SPANDANA

Ref: SSFL/Stock Exchange/2024-25/024

Date: May 04, 2024

To
BSE Limited,
Department of Corporate Services
P. J. Towers, 25th Floor,
Dalal Street,
Mumbai – 400001

To
National Stock Exchange of India Limited,
Listing Department
Exchange Plaza, C-1, Block G
Bandra Kurla Complex, Bandra (E)
Mumbai – 400051

Dear Sir,

Subject: Transcript of conference call held on Monday, April 29, 2024.

Ref: letter No. SSFL/Stock Exchange/2024-25/021 dated April 29, 2024

In furtherance to our above-mentioned letter, please find enclosed herewith the transcript of the conference call held on Monday, April 29, 2024, to discuss the financial and operational performance of the Company for the quarter and year ended March 31, 2024.

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: 2024.05.04 15:06:00 +05'30'

Vinay Prakash Tripathi
Company Secretary and Compliance Officer

Encl: As Above

"Spandana Sphoorty Financial Limited Q4 FY24 Earnings Conference Call"

April 29, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on April 29, 2024 will prevail

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

Moderator: Ladies and gentlemen, good day, and welcome to the Spandana Sphoorty Financial Limited Q4 FY'24 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 the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Shalabh Saxena: Thank you very much. Good evening to all of you. Thank you for joining the call. Thank you for your interest in Spandana Sphoorty. Friends, it's been now eight quarters that the new management has taken charge. It has been an eventful journey so far. Some hits and some misses.

However, the good part is we have received good support from all the stakeholders, the board, our customers, yourselves, and most importantly, our employees. All of you have been strong pillars for us. Please keep continuing the support.

Now to move to the year gone by, which is the financial year 2024, and then the quarter four in specific. As an institution, we had the best financial year. We had the best quarter and the best month in March ever in the Company's history. On behalf of the management, I thank all the employees, which is both the head office and the field, for pooling their might to ensure convergence on these results and the larger objective of staying on course to deliver the Vision 2025 objectives.

Let me start with "Vision 25":

In July of 2022, after taking charge and spending some time understanding the Company, we had articulated the course that we would charge for the next three years, that is until FY'25. With two years done of the three, as a team, we are contented with the fact that we are very near to most of the indicators or targets that we had set for ourselves. Here is a short update on some of the parameters we had set for ourselves.

The first one is the number of branches:

As you know, distribution is the key to any financial services company. We had set a target of 1,500 branches end of 2025. We are already at 1,642 branches, which is 142 branches more. As you all know, while the plan was to complete these 1,500 branches by the end of FY'25, we had preponed the opening of these branches, which obviously had its impact on the cost. But the core belief was that opening a branch of the Company takes a lot of effort and lot of energies and synergies that have to be kind of pooled into ensure that distribution gets started. So, we thought, if possible, let us just open all the branches in the previous year and wait for this year to just ensure that the branches unfold their productivity and the optimise efficiency gain. So, we are ahead as far as the number of branches is concerned.

Customer acquisition focus:

The second thing that we have been espousing as a Company is the customer focus, which is customer acquisition focus. Our focus on customer acquisition led growth continues. All along we have been maintaining that growth will come more through new customer acquisition and had accordingly projected a 4 million customer base by the end of FY'25. We have closed this year with a customer base of 3.32 million and hence are on track.

Geographical concentration mitigation:

Very, very critical in microfinance that we are mitigated on the concentration risk. We had stated our intent of mitigating the concentration risk by ensuring that we increase distribution in areas where we are not present and moderate our focus in existing. Accordingly, two years back, our top two states were upwards of 17.5% to 18% or thereabouts, are now just under 14%. We are on course to maintain our target of no single state to be more than 13% by the end of FY'25, which is this year.

Weekly model:

This was a change that we desired to bring in the distribution model in Spandana. In our endeavor to move to the weekly based JLG model of microfinance, we opened 429 new branches during the course of the year which had a weekly repayment model. While we continue this pursuit of moving to the weekly, the progress has been satisfactory. In Quarter 4, 21% of the disbursement was contributed by the weekly branches. The collection efficiency continues to be above 99% in those branches.

Focus on muted ticket sizes (average indebtedness) and **Shorter tenure loans:**

The fifth point, which was the focus on muted ticket sizes, and more importantly, the average indebtedness at the customer level and shorter tenure, which is a shorter tenure loans. Ever since we started our journey, the core philosophy we have been driving is to be muted on ticket sizes, shorter tenures, weekly repayment and track the indebtedness levels of the customers.

Our business data for the year supports the playing out of this philosophy. Our ticket sizes are 8% to 16% lower than what is being offered. Our maximum ticket size that we offer is 80,000 to any customer, which is probably one of the lowest offered in the industry.

We continue to tread the path of being a responsible lender ensuring that the loans we give to our borrowers are sustainable. Our average customer indebtedness was about 36,000, which is 15% to 33% lower than the industry.

Apart from this, our focus on the weekly model and the gradual shift in the distribution to weekly is going at the right pace. Our other priorities in terms of people, in terms of technology, in terms of processes and refining the processes are perfectly on track.

We as an institution continue to invest in technology, which we believe is the path to optimize growth and efficiencies. We continue to digitize our processes, ensure minimum breaks in customer journey, and most importantly, create a fully digitized environment for our loan officers to service our customers in the most efficient manner.

Now to come to the results both the year FY'24 and the Quarter 4 Results:

I will begin by stating that during the last quarter we received a new rating, a rating of A+ Stable from CARE. This is the highest rating received so far by the Company.

On the business side, let me state out a few numbers:

Disbursements:

In Q4, we disbursed 3,970 crores, a quarter-on-quarter growth of 56% and a Y-o-Y growth of 30%. 56% has to be looked at in the context of the so-called muted quarter that we had in Q3 because of the reasons that we had specified in the last earnings call. For the full year, we disbursed 10,688 crores, which was 32% growth over the previous year disbursement.

AUM:

On the AUM side, our year end AUM was 11,973 crores, which was 15% quarter-on-quarter growth over the previous quarter and a 41% growth over FY'23.

Customer Acquisition:

Customer acquisition-led growth is what we have been speaking a lot about. Our steadfast focus on new customer acquisition has resulted in we adding almost 1.4 million customers during the year FY'24 which was a growth of 59% over FY'23. New customer acquisition during Quarter

4 was 4.4 lakhs, registering a quarter-on-quarter growth of 30%. This has taken our total customer count or our customer base to about 3.3 million, as I had stated earlier.

This focus on customer acquisition-led growth, I am just substantiating it with numbers, the disbursement growth of 32% and the AUM growth of 41% has been a result of customer acquisition led approach, which we have been following over the last two years.

If I were to split the growth to represent my point better, disbursement to new customers grew by 62%, whereas disbursement to existing customers grew by 9%. So, while the average plays out the way it is, this is a combination of the way we have been driving the business plus obviously the new focus states that we have started growing our market share in.

Portfolio Quality:

On the portfolio quality, we have increased our provisioning to 80% this quarter as you would have already seen in the presentation. Our GNPA for the quarter saw a decline of 11 bps over the previous quarter to 1.5%. Likewise, our NNPA for the quarter was 0.3%, a 17-bps decline over the previous quarter.

Criss Financial:

Just a short commentary on the new businesses that we had started under our subsidiary Criss Financial. In our endeavor to set up new business lines during the last financial year, we rolled out two product lines loan against property and nano enterprise loans. The loan against property obviously is a secured line and nano enterprise loans are loans to shopkeepers, but these are loans which are between 60,000 to 90,000 in selected identified geographies, and we have made decent progress.

The focus this year was on testing the product and process in one state, establishing technology solutions, hiring talent, creating the right distribution network and then to expand to other geographies.

Just to kind of build on this, I must specify that this business is under our subsidiary. This has a separate set of branches. This has a separate set of people. It is being led by somebody who does not look after microfinance. So, this is a completely new vertical or separate vertical where we are doing this business.

Over the last one year, we have established a footprint in five states namely Rajasthan, Madhya Pradesh, Andhra Pradesh, Karnataka and Tamil Nadu with the operationalization of 62 branches. We ended FY'24 with over 3,000 customers and we have created a book of 52 crores AUM. We have also added about 700 staff for this new business line. That is one more reason why we have some bit of a spike in our cost, but then this is an investment for the story that is going to play out this year.

The average ticket size on the Micro LAP as we call it is about 4 lakhs. This is a segment that we believe has a lot of potential and this is the segment that we intend to capitalize.

On FY'25 deliverables, during FY'25 we plan to expand in these five states taking the total branch count to about 100 in the same business line and grow organically to reach a book size of anywhere between 400 to 500 crores. We are targeting the Micro LAP segment for the reasons that I just spoke about.

Microfinance:

Now going back to microfinance. Liability and marginal cost of borrowing including the borrowing mix, as you all know, the quality of growth will be defined by the quality of the liability franchisee that we have. With every passing quarter, we are improving and the quality of our liability mix also is improving.

In FY'24, our borrowing for the full year was about 10,441 crores, which was a growth of 81% over the last year FY'23. We borrowed in the last Quarter 3,428 crores, which was 50% up over Quarter 3. Our marginal cost of borrowing was 11.8% for Quarter 4, which was 37 bps lower than the Q3 cost of incremental borrowing.

Likewise, if I look at the borrowing mix versus category, we now have a more healthy mix with bank's contribution increasing. We have got 52% on the total borrowings. End of this year, we anticipate this 52 to move to anywhere upwards of 65% and that is going to drive our cost south on the borrowing side.

Now to brief all of you on the financials for FY'24:

The consolidated net worth of the Company has increased to 3,645 crores. Our gearing is 2.66. Our balance sheet is sufficiently comfortable on a CRAR at 31.3%.

Net Interest Income & PPOP:

On the net interest income, the NII increased by 59% in FY'24 compared to FY'23. The full year NII was 1,289 crores. On the PPOP, the Company's PPOP increased for FY'24 to 953 crores versus 562 crores for FY'23. That's a growth of about 70%. Quarter-on-quarter, the PPOP went up by 11%.

Yield and NIMs:

The yield on the portfolio was 24.2%, which was pretty much on similar lines of what it was over the past few quarters. While it was an improvement of about 11 bps quarter-on-quarter, NIMs for the quarter improved 128 bps to 14.6%. 13.3 was the NIM for the previous quarter, which is Quarter 3. NIM for the year was 14.1.

PBT and PAT:

PBT for FY'24 was 671 crores for the full year versus 18 crores for FY'23. PAT for the year was 501 crore.

To quickly sum up our key focus for FY'25:

Microfinance:

We will continue to pursue the agenda of financial inclusion and driving growth through the year on philosophies, which have been articulated in detail in today's as well as the previous calls and discussions.

Productivity:

This year is all about optimizing our channel and unlocking productivity across the organization. We intend fast pacing this between this and the next year.

LAP and Nano Enterprise loans:

The new business lines will scale up this year as our desire is to capitalize on this opportunity, which the market presents, but of course, this is new for us and hence, we will be very careful and cautious.

The entire Management Team of Spandana is thankful for the consistent feedback that we have been receiving from all of you. We continue to focus on delivering on the targets we set for ourselves and look forward to your continued support.

Thank you very much. Sagar, you can open up for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Renish from ICICI. Please go ahead.

Renish: Sir, just two questions from my side. One on the 1+ DPD bucket, which has been increasing quarter-on-quarter. Even this quarter we saw uptick. So, sir, what is going on there on 1+ DPD?

Ashish Damani: Hi, Renish. This is Ashish. You want to put your second question, or should I answer the first one?

Renish: So, again, second is related to asset quality only. So, on the ECL model, when we look at the, just give me a second please.

Moderator: The line for the current questioner has dropped from the queue. So, we will move on to our next question. Our next question is from the line of Mahrukh Adajania from Nuvama Wealth. Please go ahead.

Mahrukh Adajania: So, my first question is on outlook on loan growth, right? We hear from some NBFCs that RBI the regulator may not be very comfortable with even more than 30% growth for smaller NBFCs. So, how do you view yourself in that context in terms of growth outlook? I know that your guidance has been kind of below 30, but your growth has been much above this, right? And I know the base effect, but still, just some comments on that and how much you would like to grow over the next one to two years? That's my first question.

Shalabh Saxena: So, Mahrukh, hi. Shalabh here. The 41% growth, and which is the point I have been making over the past one year to whosoever I have been speaking to, we have to look at this growth in the context of the organization and the institution that Spandana is and the scale at which we used to operate and the scale at which we are present currently in the country.

After the write-off etc. in quarter 1 of FY'23, if you look at our FY'23 year-end AUM, we were at 8,511. So, hence, on a percentage basis, the number looks big, but as an institution for the size that we present, which is about 1,630 branches and 14,000 employees, what is very critical to know is how from a quality and from a mitigation point of view, how are we growing, and which are the regions and areas that we are growing.

In my commentary today and even otherwise, we have been saying that we will remain spread across the country. We will ensure that we lend short tenures and we will be muted on ticket sizes. So, the average indebtedness is what we track rather than anything else. That is number two.

Number three is going forward, we said that, now that we are at about almost 12,000 crores, we have just in my commentary, I said that we will grow about 20% to 25% this year to take the number up to about closer to 14,500 to 15000 crores on AUM basis.

Couple of months back, we had come out with a theme that because we were very close to completing the Vision 25, we had come out with a theme of 28 by 28, which is 28,000 crores of AUM by FY'28, which works out to about 22% annualized growth. So, we are comfortable with a 20% to 25% growth.

What also one should look at is the amount of borrowers that we have added. We have added this year, while we are projected that we will do, we will end up with a 4 million base by end of next year, we are already at upwards of 3.3. So, you know, we are adding more and more customers. We are low on the levels of credit that we give.

My belief is that these loans being income generating loans, you know, they add a lot of value to the segment that we lend. And yes, we will be cautious for sure. So, I think the 41% growth has to be looked at in the context of the base to summarize. And going forward, we are very, very comfortable in a number which is anywhere around 22% to 24%.

Mahrukh Adajania: Got it, but there would not be any regulatory soft cap as such, right, in case you get opportunity to grow higher?

Shalabh Saxena: No, but that's the point, you know, I am saying even before if you go back to our commentary, three years back, we had projected. I mean, all of this, all of what you are saying is a last two, three, four, six months of phenomena. We had charted this growth and the growth rate about eight quarters back, and we are not deviating from that script. We are exactly where we had projected and which we thought was a comfortable rate to grow. That rate to grow is even theoretically also arguing is a number which is much lower than the threshold that you are talking about.

So, a sub-South of 25% growth rate is a good number to target. That much is the opportunity which the market presents. And I think we are comfortable that we will be able to carry and balance the quality as well as the absolute number for the opportunity that the Company presents.

Mahrukh Adajania: Fair enough. And my next question is on the forward flows. I think the first participant tried to ask that. So, when do you see easing of forward flows? And the 61 to 90 DPD has risen. So, how does stage three look like for the next one or two quarters?

Ashish Damani: So, yes, the flows have been higher. But I think we have kind of discussed this in the past. Also that, you know, we are trying to do the right thing for the Company, which is move towards the weekly as a format in the branches where there was a monthly business. So, we have initiated that. And that coupled with some of the other, some of the states are showing some challenges with regard to the Karza _ Mukti Abhiyan. In some parts of Rajasthan, some parts of MP where we have a little bit of business, there has been some distress.

Having said that, that's not the large worry for us as such since we don't have any business in Punjab or Haryana. The primary challenge is 62% of our flows are contributed by branches which are into the Parivartan mode. And that is likely to kind of start showing or start yielding results in starting this quarter onwards. That's where we are.

Having said that, I think if you look at the overall credit cost that we have as a business on a BAU basis for last year has still been around 1.9% against the 2% which we kind of envisaged.

Shalabh Saxena: So, Mahrukh, let me also supplement. Quarter 4 was obviously, it's the end of the financial year. So, we are managing multiple priorities. Parivartan is what Ashish spoke about, is something that obviously we started with the right intent, and it is going as per, so there are no surprises now, the surprises whatever happened last year, Quarter 3. We are confident that over the next quarter, quarter and a half, we will be able to kind of while the challenge in a microfinance once a customer slips, to get it back into a regular or a current book is a bit of a challenge. But nevertheless, the teams on the ground are working towards it to ensure that this is done.

I have a broader philosophical answer to this. If you take a step back, why did we do it? Because we get asked this question, why did you even do it? In our humble attempt, we had to do what is right for the institution. And we saw there was an opportunity in that model because that model had some limitations on scalability, apart from the fact that weekly is something that we like. So, that's the reason why we walked that path in about 50% of our portfolio.

Obviously Quarter 3 of last year and Quarter 2 of last year, there were some bit of surprises. But now over the past quarter and a half, we are fully in control in terms of assessing the issues that are at hand and how to kind of control. Obviously, you have to juggle multiple priorities.

And hence, while we were balancing the SMA buckets, there was a year to end as well. We have done that. Q1 and Q2 will be slightly soft because that is how the industry functions. We are reasonably sure that over the next two quarters, we will kind of ensure that this part is very well taken care of. That's number one.

Number two is, when it comes to the customer, see, for the scale that we have added, we will continue to work with these customers to ensure that, and that's what we do. If you see our 1 to 90, about 50% is the 1 to 30 bucket, almost 50%. So, customers once they, and that's the not so good part about, once it slips, you have to ensure that you kind of please the customer and don't allow her to flow. Once it flows, it's a bit of a challenge. But anyway, this is all a thing of the past. Q4, we did our attempt, but obviously multiple priorities to be handled. Q1 and Q2, we will kind of just sort this out.

Mahrukh Adajania: So, most of the Parivartan related stress will be done by the second quarter, as in forward flows.

Shalabh Saxena: So, you are calling it stress and I agree it is a stress because it is...

Mahrukh Adajania: No, no, as in the transition. Sorry, I used the wrong word. Sorry.

Shalabh Saxena: No, no, I'm using the word, okay, let me put it that way. So, look, any SMA bucket, any customer in a SMA bucket is not a pretty sight, Mahrukh. So, there is absolutely no problem in that word.

The only thing is that, our sense is that by quarter two, we have to ensure, and that's what we have been discussing with customers. What we have done is a lot of analytics in terms of the centers, ensure that you reach out to the customers and bring them back into current state. So, Q2 is a reasonable estimate, where we should be done as far as this part is concerned. And then it is pretty much BAU.

Now to supplement what Ashish said, and that was the second part of my answer, we had said that we will be in the range of about 2% credit cost. This could mean some bit of stress here. At best, even if I were to speculate, would add what, about 50 bps max, in a short term. In a long term, by Q3, Q4, I think we will be back to the 2% that we have been saying. So, it is those kind of liberties you have to take, because we should not forget that we have kind of just, this is a new distribution. When I say new distribution, many geographies are new, and this is still fresh. So, Q3, Q2, August is when we started this last year. So, once we come closer to that, I think we should be in a good, comfortable position with all that.

Moderator: Thank you.

Shalabh Saxena: So, Renish is here. Renish, I think, we lost you when there was a siren playing in the background. So, your question was, the first question was the same as Mahrukh's question, which I think we answered in detail. The second question where you got dropped was on the ECL model, and then we lost you. If you could just repeat your question?

Renish: So, sir, on the ECL model, when we look at the model across these stages, we have seen the increase in PCR. So, have we changed the ECL model this quarter?

Ashish Damani: Thanks, Renish, for the question. So, what we have done is we have changed the methodology and improved the methodology in fact. We earlier were having 8 years covered in the model as an input. However, the inputs were at the year end, like the 8 data points across various states. From there what we have done is we have moved to every month as a data point in the model. So, there are now 8 years into 12 months which is 96 data points which are being fed into the model for smoothening purposes. So, the model is now much smoother in terms of the input.

Moreover, the other change that was done was, we were doing at different states. So, with not much of weight in some of the states were kind of not adding any value and our products, customer profile are homogeneous across the country. Products are homogeneous. So, what we have done is we have moved to enterprise data inputs in the model. That has kind of smoothened the flows across the buckets and it has led to a overall increase in the provisioning for us by about 4 crores.

Having said that, but the good part is it has given us some release in the current bucket because the flows are rationalizing as we move forward. However, in the subsequent buckets, you know, Stage-2 and the LGD, it has shown a higher number and accordingly, the model has been adjusted and 4 crores excess has been provided for.

Renish: So, I mean, does that mean, let's say, a PD or LGD might have gone up in Stage-2 and Stage-3 and it might have improved in stage 1, which essentially means that incremental disbursement is actually of a better quality than what we had, let's say, 2-3 years back?

Ashish Damani: That's a reality. And I think it is more to do also with the fact that in between there was a period of COVID, which kind of impacted the overall data points. And as we go forward, this should continue in the model, because your current bucket as it improves, currently even we are still not there at a stage where we would like to be the current bucket, like we just explained to Mahrukh's question or your question that your 1 to 90 can improve going forward. As it improves, this current bucket flow should also, I think, improve from where they are presently over time. Obviously since the data points are 96 and it is on a rolling basis, the rate at which it will refresh will be slow. That's also.

Renish: Again, just a last question on these collections. So, considering this project Parivartan, and again when we look at the net collection efficiency on the weekly model, which is significantly added 99 versus, 96.5 on the blended basis, so it is fair to assume that let's say, going ahead, collection ideally should improve from here on? And if that is the case, then ideally 1 to 90 bucket should have been picked out by now? Is that the correct reading or am I missing something here?

Ashish Damani: No, largely yes, barring that, the fact that Parivartan, like Shalabh was trying to explain earlier, will take about a quarter or two. So, that means there can be a few _bps here or there in, let's say, the immediate quarter that is in discussion. But yes, two quarters down the line, what you are saying should play out. Your 1 to 90 bucket should start showing a lot of improvement and likewise the overall credit cost as well.

Shalabh Saxena: See, Ranish, let me add. We have to look at the long term, and I am not saying long term means 5 years. I am saying long term, which is about 4 to 8 quarters, if you were to look at the way we are shaping the business and the way we are steering our business, what are we doing? We are lending right. We are very, very focused on geographical mitigation and hence we are spreading ourselves in the places where we are not.

Our emphasis, specific states is reducing, which is the number that I quoted in my earnings call speech. We are focused on the weekly model, which is shorter tenure, higher customer engagement, because this is a high customer touch point industry. And most importantly, when it comes to driving the customer behavior, we are insisting on all the things that a JLG model should follow.

Now, if this is what it is, you will have a few, one quarter up and a quarter down, but broadly, if your story is fine, then what you are creating is a very stable enterprise, which is there, which will keep on chugging along as you progress during the years. Any transition or any change in the model comes with that element of risk, which has played out in our case and hence we are where we are. But we did what was right and given a chance, we would do it again.

Now the other thing is that because this is a question while you've not asked but people ask what are you going to do with the other set of branches which have not yet gone the weekly? Obviously, with experience, we are wiser. We are very carefully choosing this whole thing. We will go 2, 2, 3, 3, 10, 10 branches not immediately but in the next two to three quarters when we start that journey, but this time we will not do any wholesale changes. We will go very, very slow so that we are able to balance everything so that the overall balance of the organization is protected.

Moderator: Thank you. Our next question is from the line of Sumil from Sigular Guff. Please go ahead.

Sumil: Just wanted to check on the cost-to-income ratio. I understand that there is too much of upfront investments being made for the group. Like what's the stable sort of cost-to-income ratio that you would be happy targeting and obviously there as a part of the AOP which was presented on the vision for the three years, but just a light path over FY'25 would be helpful to understand.

Shalabh Saxena: So, Sumil, four quarters from now, so answer to your question, what is the number that you would be happy with? You would be happy with cost-to-income of anywhere south of 40 and upwards of 35. So, that's the number that we should be happy with. We should be happy with the cost with the OpEx to AUM of anywhere around 6- 6.25. I am just repeating what I said and what you also sort of corroborated. All of this is because of the upfronting and the new business lines that we have opened. Once they start delivering and unfolding the productivity, all of this gets stabilized. So, this is that one time hit that you have to take for a better tomorrow.

Sumil: And on the provisioning side, so we are in excess provisioning other than specific provision if I were to look at the GNPA number and the provision that we carry on the balance sheet. So, your overall provision is more than the GNPA as we see as of 31st March'24.

Ashish Damani: This is Ashish. What we follow is the ECL methodology. So, any bucket, stage 1, Stage-2 or Stage-3, based on the PDs, we do carry the expected loss. So, in Stage-2, now we carry 47.8% of whatever is there in the bucket as a provisioning, that also adds. And for stage 1, 0.87% is what we are carrying as a cover, which was earlier 0.92% in the previous quarter. So, basically, the idea is just to follow the model. Model gives you the PDs. LGD is also coming out of the model only and we are just multiplying and doing the provisioning as required by the entire piece.

Sumil: I have one question, Ashish, for you. This net gain on fair value changes, if you can walk us through, I understand that this is impacted by any direct assignment or securitization that you do, but there is a flow element and there is a stock element. So, the direct assignment that you did in this quarter was 16 crores of impact, but there is an overall net gain from fair value changes of 34 crores. So, what does it comprise of, if you can help me understand?

Ashish Damani: So, there are two things here. One is the DA, which you have articulated, and it was 16 crores in this quarter vis-a-vis 20 in last quarter. There is also another income, which gets reported in the same line, which is the investments that we do with the mutual fund companies during the course of the quarter. We just place any surplus money with various mutual fund institutions to reduce the negative carry and that also goes into the same line item. These are the two things.

Sumil: And there is an amortization as well because you upfront all the excess income and then you will have to further book more because it would have been discounted at a certain rate and every quarter there will be further amortization of income which will be positive on the P&L.

Ashish Damani: So, that happens for the processing fee that we collect. We collect 1% with every loan as a processing fee. However, it will be added to the interest income line itself. Here there won't be any amortization. Whenever you do the DA transaction, you have to record it on the date of the transaction, the entire income since the transaction has kind of completed under the Ind AS method. So, all the income will be booked in the same quarter. Basically, for the quarter, let's say whatever the period, that is anyways would have recorded. Upfronting will happen for the balance tenure, on the 90% of the book which is hived off from the balance sheet.

Sumil: But, there has to be discounting of the excess income, right? As in it's not booked all upfront. It's discounted by a certain discounting rate.

Ashish Damani: That is the rate at which you run the transaction between the bank and us. Typically, our rate for the DA transactions is lower by 50 to 70 basis points compared to the term loan transactions that we do.

Sumil: So, there is no, for the P&L impact of the, there is a time limit that we do, except for the quarter in which it is done.

Ashish Damani: That's right.

Moderator: Thank you. Our next question is from the line of Shreepal from Equirus. Please go ahead.

Shreepal: So, my question was, first pertaining to the new customer acquisition. So, the new state that we are targeting, or when we are entering, are we seeing that there is already a decent number of lenders giving loan to a particular customer? And are we having any filter as to not to give a loan to a customer who is already having two to three lenders already?

Shalabh Saxena: Yes, so Shreepal, see, first of all, the people who are driving up a business on the ground are somebody, are the set of people who have been doing businesses in those geographies many,

many years. So, they understand the terrain well. That's number one. I am just taking a step back to your question and giving you how we decide to enter a geography so that that will give you a fair sense of how we kind of pace this whole thing. Number one.

Number two is, we rely a lot on the CB data to figure out how was the experience during demonetization and how the experience during the COVID for us to take a call on where do we open a branch. So, where do we open a branch is secondary data. The set of people there will then corroborate saying yes, this is okay, while the data is okay, but we should, or we should not go. And most importantly, the people who are there have been long term vintage employees doing microfinance for many, many years. So, they will subscribe to, we should be going in those geographies or not. So, we do all those checks and then we go.

Now your question is, do we see at a criteria scale? We don't want to be the fourth and the fifth lender, number one. Number two, there are certain geographies, which obviously I can't really put it out here, but there are certain geographies where we restrict specific, you know, we have a customized approach to when we enter a geography, where we will say that no, we will not be the third or we will not give a loan if a customer has taken a credit, has a credit limit from X or Y. So, those are the very tactical calls, which we take at a geography level.

Suffice to add and that is a test and if you see the performance of the weekly branches, because those are the branches that we have opened last year, about 430 of them, it is kind of going as per the script that we had crafted.

So, you know, as far as the new geographies now the challenge that we as an enterprise, I am just extending your question, challenge that we as an enterprise have is how do we transfer the model that we currently have into something which works on the lines of the weekly model? So, the weekly, the combination of the geographies and obviously the lending profile of the customer, these customers are used to a weekly rhythm and a cadence of meeting 52 times a year. So, we are walking that path.

Do we take calls? We take. So, unlike the past when you had a one size fits all, from Karnal to Tamil Nadu, we had a similar one size fits all credit criteria. What we are doing is we are customizing the credit criteria in terms of what is the credit limit you should give to a particular geography and to a particular customer, what should be the credit limit you should give to a specific customer who has an experience with somebody else, but not with us? And vice versa somebody who has had an experience with us, who is a cycle five customer with us and so on and so forth. So, it's a good grid which the risk team here sort of validates and vets which then is handed out and built into the system so that the sourcing automatically gets channelized as for what we would have desired. Sorry, the long answer to your question, but I thought it is important to explain.

Shreepal: No, sir, thank you. That was actually very helpful. So, my second question is also related to, like on asset quality side. We have come out from that COVID cycle and therefore, the PAR numbers had improved significantly. However, now in the last three quarters, it has been increasing, but where do you see it stabilizing? So, we are saying it is increasing because we have seen the bottom as well. So, where do you see sort of stabilizing or sort of normalizing going ahead when you talk about say PAR….

Shalabh Saxena: I will just refer to the same question I answered to a previous participant, overall, what was our guidance that we will be in the neighborhood of about 2% credit loss, right? So, immediately, we could see 25-50 bps here and there. But four quarters from now, I think, we hold to that number or that steer that we had given. We should be able to stabilize our operation two quarters from now.

Shreepal: Is it like an industry wide number that you feel it will be like 2%, 2.5%?

_Shalabh Saxena So, look, I can't comment on the industry. I will tell you about my Company. So, Shreepal, as far as we are concerned, if you do all the right things, 2%, 2.5% is not a number that cannot be and I have seen the other numbers as well. But I think that's a number. If you watch your steps well, that's a number that can be delivered. ROAs of upwards of 4.5% is very much doable and that is what we have been delivering.

So, in a steady state, look, you will always, we have been trying to do various things. We have been successful in most of them. Another two to three quarters as an institution, we should stabilize. Four quarters hence, you know, I think, this will be an absolute BAU. Because what has happened is now we have our branches across the country which are reasonably spread. And now all we have to do is to ensure productivity, efficiency with the quality that we desire.

Shreepal: So, this last question pertaining to the pricing side. So, we have seen the regulator being little stringent or strict in the recent times and they had highlighted about spread in the MFI landscape. Since our cost of fund is likely to improve given the rating upgrade, will we sort of re-look at our pricing and bring it down and then broadly maintain the spread or will we continue with the current yields?

Shalabh Saxena: No, no. So, look, the overall guidance on profitability and the corresponding yields and NIMs will not be disturbed. Let me start from there, number one. Number two, yes, this year we anticipate a lot of upside on the cost of borrowing. What this will do to us is what we are doing is, we have already started passing the benefits to the customers.

For example, starting the 1st of April, we have already for customers who are cycle six and above, we have given them a benefit in terms of the reduction of the interest rate from 50 bps to 100 bps. So, that is part one.

Part two is going forward and we are already working on it. This is something that we have already done. Going forward what we will do is the risk-based pricing, which is obviously you charge a regular rate to the customer who joins you the first time around and then pass on the benefit depending on your comfort for the specific geography or the cycle of the customer going forward is what we will do.

What the reason why we are confident is that now we have two years of data with us post COVID which we are now you can easily and reasonably estimate how are you going to kind of price your customer risk. So, over the next two to three months, that is what we are going to do, which is calibrate the cycle of the customer with the corresponding pricing. But what remains absolutely clear is that with reasonable stability both on the pricing and the quality side, we will pass on the benefit to the customer which we are already working on.

Moderator: Thank you. The next question is from the line of Rajeev Mehta from YES Securities. Please go ahead.

Rajeev Mehta: So, most of my questions are answered. Just two questions. So, Shalabh, just for greater comfort on the quality of your customer acquisition, so in geographies like Bihar, West Bengal and Tamil Nadu, which are large and crowded MFI markets, can you share what percentage of the acquired customers here will be unique or percentage of customers can have more comfortable leverage and PAR level?

Shalabh Saxena: Rajeev, now as a off-hand I don't have in Bihar how much is first or second. But see, I have been seeing, Rajeev, just to give you a larger answer, I have been looking at this specific data for the last six years that I have been exposed to this microfinance industry. So, I can say with what are the things that always shine? The things that always shine is your relationship with the customer, how well you run a process, and most importantly, how is your engagement in terms of the center meetings etcetera that you do. That's very, very critical.

Number four, and actually number four should be number one. The people who are on the field handling your branches and handling your center are the ones who should be the local people who understand this whole terrain better. So, we have in our teams all those who have been handling their specific geographies where they are for the last many, many years. So, that is an added advantage. So, whether it is a brand-new customer or whether it is a second cycle customer or third cycle customer, I have seen data on Demonetisation, I have seen data on COVID. There is no specific yes or no which comes out. What the differentiator is your people on the ground and how well they have managed your book. That is what comes out. So, we can send you the data when we speak separately. But is there anything? The data is not a clear trend line anywhere. Otherwise, you would stay away from that.

Rajeev Mehta: No, clear, Shalabh. And just two questions for Ashish. Ashish, in this quarter, we saw significant reduction in the stock cost of funds. And that's even sharper than the reduction in incremental cost of funds. So, did we have a good reduction coming through in this quarter on the existing kind of loans because of rating upgrade or something?

Ashish Damani: No, not really, Rajeev. It is more to do with the fact that we have had heavy borrowing in the last few days of the quarter and that's why there is a denominator effect. So, if I have to normalize it, my normalized cost of borrowing should be about 11.9%, definitely lower than 12%. And so it has to be looked in that context. So, while it is coming down, 11.8% is definitely an aberration. I mean, because of a lot of borrowing happening and we have kind of managed the negative carry on the cash holding during the quarter in a slightly more agile manner, I would say.

Rajeev Mehta: And just last thing is, what would be your current assessment of the remaining impairment cost that can come from the loan disbursed prior to April'21? And maybe on the security receipts, I mean, the transactions that we did in the last year?

Ashish Damani: See, the overall security receipts that we carry in the books is about 112 crores. Against that we are carrying 34 crores of provisioning already. We expect to collect the rest of it. Although there can always be a timing difference in terms of the assessment done by the valuators vis-a-vis, let's say, the speed at which we collect, there can always be a timing thing where we may have to take a little bit more provisioning. But I don't expect that to be any significantly larger thing to offset the overall credit cost that we will take in any quarter as such.

Rajeev Mehta: And on the DA, I mean, Legacy DA, anything that…?

Ashish Damani: So, on the Legacy DA, we last quarter explained that there was about 5 crores which was there in the balance sheet. That has all been fully provided for and there are nothing further that we have done or we plan to do as of now.

Moderator: Thank you. Ladies and Gentlemen, we will take our last question for today. The question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead. The line for the current participant has been dropped. So, we will take that one last question from the line of Mr. Parikshit Kabra. Please go ahead.

Parikshit Kabra: Most of my questions have been answered. So, I will just ask this one thing. The employee benefit expense has been rising and I am just wondering, I know you said that there have been upfront investments in new business ventures. So, how do you see this going ahead next year? Is it going to continue rising at the current trend or do you now see it stabilizing where it is?

Ashish Damani: So, yes, the last quarter has been higher because of the amount of hiring that we have done. Plus, we had a reasonably decent quarter from a disbursement perspective. So, your costs will be driven, your incentives will be driven by that.

But on a normalized basis, I think investments in the new businesses will continue in the next year as well. However, the larger business, which is the microfinance or the core business, that should start delivering lot more productivity and lot more efficiencies. So, on an overall basis, I think by FY'25 end, we should be below 6.5%, the way we have looked at it earlier.

Moderator: Thank you. Ladies and gentlemen, we would take that as our last question for today. I would now like to hand the conference over to Mr. Shalabh Saxena for the closing comments.

Shalabh Saxena: Thank you very much to all of you for joining the call and showing interest in our Company. As I said, it is about eight quarters that we have been at the helm, driving the business with all the right intent. Yes, there have been hits, there have been misses. Hits have been obviously more than the misses for sure.

What we have already espoused is to do the right business, which is long term. What we have ensured in whatever we have been doing is to ensure that this organization remains robust and the model and the business model that we are developing remains sustainable for a long time.

Thank you for all your questions and all the suggestions and advice that we get from you when we interact with you one-on-one. Please keep the advice flowing. Thank you very much. God bless you. Thank you.

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