other SFBs I think as I said earlier, we have also generated billing for restructuring. If I just consider the customers excluding restructuring, our collection efficiency will jump to ~87%.

Baskar Babu: I think the right way to see, is in terms of the entire billing, the denominator has to remain the same. And then you compute how many customers are paying. Suppose you have to give a moratorium and remove that from the billing of the particular month then the denominator will come down, but the numerator remains the same. But to truly recognize one, one is the one EMI adjusted collection efficiency and two, is the one EMI adjusted where the customer has at least paid for the previous month specifically in the month of April-May-June. This gives you the overall percentage of customers who are paying. If there is anything of concern, it is just a skipping of one installment due to timing issue where there is an ability issue or an intentional issue. Whenever we feel that we will have to adequately provide for that, we recognize it upfront and provide for it.

Jai Mundhra: Just to get it clear this 78% numbers reflects all such customers which may have paid one full EMI at least even if let us they have paid it for the month of April or let's say May. Otherwise, I mean is this right? Or it reflects only for the month of July?

Management: Just clarifying 78% is for the month of July itself. The due was basically there for the full customer base and the collection was made of at least one EMI for 78% of our customers. That was for July itself. It is not from any of the previous months, it is for the month of July..

Baskar Babu: Overall restructured accounts, would have had their installment generated for the month of July. It includes all of that as well.

Bhavin Damania: Also, in terms of provisioning just an additional point. You would have seen customers from the delinquent pool, so around 75% of the customers also made a payment either in June or July. It also shows the confidence of the customers who are also paying back.

Jai Mundhra: I have another a question., We have CGTSME for SME it looks like there's a similar scheme for micro-finance borrowers which is also a central government scheme called credit guarantee fund for micro-finance borrowers. That's the way you have CGTSME wherein if an individual borrower slips you probably may have a guarantee. If you have applied, you have taken that guarantee that's the way CGTSME would work. Do you have any of your portfolio which is guaranteed under that CGTMFI scheme kind of a thing because I mean one of the largest MFI focused banks, they had unveiled this scheme.

Baskar Babu: We don’t. While we considered this earlier, the minimum premium is 1% and the premium will be dependent in terms of your claim ratios. In a normalized business environment, if you had looked at it on a Rs. 3,000 crores portfolio per year, the outgowould have been Rs. 30 crores which of course can be passed onto the customer as guarantee charges. While we had considered this long back, we have not pursued it yet but we are really looking at the scheme at this point of time.

Jai Mundhra: And this two-three data points. I mean if you can share the movement of GNPA as in how much was the fresh slippages and how much was the recovery upgrade and write-off, I think you have already given.

Bhavin Damania: Opening was of Rs. 391 crores and then we added around Rs. 101 crores during the quarter and recovered Rs. 35 crores from the opening, despite the second wave and lockdowns and then wrote off Rs. 78 crores . That is how our GNPA has moved.

Jai Mundhra: Just to clear let's say the people who are already delinquent, and they are paying this quarter I mean once they pay this will be adjusted in the recovery, right. I mean that is the way it should work.

Bhavin Damania: Yes, it is recovery. It will go to the P&L, proportionally to the interest portion like normal EMI payment. These are not write-offs; these are EMI adjusted.

Jai Mundhra: The last question if you can state your cost of SA and what be your blended cost of savings account?

Bhavin Damania: Cost of CASA put together is around 4.5%. And what was your second question?

Jai Mundhra: Cost of SA and if it is substantially lower because your cost of deposit and cost of funds are probably seen at 7.4-7.5. Why not swap deposit in favor of deposit versus the fixed tenure bonds or borrowings?

Bhavin Damania: SA rate currently we have reduced over the last year. Currently, the average yield on the SA would be ~5%. CASA also requires a large sourcing cost. . But if you see our deposit rates, we have been able to reduce from 9.5% to nearly around 6.5% in a 1.5 years’ time. That's the kind of delta we have got there compared to SA where you cannot reduce it significantly. There's a possibility that money outflow can also happen because somebody would have parked some amount and because of the rates only they would have parked so it flows out significantly. I think the delta varies significantly in terms of the term deposits compared to the CASA. As I said earlier, it's not that we are defocusing on SA it's a continued focus. But as of now our main focus was to increase the retail deposits share rather than only SA.

Baskar Babu: Even within SA we are looking at more transactional accounts where the flow will lead to float rather than through price arbitrage and cash management, pricing will sit in your SA account since you are paying a much higher. We reduced that to focus more in terms of granularity and steady state deposits and kept increasing it over a period of time. In terms of deposits, the focus shifted a year back, in terms of completely granular retiring majority of the bulk deposits as they matured unless and until they were coming at a pricing which was substantially lower. which is as a strategy always, we wanted as a fledgling bank. In the first formative years we wanted to have a right mix of our own funds which is net worth and in terms of refinance where they are contractual in nature and currently, we are carrying an excess liquidity of closer to Rs. ~1,500 crores as of 30th of June which as the business momentum picks up we will be able to bring it optimally down to probably Rs. 600 to 700 crores. There is a negative carry which we are carrying on the P&L and the balance sheet but that is more of a conscious strategy of managing liquidity in testing times.

Jai Mundhra: But I don’t know I mean it looks like you are restricting yourself because it looks like you may not have such pool of transactional customers also. I mean on your asset side and if you are not offering let us say a differentiated SA rate, it may be very difficult for you to acquire customer in the first place. But anyway, I mean because earlier some of the other MFI banks, small finance banks they had this strategy then they changed course and then they started offering higher rates. So, just wanted to understand your strategy that you would continue with let’s say 5% SA rate and you will acquire gradually build the base there. Is that what you are seeing?

Baskar Babu: It has to be pool. The very fact that CASA is a very desired ratio in terms of measurement of stickiness or the liabilities. It is supposed to be retail, it is supposed to be transactional. The moment it gets priced closer to your FD rates then it is a pure pricing arbitrage is what our thought process is. The way in which we really want to build it is in terms of whether we can have strong products which will really have a full impact. It is a time taking process. So, 15% becoming 16% becoming 20% will take time. That is how I think CASA is built which really not only remains sticky but which is meaningful in terms of your overall pricing. The cost of acquiring CASA is significantly higher so it has to be meaningful, it has to stay there. We have recently introduced the product this month which is a wellness product where we are giving a top-up insurance of around Rs. 25 lakhs complimentary with the minimum AMB requirement of Rs. 3 lakhs. We will have to focus on such products where there is a pull which kind of makes it more meaningful in terms of pricing and stays with you longer. That's what we are pursuing as a strategy. We are not in a hurry to scale it up by pricing it out.

Moderator: The next question is from the line of Nikhil Walecha from SBI Life Insurance.

Nikhil Walecha: From the exchange disclosure, I noticed that two key people have left the company recently. Mr. Bhavin, who is the CFO and even Mr. Sridharan who is our CIO. So, this happened within a time of 1 month. Can you highlight, why all of a sudden there are two key people have left within a span of 1 month?

Baskar Babu: As far as Bhavin, it's not sudden, he has been wanting to pursue his entrepreneurial venture. So, that is the reason that he is moving on but he will be here till we identify the next CFO and transition it. It's not a time bound of 1 month to 2 months. As far as Vanamali Sridharan is concerned, for personal reason he has to relocate to his hometown to take care of his parents and that's the reason he moved on. Both are for specific reasons rather than professional reasons.

Nikhil Walecha: Have we finalized the people who are replacing them? And if you can share the names?

Baskar Babu: We will not be able to share the name right away but for technology we have finalized fand the incumbent person will be joining in shortly. As far as CFO is concerned, we are in the process of finalizing.

Moderator: The next question is from the line of Anand Bhavnani from White Oak Capital.

Anand Bhavnani: My question is on the industry. Given the two COVID waves which have significant challenges in the industry. Do you see competitive intensity currently lower and to stay low for a foreseeable future? So, if you can give us some color on the competitive intensity in the micro-finance industry? How do you see it spanning out over the next at least let's say three-four quarters?

Baskar Babu: We are not really seeing any reduced intensity per se but what's really not clearly playing out, is that you will have to be very prudent and it won't really work out as a strategy of funding more and more considering that it is unsecured. Really understanding the requirement of our customer becomes paramount importance and specifically plays out in times like this. Equally I think what SMEs have today is an opportunity to do so at any bank catering to this customer segment should look beyond term loan products, simple unsecured term loan product of 2 years tenure and keep doing more of that. We introduced Smile OD product which we believe will really make it far more sticky rather than making it completely transactional and transaction to an extent of just taking a term loan repaying the installment. We have onboarded closer to 4 lakhs customers, around closer to 3 lakhs of which are active. There has been operational challenges in terms of educating our own staff and educating the customers; that this is a credit line available as and when they need and repayable as and when they have a surplus but not to keep carrying it forward. Those are the products we have to build, which will build the customer stickiness beyond a single product relationship. I think that is an opportunity which is playing out more clearly than it would have played out in the past. For instance, a customer who generally doesn't really require a larger loan but just wants to have a standby credit in case they require for anything like for a medical emergency or for a school fee etc. Earlier model required that the customer takes out the money when the center is ready, when the company is ready and the money probably will not stay in the household till that actual requirement comes up. Such are the products, which we will have to really build and including the products we have been focusing on because we have an underlying account opened. For the first 2 years we did not really open a savings account for inclusive finance customers, till the time we realized that the value proposition. Once we knew that we want to be now offer small ticket ODs we opened that and then nudged the customers in terms of PMJJY and PMSBY not so much in terms of a crosssell but making sure that they are protected with minimum insurance which is Rs. 330 for a Rs. 2 lakh cover for herself and for the spouse. Those relationship products is where suddenly it is playing out that which we will have to look at it more intensely than looking at it as a pure lending of a term loan and collecting it back and building more and more volumes of that. That's our learning out of this.

Anand Bhavnani: After crisis we typically see competitive intensity lowering and you mentioned it not happening. What are the reasons that it's not happening?

Baskar Babu: We are seeing it immediately. How it will play out is that we have got a strong pool of good customers, we have been able to keep in touch and more importantly we have been able to hold to our workforce in a motivated manner and manage our cost. As the tide settles down, we will be able to see the intensity moderating. I don't know whether I would call it reducing but it's not going to lead to increased funding to existing customers. As in the past repayment track record as the only way of analyzing the capability of the customer, will not be the norm anymore. We will have to look at various other data points. It's too early to call out in terms of whether it will reduce or whether it will increase. But certainly, it's not going to be intensifying more but we haven't really seen any signs of it abating at this point of time.

Moderator: The next question is from the line of Deepak Agarwal from Axis Mutual Fund.

Deepak Agarwal: Wanted to understand in terms of how should we look at FY22 from here? So, broadly at 111 crores provision this quarter closer to 2.7%-2.8% credit cost for the quarter annualized it's a very high number. Is it like, the worst is over, hopefully unless there is a third wave coming? It should substantially fall from here starting Q2 and second is in terms of growth, how should we build growth from here?

Baskar Babu: I will put it this way. While we thought that we have seen the worst probably by March because the momentum at the end of towards March was looking really robust, none of us really foresaw the higher impact of COVID to really playing out. But heartening thing to see that the COVID-2 made sure that we were able to keep in touch with the customer which was not the case in COVID-1 which was completely playing blind. In COVID-2 unexpected but certainly we were far more fortressed to face the situation in terms of just focus and in terms of being in touch with the customer. As long as the way in which we look at it not as a general commentary, is that if we are able to stay in touch with your good customers and you are not pressurizing them excessively to a point where they start feeling that they are defaulters, that are delinquent, they will come back as long as they pay one installment. I guess that as of now what we see is that based on various other data cuts looks like the worst is over as far as this point of time is concerned. We are seeing the momentum in terms of business and as Rahul was mentioning earlier, we are not looking at funding delinquent customers to make it current. Purely based on the track record there are at least quite a few, of around 3-4 lakh customers who have not borrowed at all from us in the last 1 year and are current. How do we really dig deep into those customers because they are not greed hungry so to say? They will borrow as and when it is required. We keep up the business momentum. We opened closer to 77 branches during last year. They are business ready but we haven't really put them to use and in situations like this if you are comforted in terms of both capital adequacy and liquidity and more importantly in businesses like this, a strong motivated team by giving a good salary revision only for the field employees in the inclusive finance segment. If we took care of all the dues required more in terms of saying that no we are there to backup, you will see the momentum really picking up. If this plays out the way we are wanting to see we will see a substantial higher momentum. More importantly we will not see much instances of small-time employee frauds where the customer paid not reported. Those are the qualitative things we are making sure that stays intact. So, when things come to normalcy then I think the momentum will be not to call it exponential but it should be far higher than what we would have thought 3 months back as possible.

Deepak Agarwal: Any sense on the credit costs? So, like this Rs. 110 crores number obviously a one-off but is it like Rs. 50 crores for the next couple of quarters or would be even bigger? Rs. 25 crores ideally or it should be below Rs. 25 crores since large provisions are already taken?

Baskar Babu: That you know when we look at the entire impact of the Q2 what we think has to be recognize upfront we shall do it. This is purely as Bhavin explains a technical write-off. It is not actual write-off. Here the field officers continue to see these as customers and their installments falling due and pursuing it. As we know that over 20% of the (+90) customers are paying and (+90) itself is lower than the GNPA of Rs. 381 crores. 90+ component in GNPA is Rs. 300 crores. As long as we are able to focus and get at least 25% of this (+90) which itself is lower than the GNPA number broadly I think in our view we are provided comfortably. But at the field level we pursue the customer as a customer is continuing to be a regular customer. So, to summarise the credit costs taken in Q1, should not be taken as an extrapolation of things to come at this point of time.

Deepak Agarwal: In terms of geographical concentrations, any thoughts on which geographies have been hit harder because Maharashtra is our home geography and the lockdowns here are far more severe. Any thoughts there or do you think obviously now things hopefully are looking up and opening?

Baskar Babu: Maharashtra, Tamil Nadu are very good states. Maharashtra got impacted during demon purely in pockets of Vidarbha. This time decline in the state in places like Mumbai or Pune. So, I think we will have to stay on and then do it but of course we open branches in Rajasthan and Uttar Pradesh and a few more branches in Karnataka which will lead to geographical diversification. We will have to stick with it and there is no point in spreading yourself too thin and being in too many states without a meaningful portfolio at a portfolio of Rs. 3,000 crores and not even growing at 25%-30%. I think the number of states we are present in is good enough but we will have to intensify our presence in those states, while instead of having a marginal presence in states like Uttar Pradesh or Rajasthan probably will enhance the presence.

As to the answer to your previous question, we will also have to see how the things are playing out. There will be unified declarations which should be coming saying that there will be lots of changes. I think if we are robust enough, we wish to focus on building stickiness with the customers and see that they are continually transacting rather than a one-time transaction like a term-loan. We have done a fairly good job in terms of acquiring the customers to the platform but now it is time to find out to do that execution with thorough education of how it could be of use. As we have the digital things which have picked up, if the customer is able to connect the OD account to the any digital channel where he is able to make the bill payment and that it gives them a sense of operating it, they can get included, the way in which we will build stickiness with our customers will be far different than we would have built it a year back without such a product. I think I would call it this a year as a year of complete execution based on far more drill down of the customer data, as against earlier where we used to look at the main data of the customer across the board by just looking at the repayment track record. Now, we have lots of data which we can see in for example which location, which part, which centers, does the customer belong to. what does his behavior and still around 70% of the customer in the limited sense of quote unquote are AAA customers know where they are not used or they're still robust enough to repay in spite of all the challenges. How do we really mint more such customers and build around it is continues to be our focus. So, we are taking all that we think that will be difficult at this point of time, but the fairly according to the management we don't think that it is more of an extrapolation or partly we covered at this point of time.

Moderator: The next question is from the line of Renish Hareshbhai Bhuva from ICICI Securities.

Renish Bhuva: A couple of questions so one is on our collection which is at 78%. If I heard you correctly you are saying this collection is basically only for the July month and then let's say customer is paid for the past month that will get adjusted into past months due and not in the July collection, is that the correct understanding?

Baskar Babu: Perfect.

Renish Bhuva: So, which means this 78% of the pool is basically the current pool as of now right?

Baskar Babu: No, it could also contain the customers in various buckets of delinquencies, so it could be on the (+90) customer has paid one installment during this period.

Renish Bhuva: How it can get included in the July collection if it is already PAR (+90) let's say as on July any of this gaining waved one EMI for all practical purpose it should be get adjusted into let's say April or May EMI's right?

Baskar Babu: No, as I said it is kind of shows that behavioral pattern of the customer if the customer is making the payment. While allocation will happen to the first installment which is due whereas how many of the customers have paid at least one EMI, what pertains to the same month if it is current customer it will pertain to the previous month if it is 1 to 30 customer and so on and so forth. How many of the customers have paid the short-term all microfinance loans predominantly are not more than two years. As long as the customer is paying is got two dues no problem, but if he pays this month and he doesn't even pay next month he even slips into (+90). But as long as that momentum is kept instead of 24 months probably to get over in 30 months. But then part of that is circumstantial and I cannot keep it going and I think that is what we are seeing lots of richness in terms of intention or the customer coming back. This I think not to be confused with the previous crisis we would have seen which triggered by anything external but then becomes far more internalized and shows up from an intention point of view over a period of time. This time I think we are completely segregating that because there has been no other impact except for an impact which is impacting all of us.

Renish Bhuva: So, again, one more clarification; on this 78% the denominator will have the restructured portfolio as well I mean along with the gross NPA pool?

Baskar Babu: Absolutely, so that billing continues to reflect to a denominator. If I have pulled that out for example, for 10% then the denominator would have become 90, 79 will become 79. So, 79 by 90 will probably be 85%-90% as is billing continues in the month of June-July-August.

Renish Bhuva: Also, just two more questions on this. First on the restructuring book, so where we can see that the collection is far lower especially in this book it is like hardly 23%. If you can give some color in terms of what kind of restructuring, we have done maybe we have granted on the principal moratorium or it's a complete payment holiday and let's says if it is the only principal holiday and even if on the interest side, they are paying 23%. So, what confidence it gives you that the successful if at our recoverable and will not have a higher package from this pool?

Bhavin Damania: Actually, post 30th June in the month of July is a restructured pool on the JLG space basically have made about 36% of the customers have made payment to us in the month of July. So, there's a focus as unlocked measures of sort of opened up in Tamil Nadu and Karnataka and Madhya Pradesh. We have seen basically increase in terms of this particular customer being able to make the payment. We continue to start build momentum on that side for these customers can make payment. You can see that our 22.6% as far as the June end number has significantly jumped up to about 36% by about July. We continue to bring that particular focus on the restructured pool.

Renish Bhuva: Give some light let's say what set of a restructuring we have done. So, we have provided only principal moratorium or it's the complete payment all the way?

Baskar Babu: Both the amounts as of June say there are two installments over due so that has got restructured and got extended at the end of the month. The billing for July starts as you should continue to be as it was earlier.

Bhavin Damania: There is no holiday period that has given that the billing basically has continued even after we have done the restructuring as on June end and as Baskar explained that particular amount has got capitalized on the interest in the system.

Renish Bhuva: What is the total non-paying customer pool we have as on July? Let's say customer who have not paid us anything from March to July?

Bhavin Damania: As we mentioned on the delinquent pool basically as on June end, we had about 68% of our customers who have made payment over 2 months. We have about 68% of the customers which are in our current bucket says, so 68% of our customers basically were making payment over 2 months period which were delinquent as of June end. This number itself has increased about 75% as of July, so the delinquent pool which is making payment has jumped up to about 75% as of July.

Renish Bhuva: No but of course I mean this pool will also have some customers who are not paying at all. I mean we might have recognized as NPL as well, but there could be some customers will be sitting under par one plus and were still not paying?

Baskar Babu: Maybe Bhavin can add but 65% of our customers were in current and over 60% inclusive finances were current. The customers who are delinquent is 40% of the customers as of July of 40% of the customers. 75% customers paid at least one of the installments in the month of June and July. So, 25% of 40 % I would call it 10% of the customers in inclusive finance are the ones who have not paid anything either in the month of June or in the month of July. Some of these customers are part of the GNPA, so the 10% is very close to the 9.4%-9.5% which is reflecting on the GNPA.

Renish Bhuva: Basically, you're saying that whatever the non-paying customer pool we were having as on June-July are already there in the gross NPA pool?

Baskar Babu: Yes, part of this, not all. But one thing to note is that usually in normal circumstances any customer (+90) in a GNPA portfolio will tend towards the credit write-off. But in this situation what you see, ~25% of the customers have been paying customers even a (+90) as of July which will likely be higher in the month of July. So, overall the way we look at it, 40% of the portfolio of JLG as of June was delinquent and of this 40% ~65% customers paid. Hence, ~10% of the customers have not made the demand in the months of June and July.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

Baskar Babu: Thank you very much for participating in the call. If you have any further queries please reach out to our colleagues, Chintan Shah or Amit Singh. Thank you very much. Have a great day.

Moderator: Thank you. On behalf of Ambit Capital Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.