SPANDANA

Ref: SSFL/Stock Exchange/2024-25/111

November 04, 2024

To	**To**
BSE Limited,	**National Stock Exchange of India Limited,**
Department of Corporate Services	**Listing Department**
P. J. Towers, 25th Floor,	**Exchange Plaza, C-1, Block G**
Dalal Street,	**Bandra Kurla Complex, Bandra (E)**
Mumbai – 400001	**Mumbai – 400051**
Scrip Code: 542759	**Symbol: SPANDANA**

Dear Sir,

Subject: Transcript of conference call held on Monday, October 28, 2024.

Ref: letter No. SSFL/Stock Exchange/2024-25/109 dated October 28, 2024

In furtherance to our above-mentioned letter, please find enclosed herewith a transcript of the conference call held on Monday, October 28, 2024, to discuss the financial and operational performance of the Company for Q2 FY25 and H1FY25.

The aforesaid information shall also be made available on the website of the Company at www.spandanasphoorty.com.

Kindly take the above on record.

Thanking you.

Yours sincerely,
For Spandana Sphoorty Financial Limited

VINAY PRAKASH TRIPATHI
Digitally signed by VINAY PRAKASH TRIPATHI
Date: 2024.11.04 15:30:01 +05'30'

Vinay Prakash Tripathi
Company Secretary

Encl: As Above

“Spandana Sphoorty Financial Limited Q2 FY '25 Earnings Conference Call”

October 28, 2024

“E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 28th October 2024 will prevail.”

MANAGEMENT: **MS. SHALABH SAXENA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, SPANDANA SPHOORTY FINANCIAL LIMITED**
MR. ASHISH DAMANI – PRESIDENT AND CHIEF FINANCIAL OFFICER, SPANDANA SPHOORTY FINANCIAL LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Spandana Sphoorty Financial Limited Q2 FY '25 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' lines should be in 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shalabh Saxena – MD and CEO, Spandana Sphoorty Financial Limited. Thank you and over to you, Mr. Saxena.

Shalabh Saxena: Thank you very much. Good evening to all of you. Thank you for your interest in our Company and for taking time out to join us on this call. Most of you would have gone through our Results that have been uploaded on the Stock Exchanges a couple of hours ago. While the Results are definitely underwhelming, please allow me to give you a context for these results.

So, let me begin with giving you some landscape on the industry, and then we will go into the specifics of the Company.

Over the past couple of years there have been subtle shifts that have happened in the sector. I will take you through the happenings. Before that, as you are already aware, microfinance and the JLG model areare the mainstay of our business. Q1 was the first quarter where we saw signs of weakness in the environment when the sector was impacted due to the long-drawn elections, intense heat waves and the high attrition in a few states. This is what we had covered in our last call when we met up with all of you.

The dilution of the JLG model, and when I say dilution, it is obviously not uniform but there has been a dilution post-COVID. That is taking time to turn around. This has impacted our center meetings, the discipline around the center meetings, and a key indicator of a customer engagement being center attendance. That is still at 55% odd levels, so 55% to 60%, certain pockets are slightly higher. I am just averaging it out at national level.

Another point is that the field attrition level, and this we covered in detail the last time around. The field staff attrition level has been high over the past few quarters. Our understanding, and basis the deep engagement that we have done over the past quarter, quarter and a half with our field staff, which is both the branch and the supervisory level, there are various reasons, and we will cover it in this opening remarks as well as in the subsequent questions, if people would have. There are various people who react to the various challenges that are there in the market or that exist in the market. Our understanding from what we gathered was that most of them prefer to go out of the industry. There isn't a significant percentage which is moving into the industry, so that is what I would want to bring out.

Another point is, borrowers with established track record, they graduate or they are graduating to non-MFI loans. While there's nothing wrong in it, it is just that in times like these it puts some bit of pressure on the finances of the family, and hence the repayment capability.

The last point on this landscape that I would want to highlight is borrower indebtedness, and we have covered this in detail. So, borrower indebtedness is one of the challenges impacting the industry. If we look at the borrower'sborrower's indebtedness or over leveraging, I am just referring to Slide 6 of the investor presentation. While when we gave the loan we had a particular position, the position over the last two years as per the latest data available has seen a significant shift downwards from Spandana and Spandana plus one. The percentage of portfolio has moved and shifted downwards, and the numbers are given there.

While you have been listening to us over the past many quarters, we have been maintaining a ticket size of not more than 80,000, irrespective of the vintage, that's the max ticket size that we offer. The tenure of the loans is 24 months, we introduced the 12 and 18. And we obviously keep a close track of the indebtedness at the customer level. So, the average indebtedness of a borrower with Spandana, while it has declined by 13%, however, we operate in an environment and hence we have been impacted there. The details are there in the slides.

So, this is the background of the industry and the impact on us. Obviously, we are doing our best and the various initiatives that we have taken to ensure that we arrest the situation and we try to turn this around. The environment will have to play its part, but we are doing the best that we can as a team to ensure that we manage the two, three-clear vectors which are there which is; how you lend, how you collect; and most importantly, take care of your people.

More recently, the disruption was caused over the past few months in a few geographies due to the climatic factors like heavy rainfall and floods during the 2nd Quarter. The sector has been experiencing influence in the form of localized movements also, which has further compounded the problems. As I mentioned, Spandana has not been immune to any of these challenges.

Due to attrition over the past few quarters the share of loan officers, and we have highlighted this in the presentation as well. The share of loan officers in less than one year tenure at Spandana was 67%, this has to be looked at in context because we have opened new branches, because our branches which are big, we split those branches as well. So, that tenure has to be looked at in context. The 67% comparatively used to be about 50% - 51%, just about three, four quarters back. So, there's a bit of a rawness in the team given the fact that we have had the various challenges that I elucidated too.

On the branch On the branch manager'smanager's side, and in the last earnings call we had detailed to you. We had taken many steps to ensure that the branch manager attrition is curtailed, which I think we have been reasonably successful. There are regrettable resignations and there are non-regrettable resignations. So, of the regrettable ones, we had taken an organization wide initiative about a couple of months back to ensure that we reach out to them. And we have been reasonably successful. We were able to retain about 78% of the people who we wanted to retain. So, I think, as a headline if I were to say, the branch manager reasonably protected, and we will have to keep up and keep monitoring this important vector for the next few quarters.

The supervisory layer above the branch manager, we had some challenges, but that was not really to the extent where we would be worried, and we have kind of taken care of them as well. This quarter and the next quarter areare all about the loan officer and how do we engage with them to ensure that we have reduced the attrition at the loan officer level.

Having considered the external and internal challenges, we had already announced a few measures during our last earnings call. The teams are working hard to normalize the operations. However, as a measure of abundant caution, the following additional steps were taken during the 2nd Quarter:

1. I covered this, prioritizing people – We introduced a few cultural changes in the way business is conducted at Spandana, including focus on softer aspects like reward and recognition, team building, increasing employee connect through multiple channels of communication and meetings, compulsory system shut down hours, leave policy, etc. All of these policies and initiatives were looked at and we have had already implemented them.
2. Conservative lending approach – As announced earlier, Spandana had paused on-boarding new-to-credit borrowers. You would have read the guardrails and the way the industry has kind of joined together to ensure that we bring discipline. As a matter of abundant caution, we have announced internally that the organization will not be the fourth lender to new-to-Spandana borrowers.borrowers. So, any borrower which is new-to-Spandana, we will be the third lender, although the guardrail allows fourth, but to begin with, we are saying that we will be the third lender. So, this is slightly more conservative than the guardrails, and we will see as it goes. As things improve and we might change, but at this point in time this is one of the initiatives that we have undertaken.
3. Controls – Strengthening controls is something that we have been working on and microfinance is all about how well you put a policy in place and how well you monitor. So, on the control side, optimized supervisory span of control and monitoring, further strengthening of KYC checks, additional controls have been put in place to check frauds etc.
4. Collection focus – we have classified branches into three sets of branches, growth branches, stable branches and focus, based on parameters like collection efficiency, portfolio quality, etc. Based onBased on this qualification we stopped new member

acquisition in about 46% of the branches, which are essentially the focus branches. Similarly, we have put restrictions in place to stop adding new centers in 15% of stable branches. So, while customer acquisition is on in these branches, but however new centers we have just put a restriction to that. These restrictions, we believe, will help the field team of these branches to focus solely on ensuring timely collection of dues and meeting the customers' disbursement requirements as and when they might need.

5. As announced in the last earnings call, Spandana has created a separate quality assurance layer at branches which will focus on process adherence, quality, customer service, etc. This will help free up the branch manager's bandwidth, allowing him to focus on business and control parameters.
6. To ensure focus stays on collections, additional bench has been added across few branches. AA dedicated collection team has been created, and borrower-to-loan officers span in selectedselected branches has been reduced. This has led to an increase in OpEx to AUM for the quarter, as you would have seen. But then these are temporary pains for a quicker than usual normalization. And we expect cost to income to be about 45% by end of the year.

We continue to believe that these challenges are transitory in nature and operations should normalize by the end of the current financial year. We have not come across structural changes in rural demand or long-term dip in economic activity or macroeconomic outlook or income levels. So, this is very critical. Next few quarters, as far as the Company is concerned, we will drive the rigor and discipline of how well and judiciously we lend, and how efficiently we collect. These are going to decide the coming quarters, and we as a team are geared up to kind of ensure that we run this in a very well and efficient manner.

Now, let me move to the regular Business Updates:

On the business drivers, owing to challenges alluded to earlier, Spandana was cautious in lending. Our disbursement for the quarter was Rs. 1,514 crores, a Y-o-Y decline of 40%. AUM at the end of Quarter 2 was Rs. 10,537 crores, registering a growth of 8% Y-o-Y. However, sequentially, the AUM declined by about 10%. Right now we are completely focused on ensuring that the stability on the portfolio quality side comes up sooner than later. And hence, the slowing down of disbursement is a part of the larger strategy that we have, wherein we give more time to the branch to reach out to the non-regular customers or the arrear customers. And we collect and get them back to a regular mode.

The day we are confident that this will happen, which we believe is not very far, the AUM will be stepped up. And by the end of the year, we should be slightly more than what we ended the last year with, from AUM point of view. I thought I will just add this before I get into the next point. With pause in the customer acquisition in large number of branches, our total customer acquisition for the quarter was about 80,000 customers.

In every earnings call we give you details of our new, new lines of business which areare LAP and Nano loans. Our LAP and Nano loans business under our subsidiary Criss Financials is growing steadily. This we started about a year ago. We have now scaled the distribution to over 100 branches spread across six states, with AUM at the end of Quarter 2 at about Rs. 160 crores. The portfolio quality under both these products continues to be strong. We invested last year in setting up systems and processes and continue to believe in the strong market potential of these products.

At a Company level, we continue to maintain provisioning at 80% in the quarter because of the reasons that I alluded to. The quarter saw the GNPA increase to 4.86%. Likewise, our NNPA for the quarter was 0.99%, up 46 bps over 0.53% reported at the end of June '24. On the liability and marginal cost of borrowings, including the borrowing mix, during the quarter we borrowed Rs. 1,584 crores. The reduction in borrowing was due to the cautious disbursement approach that we had adopted as an organization. Our marginal cost of borrowing for the quarter was 11.4%, which was 46 bps lower than Quarter 2 FY '24 and 61 bps higher over quarter one of FY '25. Likewise, on the borrowing mix, the bank contribution in the total borrowing has increased to 54% at the end of Quarter 2 FY '25.

On Quarter 2 Financial Year '25 Financial Performance:

The net interest income for the quarter increased 9% Y-o-Y to Rs. 341 crores, over Rs. 312 crores reported for Q2 of last year. Net interest income was down 20% over the last quarter. The PPOP for the quarter was Rs. 228 crores, down 12% Y-o-Y, and 21% quarter-on-quarter. Yield on the portfolio was down by 202 bps to 22.4%. NIM for the quarter was 12.8%. NIMs declined as a result of decline in yield and an an increase in cost of borrowing. Our efforts are constantly focused on improving our cost of borrowing. However, the bigger opportunity lies in reversing the portfolio quality trend where we will get a lot of releases. For the profit after tax, higher provisioning at the end of the quarter has led to a decline in the PAT. And we have reported, as you would have seen, a loss of Rs. 216 crores.

We continue to believe that these challenges are transitory and expect operations to normalize by the end of the current financial year. The steps taken to course-correct will be monitored very closely and all our actions will now be focused on improving the portfolio quality. We will continue to be prudent in our approach to lending, ensuring that our portfolio is well diversified, while staying conservative on ticket sizes and customer indebtedness. The entire management team of Spandana is thankful for the consistent feedback that we have been receiving from all of you. We look forward to your continued support.

We can now open up for questions, operator.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Rajiv Mehta with YES Securities. Please go ahead.

Rajiv Mehta: Sir my question is on Stage-2, which has substantially increased. So, when I look at previous quarter, the kind of increase we saw in Stage-2 in Q1Q1, and then the flow which came in Q2Q2 in Stage-3, it seems that the flow rates are significantly high. Almost everything is flowing from Stage-2 to Stage-3, despite augmented collection effort. So, now that Stage-2 has further increased so substantially in Q2, would this assessment be correct that a significant part of it will flow in Q3?

Ashish Damani: Hi, Rajiv, this is Ashish this side. If we do simple math, maybe what you are saying adds up. But the right way to look at it is, there has been almost 50% collections happening even in the Stage-2 buckets. Although the flows at the top areare what is contributing the flows going below, that needs to stabilize and that's what we are working on.

Shalabh Saxena: Let me just add, Rajiv. The recruitment, we started additional manpower recruitment beginning of last quarter, somewhere around July and August. So, the incremental benefits of all the people that we have recruited and all the people who have been in the branches where we have taken, we will see the incremental benefits only this quarter. That's number one. Number two is, even if, and I kind of mathematically obviously agree to you, but for the flows also which have happened, additionally we have a recovery team now. We will not disturb the core of the model which is until 90 the loan officer handles. Beyond 90, because we still feel we have analyzed Rajiv, the portfolio, the customers who are kind of flowing, who have kind of crossed the buckets. There is no specific trend of a particular quarter sourcing being bad or a particular year sourcing being bad. There is a very clear linearity in the vintage and the contribution of the AUM and the subsequent percentage of SMA buckets, SMA customers in those buckets.

So, our belief is, for customers who have been with us for four years, five years, six years, it is probably the current disruption in the environment that is leading them to not really honor their payments is our belief. So, our recovery team, which has now been set up, we already have some 300-odd people, and in the next or rather this month and max by mid of next month, we will have around 500, 550 people who will approach these customers and we will start the recovery initiatives. Because these customers from an intent point of view areare not an issue, they are all old customers with us. So, that should also incrementally play out to our benefit as we progress.

Rajiv Mehta: Got it. And just to understand that, the collection efficiency is now stabilizing or curtailing, if you can get the collection efficiency of the zero DPD bucket and how it is moving between September and October, because I think Ashish did point out that the leakages or the slippages are coming from the top. So, if we want to understand that whether the slippageslippage at the top isis reducing now incrementally, we need to know the zero DPD collection efficiency bucket. I mean, collection efficiency and how that is moving incrementally.

Shalabh Saxena: So, I will directionally answer that. October, obviously, will be difficult one to answer here. But directionally, is there a significant better movement? The answer is no, Rajiv. Are there green shoots in certain pockets? The answer is yes. Is there a clear correlation where you put people and it is going to help you? The answer is again yes. And we are seeing some initial green shoots. But are the green shoots going to convert into a trend? It is too early for us to say. However, our understanding of the problem and the pockets that have been impacted and our various engagements over the past three months with the teams on the ground, I think we have a reasonable sense of the extent of the problem, and the next steps as far as the problems are concerned. That is why we have kind of recruited the people and put them in places where we have an issue.

The second additional point, Rajiv, also is the fact that there is, like it or not, because of the environmental challenges, most of the people have curtailed. Many companies, or rather practically every Company has curtailed their lending, and rightfully so. We are no different. So, this has led to some bit of shortage in the circulation from a customer'scustomer's working capital point of view. So, we are dealing with all this. Our belief is that the customers' intent is not a problem, it is just some bit of working capital adjustment that needs to be done on her part. And more engaged we are, the better the chance that we will be regularizing it soon.

Rajiv Mehta: And on this ESOP, I mean, what is the ESOP penetration within the Company? I mean, till what level have you distributed ESOPs and how many people would be covered, if you can give that some color? And second is, you spoke about that you have been able to retain some of the outgoing BMs whom you wanted to retain, so how were they retained? I mean, were their bandwidth got released and which is why they stayed back, or some other initiatives were taken to retain them?

Shalabh Saxena: Yes. So, the good part, Rajiv, and it's a very good question because that's exactly our focus. Because we believe that if you have happy people around, the rest is an outcome which can be taken care of. For the specific point that you mentioned on the branch manager, because that is what we had identified the last time around because that was a problem that could be addressed because we have some 1,700 or 1,650-odd branch managers. We physically went out to them, the different senior people went out to 36 locations and had a physical meeting with them. And that led to the turnaround where we were able to retain almost 78% of the branch manager who were serving notice. Now, did we offer them anything? The answer is no. Did we give them any other benefit outside of that, that obviously is not correct also, because somebody resigns, you do not really offer them anything which is monetary. All it required us was to have a good discussion and understanding of what were the issues that they were facing. And clearly there were issues and hence they were where they were. So, we were able to come back to them in terms of the action steps, and we have some list of 10, 12 action steps which we had to take, which we have already implemented at an organization level. So, that within a space of about 10 days, we had all of them pull back their resignations.

Once we had our belief, and we continue to believe that if you take care of your branch manager, which we did the last time around, time our initiatives, now we have already started those initiatives which is to connect at a LO (Loan Officer) level through the branch manager. So, ensure that the branch manager and the supervisory level have their KRAs very well integrated to the larger objective of the organization which is holding back the LOs. Once you hold them, because any native knowledge which goes out of your Company, it takes about two, three months for a new person to really come and then come up to speed. So, overall, I think we are very happy as a team with the way we have kind of dealt with branch managers and above. As an organization reaching out to 36 locations across about almost about 2,500 people, which is branch managers and above, I think it it was a good step and a timely step which gave us results. I think another month, month and a half, I think we should be in a a decent position to at least come to a place where we, apart from the branch manager, we start seeing incremental results on the loan officer side as well.

Moderator: Thank you. Next question comes from the line of Shreepal Doshi with Enquirus. Please go ahead.

Shreepal Doshi: Sir my question was, I mean, while a few questions have been answered, but just a data keeping question. What is our Spandana plus four and unique-to- Spandana customer base?

Shalabh Saxena: You can see that on slide number six, Shreepal, there's a table at the left hand top.

Shreepal Doshi: Okay, got it, I will go through that then. And, just another question was on this, the rise in PAR numbers, right. So, is it fair to take it this way that the MFIN guardrails have led to an accelerated recognition of stress or the movement of the Stage-1 to Stage-2 and then so forth has been pretty sharp?

Shalabh Saxena: So, Shreepal, here is my view. Any step which is taken which is good for the industry, should be welcomed. And I think we have. And I do not know if you picked it up in my commentary, we have said that new-to- Spandana, we are going a step ahead. We will not be the fourth lender, so effectively we are stopping at three. So, even if the medicine is bitter we will have to swallow it, but the end result has to be that all of us get well, as an industry. So, that's where I am not looking at it one quarter or two months or one month, I am looking to the four quarters, eight quarters. I think it's a step in the right direction. And I think that everybody is going to benefit out of this.

Shreepal Doshi: And then just last question, I think it is part of your commentary as well. You highlighted that much of the stress will get absorbed or say taken care of during this year itself. So, you think that will be a function of collections improving from say December end and all over? So, otherwise, do you think there will be spill over in the next year as well?

Shalabh Saxena: So, we still have about five months to go before the end of the year. As I mentioned, I think I gave a lengthy commentary to Rajiv in the previous question. We are seeing some movement in the market, but it is still not a trend, hence I am hesitating to say anything in terms of, this is going to turn around by December or January. However, the last two quarters are the quarters which are good for the industry, number one. Number two, we believe that with all the other initiatives that we have taken, the initiative which the SRO has taken, I think, will ultimately lead to a situation where I think the environment operates for the right lending more than anything else. So, that's the belief. I mean, it took three months for the position that we are in, we are still giving five months for this to improve. So, I think we are already two quarters down this year where we dealt with this problem. So, my belief is that attrition stabilizing, environment stabilizing, lending slightly curtailed, customer discipline back, I think we should by end of the year be able to come out of this.

Moderator: Thank you. Next question comes from the line of Renish with ICICI. Please go ahead.

Renish: Sir, three questions, so we will go one by one. So, sir, if you look at the slide, it is very much visible that we have been prudent lender reflecting four plus lender share at the time of disbursement at around 5%. But eventually it increases to 13%, clearly players are just lending without proper assessment, maybe leading to leverage. And despite being the conservative lender, we have to pay a price for over leveraging done by others. So, how do you think this can be taken care of going ahead? I mean, do you foresee SRO, regulator or anyone sort of talking about it and maybe they are maybe in discussion stage, whatever, but any insights on this will be very helpful sir.

Shalabh Saxena: So, Renish, I partly answered so I will start and then Ashish will add. I completely agree with what you said. With customers who are with us already, we have limited options but to go and keep pursuing. Somewhere in the commentary I did mention that, for all the customer acquisition that we are going to start doing now, if there is a borrower who is new to Spandana, we will not be the fourth, even though the guardrails allow you to be the fourth, we will be only the third. If we are the fourth, then we will regretfully not do the case. So, that is one of the initiatives that we have taken, because, Renish, we have kind of analyzed various data points all these months that we have been doing. While there could be patchy trends on various theories that you and I would have, but one of the trends which is unmistakable is the correlation of lenders and the collection efficiency/GNPA. The more the number of lenders, clearly there is a higher pool of arrear customers corresponding to the AUM that you would have. I will give you a data point and Ashish just add to this. And five and greater than five lenders areare about 12% in our AUM, 12% - 12.5% in our AUM. And these set of customers' contribution to the arrear bucket, which includes the GNPA is about 21%.

Renish : Including the DPD?

Shalabh Saxena: Yes, I took everything into this, arrears as well as GNPA. See, we are discussing quality, portfolio quality, be it a flow in GNPA as well. So, this is the point I am just trying to validate the point that I made, that the more number of lenders, there's a clear trend that it kind of stresses out the customer. Because more number of lenders you have to attend as many center meetings and so on and so forth. This is also one of the reasons why the center meeting attendance could be low, because four or five companies and weekly and combination of fortnightly and monthly, I mean, it's a bit of a stretch for the customer. So, that's the reason why to answer your question, we have kind of made it a policy until things resume back to normalcy.

We will continue to not offer new-to-credit customers a loan because I had covered this in detail last time around because there's too much of operational time which goes and there are other things as well which influence this, that's number one. Number two is on this four and more than four. If it is an existing customer of Spandana, then obviously she has to be regular, and then we will see if she applies for another loan we will evaluate. But if it is a new-to- Spandana customer, then we are stopping one short of what is agreed upon by everybody, which is we will not be the fourth lender, we will stop at three.

Ashish Damani: The hygiene will get built overtime, Renish, because the SRO's have already come out with this guardrail. And we have a strong reason to believe everybody will follow the guardrails, and that will condition the behavior at the customer level, also over a period of time. So, I think that is what is going to take care of what you mentioned, that how would this discipline come in. This is how the discipline will come. Given that the weighted average maturity at least for let's just Spandana in terms of the portfolio is only 8.6 months, if this origination is improved, at best two more quarters or three quarters you should be able to refine the entire book.

Shalabh Saxena: I would also want to add, Renish, before you go to your second question. For vintage customers there is a practice to graduate them from a JLG customer to individual borrower and give a higher loan. We have stayed away from that path and we will continue to stay away from the path. The hope is that once there is some bit of discipline around, what we will see is, because ultimately the money lands into the family. So, once all of that is slightly pruned, we will see definitely some bit of an uptake in the repayment capability and capacity of the customer. Over to your next question.

Renish: Sir second is again in terms of this stress, so if you can just highlight this stress in maybe last six months is coming from which state, district, etc. I mean, is there a real cash flow impact at the borrower level or is it just because of the pure overleveraging sort of which is leading to this stress?

Shalabh Saxena: No, this I think I mentioned, Renish. Trend is linear to the AUM that is there across the vintages. So, what happens is that we cannot say that last year had this any problem, or FY '22 sourcing had a problem, so it is not that. If I look at my five yearsyears, and just to give you an illustration. If my four-year vintage customer is about 10% of my AUM, the contribution of that 10% in the GNPA and the SMA buckets also is equal, it could be 9 or 11, thereabouts. So, if that is a cause of optimism, because what happens, which means that there are multiple factors at play. While it could also be, and I must add, see we are not picture perfect, it could be our inability to kind of reach out to that customer at that point in time, which could have led to where we are. I am not shying away from that at all.

So, hence, we have gonegone back to just repeating the point. When you have adequate staffing, when you have a motivated branch team and if you reduce the workload on them, we will be able to address each of these customers. Until now, Renish, in microfinance you would not need to customize a solution in case of a disruption. However, in the current times there is a need, this whole one-size-fits-all does not work. So, hence we will need to customize all of these resolutions back until all of them are back into the JLG channel and center meeting channel.

Renish : Maybe just the last question, is more on strategy side. I mean, so let's say after every crisis things somewhat changes. So, let's say post demon industry move to cash less disbursement, clearly now people are talking about let's say paper less or maybe time driven underwriting. So, after this crisis, do you see there will be a need for a separate collection mechanism for this product as well?

Shalabh Saxena: So, look, it is a fair question with very subjective answers. Different people will give different answers. There are companies already which are following 1 to 30 which will be with the loan officer, and then it moves to a different team. Certain companies follow, once the customer flows into a GNPA you have a different team recovering because the customer, for all practical purposes, stops coming to the center meeting. So, essentially it's a door knock. Now, if you were to ask our Company's view, we would prefer the latter. This is a very closely integrated model where you lend and collect, the same person lends and collects, and there is a group which influences both.

The moment you try to fracture it or you try to dislocate that model, there are implications which will have to be dealt with or which will have to be felt. We are not in this camp, but we do believe that, in our case and I covered it in my opening remarks as well, once a customer flows into GNPA she practically stops coming to the center meeting. That is when a different team follows, there's a lot of value that it will generate. Till the time, and once again let me add, till the time this is regularized, once it is regularized then you can move back to the BAU which was everybody does everything. I mean, one person, the loan officer does everything. But at this point in time it is advisable to just focus on the 90 plus with the different team.

Moderator: Thank you. Next question comes from the line of Abhijit Tibrewal with Motilal Oswal Financial Services Limited. Please go ahead.

Abhijit Tibrewal: A couple of things I want to understand. One is, I mean, in your slides you have talked about improving KYC. I feel this is one topic which has not been addressed adequately by the players in the ecosystem. So, what I am trying to understand is, during lot of findings that you did, what did you come across in terms of the fact that all the players lend on voter IDs. And to that extent, right, I mean, that problem that we have heard of our customers having multiple voter IDs and taking multiple loans on these multiple voter IDs, I mean, is that a very big problem could be in the industry or something which is trivial and doesn't warrant much attention?

Shalabh Saxena: So, such instances, do they contribute to 5% of the book? The answer is no. The question is that would you want to experiment this and take that call when you already have a situation at hand, is the question that is to be debated. At this point in time, and that is why when we stopped it, we did notice some of what you have already said, Abhijit. So, there were two options, what is the option? The first is, when you acquire a new customer who's new to Spandana, and specifically new-to-credit, you have to do lot of diligence, you have to go home, visit home and so on and so.

Operationally the process is about two or three days. So, rather than walk that path we said for now we will stop and continue to focus on customers who have taken the loan from somewhere, which is not new to credit.

Having said which, there are instances that have been noticed to the likes of what you have just mentioned. There are also instances where you do not get a hit at a point in time and then get a hit the second time around if you try after the next day. So, there are some tech issues as well that have to be grappled with. So, while we are dealing with that, is there a problem, the problem accentuates in this kind of a disrupted scenario. So, the best that we thought of was to avoid that path, and hence focus on customers and for people who are not new to credit, as in they have a credit history. We do checks internally to ensure all the instances that you just mentioned in terms of multiple IDs and all of that. So, we tried doing it, because ultimately it comes from one source and can be checked. All it requires you to do is to ensure that you do it some two to three times to just validate the point that you just made. So, you have to be cautious and in good times these things really go unnoticed. In these times, it's always good that these things come up and you integrate it into a process so that it stands by the test of time in the future.

Abhijit Tibrewal: The other thing is, I mean, during your opening remarks you touched upon your expectations of cost to income ratio, AUM growth will be slightly higher versus where we ended in March. So, I mean, maybe I missed it, but did you also guide on credit costs?

Shalabh Saxena: No, so this is a fluid situation, Abhijit, and we are avoiding that guidance point. Because see, when Q1 happened, to be honest, I mean, at least we took some time to understand the scale. At this point in time, we are avoiding any such guidance. We will wait until Q3 to end for us to stick our neck out and either way, about 75% we would have done from a tenure point of view where in a year you would have done three out of four quarters. So, that is when we will be in a reasonable position. Well, the situation is pretty dynamic, so we are avoiding walking that path at this point in time.

Abhijit Tibrewal: Just one last question or two questions, one is a clarification question. But the second one for you, do not you think that MFI players now need to start lending to their customers / vintage customers in 2H? Otherwise with the tightness, which is there in working capital, I mean, even your good customers might start exhibiting delinquencies if you do not loosen your purse strings. I am talking about industry and the sector as a whole.

Shalabh Saxena: Yes, I agree. See, forget the industry and what you do to the industry, it is about if a customer has been paying you well over the past 12, 24 months, 36 months and has been with you for long, you do not hold back, right? You have to suffice the demand otherwise you will end up aggravating the situation. I think that's the point you are making. And hence, now that we have built up a framework to ensure that you take care of your arrear customers in terms of the resolution and getting them back on track, it is important that we, I mean, at least we as a Company as in Spandana, we have started the process of trying to ensure that customers, we keep meeting the demand of the customer who are desirous of a loan. Obviously, the checks will be slightly more stringent from what we would have otherwise done, but then so be it. If a customer has been prudent and has displayed good behavior over the past couple of years and more, I think we should be giving. And I am sure everybody, see, everybody takes time including us to respond to a fast changing environment. My belief is that now we are seized of the problem. Everybody understands the nature of the problem and the way out. And one of the given is that you have to start and regularize and normalizing the disbursement part, provided you are convinced on the customer's ability to pay in the future. Because you also do not want a situation where you lend and then the customer goes the other way. So, it's a balanced view that one has to take. And we do believe that that is the way forward.

Abhijit Tibrewal: And just one last question for Ashish sir. Sir, is there a different methodology using which we calculate our NIMs? Now why I ask is, I mean, other peers when they report the results, I mean, despite so much stress there is no change in the way they report their margins. A large part of the stress which is seen in their P&L is in their credit costs. For us, I mean, I see that that hit is there, both on top line as well as the credit cost. So, I mean, how should we understand this?

Ashish Damani: So, there are two things which will impact the top line, and thus NIM. One is, any flows into the GNPA, we reverse the incomes. So, I mean, the interest that has been already accrued. So, that obviously impacts the top line. The second thing is, any transactions that we would have done on the DA side, that will also have an impact on both the denominator as well as numerator, the income will move to a different line item for the quarter to the extent of whatever time frame and whatever the up-fronting that happens. All of that goes into a separate line item, doesn't form part of the NIM when we do the calculation. These are the two primary things which will keep impacting the calculation, Abhijit.

Moderator: Thank you. Next question comes from the line of Ritika Dua with Bandhan. Please go ahead.

Ritika Dua: Sir, actually one first basic question. Whenever everybody is reporting say like Spandana plus one, two, three, or maybe say like one NBFC MFI plus one, two, three, how is this getting reported?

Ashish Damani: So, every time, let's say, when we do the credit bureau, now for example we have said we will not be the fifth lender for the existing borrowers, or if we are going to originate a new customer then we will not be the fourth lender. If there are already three lenders, then we will reject the loan. Otherwise, when we give the loan we will report that we have lent. This is how the reporting happens, and it happens every week.

Ritika Dua: And sir here obviously, sorry again, but then just here again only the NBFC MFI are the four which you are looking at, and also only the MFI loan that you are looking at?

Ashish Damani: No, all the microfinance loans we are looking at, including if the loan was given by a bank or Section 25 or through a BC or any of the participants who do microfinance loans, all are covered.

Ritika Dua: But if this person has taken or a lady or has taken maybe, I do not know if that will exactly respect, but if her husband has taken maybe a two-wheeler loan or something, or maybe some gold loan that the lady has taken, that is still out of the purview?

Shalabh Saxena: Yes, so let me explain. Sequentially there is a FOIR which is calculated, so first of all, the household income has to be less than Rs. 300,000 for it to qualify for a microfinance loan. Any household with anan income of more than Rs. 3 lakhs obviously do not enter our system. That's one number one. Point number two is, in the specific example that you gave, where the husband has taken a -two-wheeler loan, there is a liability which he must be servicing. That liability gets included in the allowable liability. So, 50% is towards expenses and then the 50% is towards the allowable as far as the installment is concerned. So, when you calculate the eligibility of the customer, all of this is taken into account. That's how sequential you have to work at. And then obviously what is the customers' installment depending on the loan she takes will decide how much she is eligible for. On the gold loan there is a criteria which has already been announced, I mean, you were just illustrating the gold loan hence I am kind of picking on it. Earlier there were some different methods which were used, now it has been standardized into how you calculate the liability of a gold loan also. So, net-net, the borrowing at a family level also enters into the calculation of FOIR to determine the eligibility of the customer.

Ritika Dua: And sir, obviously why I am trying to understand this is, linked to my second question I have. So, obviously, of the NBFC, MFIs who have reported so far, which have actually been very transparent in terms of them plus the other lender exposure, obviously, we do not know so much from the other players. So, they obviously are disclosing on an average 12% to 13% at least is four plus for somebody, and if I go by the conservative way that you are going --

Moderator: We have lost the line. Next question comes from the line of Kaitav. Please go ahead.

Kaitav: Hi, Kaitav here, Sir, good evening. Not a very resounding quarter, of course. But sir, you mentioned some areas of green shoots, and if you can throw some light around whether it is statewide or still it's pocket for you to not elucidate too much? As in, are certain states coming back or it's just pockets that are coming back?

Shalabh Saxena: No, there are patches. See, there's nothing called a state. I mean, unless if there is a calamity, whichever regions it impacts is what it will be impacted. So, my specific comment was, patches in various states including the ones which are stressed. But the reason why I am kind of dithering in terms of getting into the details is it is still not a trend. So, we do not want to celebrate earlier than what we should. We will just wait for it to become a trend. And our belief is that we should start seeing some turnaround so as to ensure that by the end of this year we are well in track to sort of put 2024 or FY '25 behind us and move towards into FY '26 with the smile on our face.

Moderator: Sure. Our next question comes from the line of Ritika from Bandhan. Please go ahead.

Shalabh Saxena: We lost you somewhere, so if you can repeat that question.

Ritika Dua: Yes, sir. Sorry, thank you for allowing me again, Sir. I would just move from an industry standpoint. Like I am saying, the NBFC MFIs have been at least transparent in terms of the numbers we know, we do not know it for the other players. But if I go by the way you have been conservative and not lending to even going to the fourth lender also now, that number then from an industry standpoint maybe could be like 25% of the book for some of the large players, including maybe for yourself also. And then maybe there are some bitsbits of the customers who are already unique and where we would have already been giving loans out. So, that combined becomes a very large pie wherein if we continue to lend more, that might maybe, rather there is a large pie which is we are not continuing to lend more, how would the industry growth maybe pan out maybe looking more into '26 and '27. I think '25 is something which we all maybe can understand. But how would the '26-'27 growth rate look like, if at all, because if we now again look to lend to them, then we are back to the same situation.

Shalabh Saxena: So, Ritika, see this is the problem. In a buoyant market everything looks rosy, and when things go down everything looks very grim. Life is in between, there's a grey and we have to thrive in the grey. So, one of the things that you have said, there are two things. One of the biggest advantagesadvantages that microfinance as the industry has is that this is the last mile delivery in markets where customers still do not have access to formal channelschannels of finance. The alternativealternative for this is only the money lender, there isn't anything in between, which obviously is not a choice. So, the prudence or the discipline around has to be at an environmentalenvironmental level, which includes the players, which includes us, let me add, and the customers as well.

The situation that we are in obviously is a reminder to everybody and also the customer, we shouldn't leave out the customers in this whole scheme of things, where they will realize and I am sure they will, that a good credit score is important to maintain for you to get subsequent funding. And that's very critical. So, that should set in very fast because this is a working capital loan for a segment which needs the capital to thrive and survive. So, I wouldn't really get into painting a doomsday scenario for '26 and '27. It is just that something triggered, something happened which led to some bit of disruption in the discipline. And obviously, we have been making this point around that once you have a control overover the number of lenders, there will be some, the regularization will happen much faster.

So, the demand is still intact. The penetration of the addressable market is still at 40%, 45%. So, you still have a headroom. And India is still a very large country. So, it is just that of 40,000 from five lenders is not the most ideal. 40,000 from three would be great. And then if you see the industry data also, in the past two years industry has added from a 5.8 crores to 8 crores, so the industry has added about two 2.2 crores customers or 20 million customers in a space of 24 months. So, you are reaching out to newer, fresher territories. All those things are there. So, and that's why in my comment also I made this point Ritika that structurally there isn't any, I mean, this is a temporary disruption, this is a transitory phase.

Structurally both the demand and the income level, see all this while we have been discussing the income levels, even if you, I mean, we read this, if you see our deck and we have made this point. Look at the average borrower outstanding. If you go to our slide number three, if you see the average borrowing at a customer level over the past two years has hardly gone up. I mean, 8%, we are not even getting inflation here, 8% growth on a point-to-point basis. So, annualized will be probably three, four or whatever that number is. Likewise, the ticket size also has increased by 21% over two years, so which is what about 9%, 10% annualized. All of this if you see, I do believe that these are signs that things structurally are okay. And people who believe in joint liability, and we are one, if you were to continue doing what is right and get to a stage where you do not increase the tenure, we do not do a 36 and 48, stick to shorter tenures, stick to lower loans, turn the loans around fast, I think we should be fine. Yes, we have to suffer from collateral damage, but then we will do everything to ensure that we also do some things which we should have done but did not do. So, unfinished agenda plus wait for the industry to kind of get this thing right.

Moderator: Thank you. Next question comes from the line of Aviral Jain with SG. Please go ahead.

Aviral Jain: I have a couple of questions, one is on the collection efficiency. So, has that stabilized? Because Q2 has been much worse than Q1, even for your weekly branches, and that's the first time where you would see some sort of stabilization while you have clearly said that you have not seen any trend as such but. But any specifics around the collection efficiency at a gross or net level?

Ashish Damani: Hi, Aviral, this is Ashish. Absolutes are something that will not be able to disclose. But yes, like Shalabh was explaining, trend wise it is similar, there has not been much improvement that we have registered or seen, but we are very hopeful that by end of the financial year we will see all of this going back to normalcy. The reason is, we have taken a lot of steps in terms of deploying people, adding a monitoring line in the branches, and the guardrails have been implemented across the industry kind of will condition the behavior from the customer side and things should start looking better.

Aviral Jain: And as a consequence, given we have deployed additional resources both at the branch level and you have more recovery team for 90 plus, would it be fair to, and this is not asking for guidance, but you could still have more slippages from a 90 plus standpoint and also from a zero plus standpoint going forward in the next this quarter, which is Q3 and Q4 as well. Would it be less accelerated, that's my question.

Shalabh Saxena: Yes, Aviral, that would be getting into specifics. And to be very honest, if we had a line of sight, we would have been very forthright. However, at this point in time, and if you see my commentary, we are cautiously optimistic. But however, the optimism is not one quarter, two quarters. Even a four quarter is good enough and we do believe that by the end of this year once we are out of this problem, the stage where we are in, it is not a quarterly discussion, it is a two to four quarter discussion. And I think we should look at this business, even if you look at the two, ideally we should be looking at least a two-year horizon. But even if for discussion sake if we were to say, to the specific point that you have asked, two to four quartersquarters if we were to discuss, we are reasonably optimistic that once we reach the end of this year I think we will be in a much better shape.

See, the reason why microfinance as an industry is said to be resilient is for exactly the various points that I have been mentioning in the commentary and the answers that we have been giving and Ashish has been given. The alternate product for the customer aren't too many, there the demand is intact. The income levels haven't been impacted. There could be some indiscretion here and there at a customer level too, two quarters have already gone by where everybody is feeling the pinch, which is both enterprises and the customers. I think it should turn around fast is our belief. And back to your question, are we seeing trends here? The answer is no.

Aviral Jain: And sir finally, the question of, you mentioned that you expect to end up with an AUM which is higher than what it was when you started the year with. So, the acceleration in AUM would come from where, newer customer recruitment? Because industry would have weeded out all the borrowers who could not repay, then a regularized credit cycle would start. Also, on the supply side I would believe that a lot of undercapitalized smaller NBFC, MFIs would be facing lot more trouble because they won't have the resources even when the industry situation normalizes to be even able to give out the sort of, on an aggregate basis, the overall supply potential in the industry would be reduced given lenders will have challenges raising resources.

Shalabh Saxena: So, the growth will come, at least for our Company, I will speak for Spandana. The growth will come predominantly from the existing base that we have for all the reasons that I have been mentioning until now in this call. We believe that that's a safer bet, that's point number one. Point number two, Aviral, is that for the past two quarters, while the demand nothing has gone, nothing has driven the demand downwards. However, the supply has been constrained for the reasons once again that we have discussed in detail. So, there will be a pent-up demand which is there, which for now instead of going out and acquiring a fresh set of customers we believe that this quarter at least we will stick to focusing on our customers, because we ourselves have a lot of potential within which we would not have explored in the past two quarters that we have been dealing with this.

So, for quarter four, we will evaluate when we end the quarter three. Our belief on the fact that this is a segment which predominantly is a good segment, something has happened in the last two quarters which we are reasonably sure that things will turn around. Plus, apart from this, Aviral, you are aware we have opened a lot of new branches, the weekly model itself about 450 branches were opened in the last one year. All of them will start delivering. The customers who we had acquired are now graduating for a second loan. So, demand from our side is, when I say our side means the customer side is not an issue. It is just that we wanted to cool this whole thing down within. Once we are out of this, we will start, and in fact we have already started pushing the pedal on the disbursements.

Aviral Jain: And one last question is, what sort of recovery would you be able to see? Again, this could be difficult to project from today, but given your long experience in the industry, both you and Ashish, you have a certain stock of 90 plus and there is a big write-off also that was taken some Rs. 268 crores this quarter. So, could there be recoveries given you have also put in a recovery team which is 300 people and then adding 200 more?

Ashish Damani: Aviral, like you rightly said, it is difficult to project in the current environment. But if one has to just go by the previous experience, then it can be anywhere between 20% to 30% in terms of recoveries, despite this thing. Since this is not necessarily all of the hard bucket, it just flown into the GNPA, there will be customers who might have had temporary challenges, there will be customers who might have gone into the stress bucket because of let's say our logistics issues which kind of Shalabh was explaining earlier. So, there are various kinds of customers who have moved into the GNPA bucket. And thus, there is anan opportunity to collect higher than what one would have, in a normal course, collected from this bucket.

Moderator: Thank you. Next question comes from the line of Ashlesh Sanjay with Kotak Securities. Please go ahead.

Ashlesh Sanjay: First question is, on the weekly model, if I go back one year ago you had roughly actually slightly more than 20% branches in the weekly model. Do you see that at least in those branches the behavior on collection is different?

Shalabh Saxena: Yes. So, if you see the slides, slide number 10, our weekly collection efficiencies of right hand bottom table, the gross collection efficiency is nearing 97% and the net is 94.2%. It is in line with, while these branches are still in the same pockets or markets where a monthly branch is having slightly more stress, but clearly weekly branches are behaving well, better than the non-weekly branches. So, this goes back to the point that we had made two years back that weekly branch is the way to go. Things did not work out for us. We started with a good intent which was the project Parivartan. Things didn't work out, but then at an appropriate time our fundamental belief is that a weekly is the way to go for the institution.

Ashlesh Sanjay: And secondly, if I look at the data which you have shared on slide number six, roughly 5% of the borrowers, when you disburse a loan to them, had five lenders associated with those borrowers. And given that average disbursement ticket size at the industry level is roughly Rs. 48,000 for a loan, what kind of gives us the comfort when we disburse being the fifth lender at that point in time, even for the 5% set of borrowers?

Shalabh Saxena: Ashlesh, what happens is not every customer would have peaked off at the peak, when the lending is done. People would be at various stages of their run downs of the specific loans. This is at a lender. So, I could have five loans from five different lenders, one with an outstanding Rs. 5,000, Rs. 10,000, Rs. 15,000, etc. Ultimately, all of this converges into the FOIR which is calculated for the customer, and she would have been eligible at that point in time. That is why we walked that path. But nevertheless, we are wise now and which goes back to, and I am sure you would be listening to the call that we have been on, and we have been highlighting this point that forget the total outstanding at a customer level, but there is a very clear correlation of the number of lenders to the behavior or the portfolio quality. That is irrespective of the indebtedness level.

So, intuitively, yes, more number of lenders means a higher dollar value of borrowing. But even if I keep that aside, that might not be, because when we further splice the slice, in same table that you are referring to on the left-hand bottom table, you still have, in spite of the four vendors you have few of them at under Rs. 50,000. This is a factor of what stage their loan run down is. So, that is why we walked that path. But anyway, we are wiser now and I have been laboring this point that we will consciously stay away from, this will be one of the criterias of deciding the loan, which is more number of lenders will probably shy away.

Ashlesh Sanjay: And just a couple of data keeping questions. Can you share the SMA 0 book and give the proportion of AUM which is sitting with borrowers having for more than four lenders?

Shalabh Saxena: Ashlesh, what was your first part of the question, we missed it?

Ashlesh Sanjay: SMA 0 book, that is one. And the proportion of AUM which is with borrowers having more than four lenders, assuming that 13.8 is on proportion of borrowers.

Shalabh Saxena: Yes. So, if you can get in touch with us.

Ashish Damani: Yes. Hi, Ashlesh. Ashish this side. We will share the data with you. It is not handy right now, but we will get back to you with that corresponding number on our 13.8.

Ashlesh Sanjay: So, this 13.8 is on is on number of borrowers, right?

Ashish Damani: Yes, that's right.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Shalabh Saxena: So, thank you for all of you who are on the call. Clearly it was a tough quarter. All of the industry as well as us have our own set of challenges. The clear learnings as far as the enterprise is concerned, and we are doing our best to ensure that all the learnings are translated into action, be it execution, be it the credit policy, be it the model that you are following and so on. So, we will continue to walk this path. As already highlighted to you, we anticipate things to regularize by end of this year. Until then, our job is very clearly to lend right and to collect right. So, this is what we will keep doing. Thank you very much for all the support and best of luck and goodbye.

Moderator: Thank you. On behalf of Spandana Sphoorty Financial Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.