Ref: SSFL/Stock Exchange/2023-24/151

Date: January 25, 2024

To
BSE Limited,
Department of Corporate Services
P. J. Towers, 25th Floor,
Dalal Street,
Mumbai – 400001
Scrip Code: 542759

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

Dear Sir,

Subject: Transcript of conference call held on Monday, January 22, 2024

Ref: letter No. SSFL/Stock Exchange/2023-24/150 dated January 22, 2024

In furtherance to our above-mentioned letter, please find enclosed the transcript of the conference call held on Monday, January 22, 2024, to discuss the financial and operational performance of the Company for quarter and nine months ended December 31, 2023.

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: 2024.01.25 18:19:05 +05'30'
Vinay Prakash Tripathi
Company Secretary and Compliance Officer

Encl: As Above

"Spandana Sphoorty Financial Limited

Q3 FY24 Earnings Conference Call"

January 22, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on January 22, 2024 will prevail

MANAGEMENT: **MR. SHALABH SAXENA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SPANDANA SPHOORTY FINANCIAL LIMITED**
MR. ASHISH DAMANI – PRESIDENT AND CHIEF FINANCIAL OFFICER – SPANDANA SPHOORTY FINANCIAL LIMITED
SGA-STRATEGIC GROWTH ADVISORS – SPANDANA SPHOORTY FINANCIAL LIMITED

MODERATOR: **MR. ABHISHEK SHAH – SGA**

Moderator: Ladies and gentlemen, good day, and welcome to the Spandana Sphoorty Financial Limited Q3 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 touch-tone phone. Please note that this conference is being recorded.

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

Shalabh Saxena: Thank you very much, Zico. Thank you all for joining the call and investing time in understanding the journey of Spandana Sphoorty Financial Limited. As we present our results on a really auspicious day, our journey into the company now is 7 quarters. The new management that is Spandana 2.0 has been steering the ship now for more than 7 quarters. The journey has been exciting with a lot of learnings. The entire management team is very excited about shaping the company to make it future ready. Let me take you through the updates for the quarter.

Quarter 3 was a quarter where we crossed a major milestone by reaching an AUM of INR10,404 crores. This is the first time as an enterprise we have crossed the INR10,000 crores mark. Also from a profitability point of view, our PAT for the 9 months period was or is INR372 crores which has surpassed the full year profits of Spandana Sphoorty of the past many years.

So the story from an AUM perspective, from a profitability perspective seems to be on track. There are, however, learnings which I'll cover in the subsequent narrative. On 11th of December 2023, which is just the last year or rather a few days prior to the results that we are presenting, we held our first-ever in-person analyst, investor, lender and stakeholders meet at Mumbai.

Titled Spandana 2.0 Invested in Bharat, the entire senior management of the company presented their articulation of where and how they propose to steer their respective functions to the larger delivery of the organizational goals. The event was attended by more than 120 participants and we thank all of them for coming over and spending their precious time with us.

A first for Spandana, the event was watched live by our over 12,500 employees. With Vision 2025 halfway through, we presented the progress we have made against the benchmarks we had set for ourselves. In the meeting, we also articulated our Vision 28 and the theme was 28 by 28, that is a portfolio of INR28,000 crores by FY 2028.

Now let me go to the regular operational updates for the quarter. Let me start with the rating update. We have had a few rating changes over the past few weeks, ICRA rating for Spandana. So there has been a change in outlook from A stable to A positive. In CRISIL, CRISIL rating for Spandana, there's a change in outlook from A stable to A positive. So we've had a change in outlook in both ICRA and CRISIL.

All of you are aware that we have a subsidiary called Criss Financials. There, we've had a rating upgrade from ICRA from the BBB+ stable to A- positive. So overall, the rating update and the progress we are making on ratings is very much on track, and we'll continue to do all the things that are required to ensure that we create a robust organization for the future. Now let me give an update on branch opening and business update. During the quarter, we opened 72 branches.

We now have 1,574 branches, of which weekly branches are 375. This also includes 18 new branches opened during the year for Loan Against Property and Nano Loans under our subsidiary Criss Financials. Over time, we have highlighted our faith in pursuing the weekly JLG model of microfinance. For the quarter, we disbursed -- which is the last quarter, we disbursed INR407 crores in the weekly branches, which is 16% of the total disbursement in the quarter.

We now have a portfolio of INR535 crores in the weekly branches, which are currently delivering a net collection efficiency of 99.7%. We will continue to pursue our journey to move the company into the weekly model, which now brings me to the Parivartan project, which we had launched in the month of July 2023.

Let me just spend a few minutes here because it's very, very important that we are able to communicate the change that we are wanting to bring in the organization. We are wanting to communicate to you the challenges in that change. While the easier option for us as a team was to continue BAU, however, the model then which we are now trying to change was, we believe, what we had -- there were challenges in scalability of the model and most importantly, in our wisdom, what is right for the company.

We continue to progress on taking all initiatives to ensure that we do what is right for the organization. We will see some blips here and there in the quarter, but the long-term story has to be intact and which is what we are doing -- what we are attempting to do. In the last update, when we had come out with our Q2 results, I had elaborated our attempt at rejigging the distribution model to better align with the way we think it would deliver optimum results in the future and a first step to move the monthly branches to weekly repayment branches.

Accordingly, we had launched Project Parivartan across 730 branches Pan-India, which covered 1.6 million customers. I will repeat, 16 lakh customers or 1.6 million customers across 730 branches were in the scope of the Parivartan model. While we had detailed the project last time around and had given a heads up on the disruption it would cost to our immediate business, there are many of you who reached out to us and advised us to elaborate on the project.

And most importantly, how much more time it would take to normalize. Also, there were a few people who asked why was it done at all? I will try to answer that. I did answer the why was it done at all. Very clearly, we want to make the organization and the distribution model scalable. 10,400 is where we have reached. We will end the FY'25, which is next year in thereabouts of INR15,000 crores, which is what we've been speaking to all of you about, with an asset quality of sub of 2% or rather credit loss of under 2%; ROAs of 4.5% and above; and NIM's of 13.5% and above.

Keeping all of this in mind, scalability of the model is very, very important. The robustness of the model and the strength of the model independently is extremely critical. And hence, we've decided to walk the talk. Like when we took over, we had written off a chunk of the portfolio, which was not good. We, as a management, are -- will not deter to bite the bullet when required. We thought this was required. This is needed for the company.

This is absolutely essential that there is a long-term story in our institution. And hence, we are continuing with this. So hear our take once again. The earlier distribution model of the company was designed as monthly repayment, number one. Number two, collection cycle was from first until tenth of the month. Number three, disbursement was 11th onwards until 30th, 31st of the month.

While there was no restriction, but practically in the collection days, -there -were hardly any disbursement and the disbursement was focused on the balance 20 days. We wanted to alter the above model to make it more distributed across the month, convert the repayment to a weekly cycle, and most importantly, ensure that all the three things core to microfinance, that is new member acquisition, disbursement and collection, happen on all days of the month and not on selective dates or days.

This is very, very important friends and hence I'm kind of belaboring this point. In microfinance, our stop and start model does not work in our limited experience. You have to do disbursement, you have to do new member acquisition. You have to do the collection all in one go, in the same time, in the same geography in the communities that you offer -- that you operate in. And hence, the Parivartan was a necessity.

So accordingly, we picked 730 branches Pan-India, which had about INR5,500 crores. Portfolio is about 53% of the book, across 1.6 million customers where we launched Parivartan in across the months of July and August last year. In this, the repayment was changed. So what we did was we changed the repayment from dates to days, which means instead of the installment date of first, second, third, fourth, we said now your installment will be either on a Monday of the week or a Tuesday under specific time.

So the dates were converted in to days. This was a precursor to the weekly model that is generally prevalent across. And even in our company, the 375 branches, they operate on a regular week, Monday to Friday, all the three things collection, disbursement and new member acquisition, happen all -- every single day. In this -- so I'll repeat again, in this, the repayment was changed from dates to days.

The 10 days repayment was compressed to weekly, that is week 1, week 2 and so on. This was a precursor to move into the weekly repayment model for new loans. This required a change in the repayment dates, change in center meeting day and time and changes in the loan officer as well means the schedule of the loan officers also had to undergo a change.

Because of the wide scale and the fact that this involved almost about 5,000 loan officers, which is 55% of the loan officers. There were many instances wherein scheduled repayment dates were missed by customers or our loan officers could not reach on time. Thus, due data collection took a hit, resulting in the branch staff going to customers again during the month to collect the monthly installments.

Hence, a lot of time was invested in redoing the process by the branch staff, reaching out to the customers, going for collections again, thus leading to a wastage of productive time. In many branches post the transition, our staff were engaged in doing the rounds of the customers through the month, thus impacting our disbursement cadence, which, as you would have seen in the month of October, our disbursement was probably about INR400 -- INR450 crores short than what we would have wanted, which we kind of got back to normal in the month of November and December.

But this was the immediate impact on the specific months that I spoke about. Apart from this, there were slippages in the portfolio also across the buckets for the reasons that I mentioned. Just to give you some numbers, about 49,000 borrowers who are a part of the SMA bucket, which -- they contribute about 61% of the AUM in that bucket. So the impact was trade, likewise, if I were to look at GNPA, we are talking of 38,000 borrowers where 56% of the GNPA was from the Parivartan branches.

So the point I'm trying to make is, if we were to scope the problem, the problem is on 2.9 million customer base that we have. We are talking of 49,000 borrowers or 38,000 in the GNPA bucket. Now that they have flown already, we will definitely go and collect. But the point is larger point is this is to answer many questions and concerns that were raised while we've been actively engaged with most of you is why do this at all.

We are doing it because we want to take the company to an immediate 15,000 and an eventual 28,000 by FY'28. The model, which was, at that time, prevalent, which we are attempting to change, obviously, was not a scalable model. And that's why we are working the way we are. So we've come, however, a long way since then. Of course, a lot of labor for the branch stuff, a lot of hard times for us and most importantly, a lot of communication through the channels with customers, branch staff, etcetera, has led us to a stage where we are seeing the end of the journey.

We have to refine a few pockets and are confident that in the next three to four months, we would have regularized the situation. Of course, there's absolutely no problem in accepting that it took slightly more time than what we had anticipated. This was, however, a temporary inconvenience for a better tomorrow. We, as a management team, are very clear on it. And hence, our entire teams in the head office and in the branches are channelized towards ensuring a quick regularization ASAP.

And as I said, we've already carved out or we've scoped out the problem. We are talking of 49,000 customers in the SMA bucket out of 2.9 million, with a field force of about 8,000, branch staff of about -- branch managers and above about 2,000, I'm sure we'll be able to kind of regularize ASAP. Once we are done, we will take up the second set of branches, which is the non-Parivartan today, albeit it will be why we are wiser by experience in the first phase.

Rest assured, we will handle this very, very carefully. We have a lot of learnings from this project, which we will implement, but we will only do it once we are completely regularized on this -- the current set of 730 branches, which, as I told you, will need another at best three to four months. Going back to -- and if there are any more questions on Parivartan, we'll be happy to answer in the Q&As.

Another update on branch opening. During the course of the year as articulated, multiple times and our focus is going the weekly repayment way. We opened 375 branches during the year, which have weekly repayment for the customers. In Q3, these branches have contributed 16% to disbursements, which we are confident as per our estimates. Next year, probably the same period, we will have upwards of 40%, 45% of contribution from these branches, if not more.

Over the past seven quarters, there are a lot of things we've got right, a few things we missed, but to summarize the process of learning continues. All our initiatives and steps converge on the fundamental objective of ensuring that the company is future ready. At this stage, we can say with reasonable surety that the company is on course to becoming a process-driven and stable enterprise with professionals manning their respective domains. We are taking all the steps to ensure the company becomes strong, to capitalize the opportunity that exists in the environment.

Now to go into the highlights of the quarter. New customer acquisition, and I would urge you to kindly just follow this narrative because this is what we've been speaking for the last five, seven quarters. Our focus on customer acquisition is absolutely supreme. New customer acquisition is the fuel for any organization. You might have as much vintage, but it's very important that you have to keep on churning the customer base, attracting customers who are not good and getting in customers who are quality.

If you look at our new customer acquisition, our new customer addition during the year was 3.4 lakhs, Y-o-Y growth of 56%. Quarter -- there was about 10,000 less than the previous quarter. We acquired friends with -- these nine months we have acquired 9.5 lakh customers in the first nine months of the year, which is very close to 1 million customers. While this is 112% growth over nine months of the previous year, as a company, we are currently at 2.96 million customers, which is just a shade below 3 million, which is a growth in customer base of 32% Y-o-Y and a 10% growth over the previous quarter.

Customer acquisition story for us is the primary story that we are driving on the grounds, and we are seeing the initial results that we see. On the AUM front, at the end of the quarter, we were at INR10,404 crores, which is a 52% growth Y-o-Y and 6% growth quarter-on-quarter. The geographical concentration risk, and I've been raising this point and I've been highlighting and touching upon this point over the last few calls, geographical concentration risk in MFI is the biggest risk.

Our top three states contribute 42% to our portfolio. The top 5 are 61%. Our aim, as elaborated in our Vision '28, the maximum contribution of any state should not be more than 11% to 13%. Currently, we have two states in that range. We are at -- the top two states, which is Madhya Pradesh and Orissa are 14%. The 14% is down from 16.5% when we had taken over. So we will aim to get this in the range that I have just spoken, which will be a combination of the increase in the overall denomination or the denominator in the other states, plus selectively closing down a few pockets in these specific states, which are not profitable for us.

On the disbursement side, disbursement for the quarter was INR2,543 crores with a Y-o-Y growth of 8% and a quarter on growth of 1%. I have given you the reasons. We were very well on course to deliver INR2,800 crores to INR3,000 crores of disbursement. However, the October month when we were kind of just trying to manage the Parivartan in terms of putting the building blocks in place to ensure that there is relatively lesser disruption, so that took a hit. So that one month kind of led to where we are. But then we -- once again, we are not -- this quarter, we are back. In fact, November itself, we got back November, December and then January onwards, we'll see the traction coming up.

The disbursement was short by around INR450 crores that I've already said. On the asset quality front, again, going back to the presentation, if you look at our GNPAs, the GNPAs have increased from 1.4% of last quarter to 1.61% in this quarter. While this is still below 2% of our guided number, however, we are fully cognizant of the fact that for us to kind of progress, we will have to ensure that we keep the credit quality well under check.

As I had said the last time around, about 61% is contributed by the Parivartan branches. We'll probably see a pain in one more quarter, if at all, there is while we'll try to manage. But -- if at all, we have to, we will kind of take that on our chin and move on. But the overall story, which is the regularization story on the field, the customer acclimatization to the new environment and most importantly, our employees kind of adopting this model for the obvious gains has kind of gone up tremendously and hence, our confidence that this will be managed. Just a question of three or four months.

On the financial side, once again, the net NPA was 0.48%, an increase of 6 bps over the previous quarter. The gross slippages during the nine months of current financial year has been INR113 crores, which is 1.1% of AUM. Gross slippage -- I'll repeat again, gross slippage during the nine months of current financial year was INR113 crores, which is 1.1% of the AUM. Our provisioning coverage ratio continues to be 70.45%, so there is no change in that position.

CRAR continues to be a healthy 35%, indicating that the balance sheet is pretty healthy. On the collection efficiency side, the net collection efficiency was 97.2%. The gross collection efficiency was almost 100%. Coming back to the liability side. We mobilized INR2,279 crores in quarter three, which is a growth of 8% Y-o-Y. All of you are aware about the new guidelines on the qualifying asset and how the cash is a part of the denominator, which is used to calculate the total assets.

So outside of the mobilization, we had INR900-plus crores of sanctions in hand, which we did not draw for the reasons that I just mentioned. Currently, our weighted on the cost side -- currently, our weighted average cost of borrowings is 12.3%. We are working towards reducing it to sub 12%. Because of our introduction into weekly models and the fact that we've introduced shorter tenure loans 12 and 18 months, we have seen the average maturity of assets -- the period for average maturity of assets going slightly down.

So we have a positive ALM mismatch. The average maturity of liabilities is 9.6 months and average maturity of assets is 12.1 months. We ended the quarter with a very strong cash and bank balance, which was INR1,669 crores. On the financial performance side, the income reported was INR657 crores with a growth of 75% Y-o-Y. Net income is up 60% to INR407 crores. The yield is 24.1%. And in the questions, we'll answer, there's a quarter-on-quarter drop on the yield and the NIM we'll do the explanation in the questions.

The PPOP for the quarter was INR240 crores. This is a decline of 7% over Q2, and this is very important. I'm just repeating. The PPOP was INR240 crores, which is a decline of 7% over the previous quarter, but this was because of a higher income of INR42 crores from direct assignment in the previous quarter, which, by design, we've kind of -- this quarter, we did direct assignment for which we booked income of INR20 crores only.

So against INR42 crores of income from direct assignment in quarter two, our income from direct assignment in quarter three was INR20 crores. So this drop has led to the compression of the PPOP and the NIMs and the ROAs that we just spoke about. Profit after tax was INR127 crores, which is a growth of 79% and a quarter-on-quarter 2% growth. Let me also reiterate the initiatives. So this is the financial part, and we'll take all the questions that you would have. Let me just quickly complete the -- conclude my commentary.

We continue to progress on the five key levers of the -- running the organization. First is people, practices and communication; second is bringing the cultural changes in the company; number three is process improvement; number four, as a company, we are now more data-driven; number five, apart from the distribution initiatives, which is the Parivartan that I spoke about, we continue to pursue it.

Specific to distribution, we've taken the following steps, which are very important. And this is just a repetition of what we've been articulating all along. We will continue to progress on the customer acquisition-led growth. Moving to a weekly repayment from the current monthly is the end game for all of whatever we are doing. Number three, the geographical concentration mitigation approach is what we are pursuing. I've got into the details in the earlier part of my commentary.

Given the relative growth opportunity that other states offer, if you remember, we had come out with our -- when we came out with the Vision '25, we had identified seven focus states. Currently, we are putting on the back burner or we are dropping Haryana from the list as we'll continue to focus on the other six states, which are namely Bihar, Rajasthan, Uttar Pradesh, West Bengal, Tamil Nadu and Gujarat. Haryana was in the list of top 7. So we are just dropping Haryana. We have a very small book of about INR40 crores there.

So we will kind of just go slow on Haryana, and we will focus on the other six states for various reasons. Our belief and philosophy -- our core belief and philosophy remains acquire more customers, lend shorter tenures, muted ticket sizes and monitoring indebtedness at customer level and weekly repayments, which we've already highlighted.

I thank all the stakeholders of Spandana, the Board, our lenders and our colleagues in Spandana who pooled in their energies during the year. A special note of thanks to all the branch staff, our loan officers, branch managers and the entire field staff who are slogging hard to deliver the results. Thank you very much to all of you on the call. You've been a constant source of encouragement by giving us positive advice, feedback and, of course, support during the year. We look forward to receiving similar encouragement in the future. We have the entire management team with us, and we are ready to take the questions now. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session.

Shalabh Saxena: Yes, Zico, you can start the questions. People can keep joining. There are already some four or five.

Moderator: Yes sir. Our first question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead, sir.

Abhijit Tibrewal: Good evening, everyone. Sir, thank you so much...

Moderator: May I request you to use your handset, please?

Abhijit Tibrewal: Yes. Is it better now?

Moderator: Yes, sir, please go ahead.

Abhijit Tibrewal: So what I was saying is sir, thank you so much for an elaborate opening remarks. Just two questions that I had. I mean, during the opening remarks you did touch upon the fact that yield have declined Q-o-Q. So if you can just explain that, like some of your peers, have you also cut lending rates during the quarter, which has led to this declining yields?

Ashish Damani: Hi, Abhijit. This is Ashish. No, we have not had -- we have not done any changes to our interest rate. So we continue to operate at 25% plus 1% the processing fee. The decline primarily was led by the continuing leverage improvement over the last 1 year. Plus there has been -- obviously, there have been some flows that Shalabh talked about, which kind of contributed to the reversal of income on the GNPA side.

That's -- those are the reasons for the decline in NIM. However, what we expect is on a BAU basis, a NIM of over 13.5%, which we should achieve in -- I mean we are not very far off from that number. So we should be able to achieve it in the coming quarters.

Abhijit Tibrewal: Got it. So Ashish, sir, I mean, just help me understand, essentially, it was interest income reversals, which you are suggesting led to a decline. So if you can quantify what was the interest income reversals in this quarter?

Ashish Damani: So we had a total gross flow in the GNPA of about INR56 crores. And the interest reversal number was about INR6 crores on this particular aspect.

Abhijit Tibrewal: And that is the only reason which led to declining NIM's?

Ashish Damani: Like I told you, there have been -- so multiple reasons. One is there has been some overdue book which is there in the 1 to 90 book. So as you collect that, you will be able to have a replacement into the performing book. That is one. Second is this GNPA, which led to a INR6 crores drop, Shalabh also touched upon.

There has been some DA's that we have done in the past. So when you do a DA there is a preponement of income. So I would have booked some income of that this quarter into the previous quarter itself. So that always -- if that number was higher in the previous quarters, it will have some impact on this quarter on an overall basis. Having said that, that's not necessarily impact your NIM. The NIM is primarily impacted by the reversals, the overdue book and the leverage.

Abhijit Tibrewal: Got it. And then maybe one last question that I had was on asset quality. I mean, we explained very elaborately on how Project Parivartan kind of led to flows into the SMA buckets. But I just wanted you to elaborate on some other factors, if at all, I mean, like floods or seasoning of the book or any geographic specific issues that resulted in -- I mean, asset quality deterioration during the quarter ex of what you saw from Project Parivartan and maybe a related question here, are you seeing anything unusual in Haryana, which kind of led you to drop it from your list of focus states?

Shalabh Saxena: Yes. So Abhijit, I'll take that one. The answer to your first question is that Parivartan Project has led to the disruption that we are speaking about on the vectors of be it a yield or be it a NIM or be it the ROAs, the -- and which is why I kind of took that extra 10 minutes to explain into the details and happy to connect separately also.

The point is that we -- there are two, three combinations. One is -- two, three reasons. One is the interest, which is -- there are certain provisioning's you have to do within the 1 to 90 elevated provisioning because of the SMA flows because of the installments that were missed for the reasons that I've already clarified.

Apart from that, the INR56 crores that Ashish spoke about, which went into the GNPA, these are the two reasons. Apart from that, there isn't a specific reason which could have led to a bump up. And hence, our confidence that we'll kind of regularize this in the next 3 to 4 months.

On the Haryana answer, right now, there -- state itself, there's a bit of a disruption there. We are in a position where we can stop it, our book is only INR49 crores -- INR40 crores, sorry, INR40 crores or INR41 crores. Punjab, we have -- so there are two places where there is some bit of -- this is what all of us have read in the newspapers.

There's some bit of a disruption in the environment. Punjab, we do not have any book. Our book is zero there. So it is time we have -- there is enough opportunity available in the 6 states. So hence, we have temporarily paused it, we will take a look at it maybe 3, 4 quarters down the line.

Abhijit Tibrewal: Okay, this is very useful. Thank you so much. I'll come back to the question.

Shalabh Saxena: Thank you.

Moderator: Thank you. Our next question is from the line of Rajiv Mehta from Yes Securities. Please go ahead

Rajiv Mehta: Hi, **c**ongratulations on good numbers and thank you for giving me the opportunity. So I think for clarification, can you separately give par and NPL for Parivartan and non-Parivartan portfolios? And then can you also comment on the non-Parivartan portfolio asset quality trends? Is it stable?

Ashish Damani: Yes, sure. So there is no difference in terms of asset quality on the SMA bucket, obviously, Parivartan is a bigger contributor. And most of the flows, if you see, 48% of the flows are still sitting in 1 to 30 bucket in the SMA bucket. So we're very confident that this should regularize.

In terms of numbers, Parivartan portfolio in SMA bucket is about INR87 crores out of the total -- sorry, GNPA bucket, it is INR87 crores out of total INR155 crores. And in the SMA bucket, it is INR147 crores out of the total INR249 crores.

Rajiv Mehta: Okay. Thanks for this. And Ashish, Shalabh also mentioned about maintaining credit cost for the year at 2% -- or sub 2%. But if you look at the first 9 months credit cost, it's slightly higher, more than 2%. And then we also spoke about that the regulation of the existing BAU business will take 3, 4 months.

And maybe we may see in the interim further source happening in Parivartan branches in Q4 then how come the credit cost in the fourth quarter will be very low to give us a 2% average for the year?

Ashish Damani: So what Shalabh intended or what Shalabh meant was if you look at the BAU business, we are at 1.4% and I think that definitely will be below 2% is the point that Shalabh was trying to make. Of course, we had some legacy pieces DA and you know the ARC for which we have provided, those have been considered separately. The flows from the current business or the business that we have been originating have been at 1.4%, and we are confident that it will continue to be below 2%.

Rajiv Mehta: Just one last clarification. This DA income which was lower, right to INR20 crores versus INR42 crores in the previous quarter. This is a part of the net gain on fair value changes, so even in this quarter, the overall number is still higher at INR56 crores, so if INR20 crores is delay income, what is the rest of that piece?

Ashish Damani: So we sit on some amount of free cash, because there is a difference or there is always cash in the system or on the balance sheet. This is all parked in liquid funds -, mutual funds or in fixed deposits with banks. So you do get some income, which is also recorded in the same line.

Rajiv Mehta: Okay. So we had higher gains on those investments?

Ashish Damani: Yes. We did have a higher cash balance compared to the last quarter and that is the reason it is higher.

Rajiv Mehta: Got it. Thank you so much and best of luck.

Ashish Damani: Thank you.

Moderator: Thank you. Our Next question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: Thank you, sir, for the opportunity. A couple of questions from my end. You did mention that there is no revision in interest rates per se. But then is there any soft communication from the regulator given the fact that many of the micro financials are sounding recalibration of interest rates, the biggest player already bringing down by 50 bps. So what is the thought process or any sort of communication from the regulator?

Shalabh Saxena: No, no, see. The way we operate, Shweta, is we will do what is right. We are already in the process of reducing the interest rates for customers with cycle 6 and above. Likewise, we will keep taking those initiatives to ensure that we pass on the benefits to the customers at large.

Is there a formal communication from the regulator? The answer is no. Are we doing something on our own? The answer is yes. Are we taking steps to ensure that the customers who've been with us for many, many years are rewarded through some interest rates, which are beneficial to them? The answer is yes.

So we will continue to take those steps without any proactive or nudge from anyone. And obviously, the regulator has already -- while there are no direct expectations, but as a prudent investor, we are ourselves walking that path and we'll continue to take that path. And you will see this quarter, we would have already taken those steps. So the next time when we come to you, we would have already executed those.

Shweta Daptardar: Understood. Sir, the second question is while we are graduating entirely to weekly model -- shifting to the weekly model. So what are the occupation -- what is the occupational profile or the frequency of income of this set of borrowers that we are targeting? And is there any -- so you had explained this in the previous calls as well, but is there any sort of inertia in terms of their wages, frequency and therefore, our collection?

Shalabh Saxena: No, Shweta. So look, the profile of the customer, which is a demographic profile does not drastically change between a monthly to a weekly. Monthly to a weekly is more a cash flow adjustment and calibration issue so that it becomes slightly easy for the customer to pay off every week rather than wait for a month, accumulate her so-called savings from her earnings and then come and give us that amount.

So it is more an inherent character of the distribution model that you run less to do with the alteration in the customer profile. Our customer profile irrespective of the repayment cycle is this customer with typically a daily wage earner, with a small grocery shop, or a tailoring shop, or a garage, or cattle farming, or milk business, and so on and so forth.

It is their convenience and our belief in the model, which is leading us to get into the weekly model. A weekly liability of INR30,000 loan is anywhere about INR600 to INR650 which goes up to INR2,400 to INR2,500 in a monthly. Now technically, everybody -- there's nothing wrong in good times, Shweta. Good times, monthly will behave the same as a weekly and vice versa. It is your conviction in the model, which will drive your choice of the model, be it a weekly or monthly and which is what we are working to.

Our belief in the model -- also what happens and that is what is our belief, the joint liability group works better in a weekly model because of the inherent size of the liability, which is 1/4 of the monthly. So if you believe -- if you have belief in the model, if you believe that this is a model to be pursued, then in our wisdom, and there are no right answers or there are no wrong answers.

In our wisdom, weekly is what we choose and this is where we will work, no major change in either the profile of the customer, whatever. It just adds a lot of discipline into the center meetings. It adds a lot of discipline to our people. It adds a lot of discipline to the customers as well. And most importantly, the cash flows are managed is our belief, and that is what we're progressing on.

Shweta Daptardar: Fair point sir, and one last question. So what are the number of unique borrowers to Spandana? And also any strategy to sort of increase this count? And then one, you made a fleeting mention on fixed cycle loans. So at what ticket size we max out in terms of cycles? And is there any change in increase in ticket size in the first cycle or sort of disruption or changes there on the ticket size across cycles and where we max out? Thank you.

Shalabh Saxena: So, Shweta, two answers -- three answers to your question. The first is, ticket size is a measure to look at institutions and the way we lend. However, what we focus more on is the indebtedness level at a customer level. That's very, very critical, Shweta. Because what happens is, I can give you three loans of INR30,000 in a year. My ticket size is still much, much lower, whereas some company would be giving a ticket size of INR40,000 with only one loan in a year. So what is the ticket size is might not be the best from our point of view.

Our indebtedness level currently are around INR34,000 odd, which is about 6% to 7% lower than the industry. That's number one. Number two, if you see the way we've been progressing on the ticket size, to your specific question, our maximum cycle loan is INR80,000 which, by any stretch of imagination, if you go around...

Yes. So my apologies for this, and I believe Shweta and everybody is still there. So our maximum ticket size is INR80,000. We have no immediate proposal to increase the ticket size. We believe we are 5% to 7% lower than the average indebtedness at a customer level in the industry. We believe we will continue to progress on this. This is in line with our philosophy of muted ticket sizes and lending shorter tenure. So just to give you some colour on the numbers, our monthly branches, Zico, can you confirm if people are online, right? I'm just -- sorry, I'm just...

Moderator: Yes, sir, you are audible.

Shweta Daptardar: Yes, sir we can hear you.

Shalabh Saxena: So, Shweta, if -- when -- about 2 years back when we took over, 100% of the company was 24 months, we introduced the 12 and 18 months, that 100% branches or the monthly branches, which were -- where the portfolio was 100%, 24 months, we now have -- that 100% is down to 83% only. 17% are the portfolio is 12 and 18 months, which means there are customers who are choosing to go for shorter tenures, for various reasons, we can get into the details.

Now I will go to the -- if I give you the statistics of the weekly branches. It is exactly reverse. It is exactly reverse. The 12- and 18-month tenure is 88%, 24 month is only 12%. So what this says is that while the tenures can be shortened, yes, the runoffs are fast customers, however, kind of qualify for a second loan, but that is only after a period rather than giving a big loan it is important that we kind of graduate them into understanding our culture, understanding our business and then we kind of graduate them to a higher ticket size loan.

But at any given point in time, we will never be aggressive on the size of loans that we will give. We will incrementally keep on giving them many loans, but definitely not 120 and 150 that kind of a number, which is there. So very, very happy with the way we are progressing.

To your question on, what is the portfolio cut on how many customers have a relationship only with us? So the numbers, I will read out the statistics, which will probably answer your question. Right now, if I see my portfolio, my incremental portfolio of last quarter, 30% of the customers that we have are -- have only a single relationship with us, 3-0, 30%.

Another 31% have a relationship with one more outside of us. So it is 1 plus 1. Spandana plus one more is 31%. Another 25% is 1 plus 2. So if you add up all of this, we -- this is 86% and then 14% are 4 and -- 3 and 4 -- because they take loans from us and then they go and take a loan from somewhere else.

So the focus continues to be going deeper into rural India, trying to ensure that there is a good counselling done to the customer to ensure she borrows right. And most importantly, we lend right. So it is -- it works both ways, and that is what we are doing. Any follow-up on this, Shweta, happy to answer.

Shweta Daptardar: Yes. That is very helpful. I'm still squeezing in one last question. Sir, the 9-month credit cost -- so correct me if I'm wrong, our 9-month credit costs are closer to 3%. So, what gives us confidence that by the end of this year itself, we shall be below 2%? Thank you. That was my last question.

Shalabh Saxena: Yes. Sure. So, Shweta, I think this -- Ashish elaborated the answer, but I will repeat, the credit cost is split into two. The first is the portfolio credit cost and the second is the cost that we have taken for historical reasons, there were various reasons while it still had to do with portfolio, but these are all dated portfolios, 2018, 2019 and stuff, so that, if you see and there is a slide that we have given on slide 13 in the investor deck, the right table at the bottom.

If you see the split, the split is 1.4% is the portfolio quality loss rate and 1.5% is the other cost that I said. That other cost is a 1.1x cost, which is done dusted and over. Portfolio cost credit loss is what is on a sustainable basis has to be monitored and has to be looked at, which we are currently at 1.4%, and hence, our confidence that we'll be under 2% in the future as well.

Shweta Daptardar: Understood sir. Thank you so much for elaborate answers and best of luck.

Shalabh Saxena: Thank you.

Moderator: Thank you. Our next question is from the line of Ashwani Agarwalla from Edelweiss Mutual Fund. Please go ahead.

Ashwani Agarwalla: Good evening sir. A couple of questions. First of all, we are approaching the election season. So the Q4 and Q1, do you anticipate some kind of problem or a problem in intentions of paying the loan. We see some kind of problem in the MFI sector as a whole because of the elections?

Shalabh Saxena: Is that the question? Do you have any more questions? Or this is the only question?

Ashwini Agarwalla: No, I've got a couple of more questions. What is the loan growth which we can expect for the next 2 years? From which segments would it come, would be more tickets driven or more customer driven? And as you said, six states will be driving the loan growth. I mean how we see our ratios, so cost ratios, credit cost ratios, and ROA's for the next few years.

Shalabh Saxena: Understood. So you have four questions. I'll just answer one by one. Let me start with the sequentially, election. So elections, we've seen many elections over the past many, many years, barring stray one example that I can remember very clearly. We have had a very stable economic environment, more driven by all the stakeholders, which is be it the judiciary or be it the political machinery or be it the executive or even the customer and employee for that matter.

So I think we have seen a substantial majority creep into the system of the microfinance. And given the fact that this is bottom of the pyramid, we've seen a great understanding from a customer point of view on understanding that there is nothing called a free lunch now.

Customers are also mature. So they are very well aware that this will -- there is nothing called a loan waiver or whatever. So in our considered opinion, election should not disrupt or will not disrupt because this is not the first. We've already seen one election in 2019, which happened. This is during our -- in the last few years that we're talking about. Apart from that, there are state elections in practically every year, you see some 4, 5 state elections. So there's enough maturity in the system.

At the same time, one can't really discount stray happening here and there, but broadly speaking, both from design perspective and the way the market has matured over the years, we do not anticipate much problem more so because there's a lot of support from a customer side also.

Customer is very well aware that a default here leads to complete disruption in credit borrowings from anywhere, why microfinance. So that is why they are extra cautious as well. Yes, there you can't rule out a disruption on account of a flood or on account of a cyclone or all of those things can happen. But those are all temporary. A couple of months, it takes 3 months, it takes to kind of regularize. So this is the first answer to your question.

The second answer is what will be the loan growth. We will end this year anywhere between INR11,500 crores, INR12,000 crores of AUM. Next year, we are targeting as per our Vision 25, INR15,000 crores. So that's a 25% increase on the loan book. For all the steps that we've taken this year in terms of investment into branches, people, weekly and the Parivartan because that is a straight input into quality that we will deliver. All of that, we feel that we'll be able to deliver the loan growth more so because there's sufficient traction in the economy and in the market as well.

The industry is slated to grow anywhere between 22% to 23%. So we're targeting a 25%, which, in our estimate, is a reasonable number to target.

What will be the vectors that will drive this growth? The first is, we are -- what we have said is that we are projecting a ROA of upwards of 4.5%. Our credit loss ratios will be under 2%. It will be south of 2%. Our ROEs should be anywhere between 17% to 19%. We are -- from a growth in which states perspective, the six states that I spoke about is where the maximum growth will take place. That is what is going to add a lot of balance to the geographical concentration that I keep on repeating time and again in every call.

We want to aim that a state should not -- a single stage should not contribute or should contribute in the range of 11% to 13% and no more. Currently, our top three states are 42%. We are wanting to get them to 35% to 36%, which will be a good outcome.

On the opex side, we are currently at 6.6%. Our steady-state guidance has been that we will be under 6%. So anywhere between 5.5% to 6% is what we will operate at. On a cost to income, I think in the mid-30% -- so 35% to 38%, 39% in a steady state is what we'll continue to deliver.

Ashwani Agarwalla: So when we are moving from monthly to weekly collection models, don't we expect our cost to income to increase?

Shalabh Saxena: Yes. So look, this concern of cost going up comes predominantly from the fact or from the assumption that the customer in a monthly goes only once and in weekly has to go four times, which might be a misnomer because that is not how it exactly translates.

When you have to acquire a new customer, you have to go into the same village, you have to go into the same community to acquire a new customer. When you go to collect that missed instalment, you again land up in the same hamlet or in the same pocket.

So any saving on conveyance is largely the issue might not be the best way to look at it. Our personal experience past organization, we ran a INR30,000 crores book, which was a weekly. In fact, there are many examples of companies, which are run in the weekly model at a AUM -- delivering cost to AUM of about 5.5%.

So there is -- from a cost point of view, there isn't a -- there aren't -- there isn't sufficient ground for anyone to corroborate or there is not enough data to even answer the concern that monthly is less expensive and weekly is more expensive. If you look at the balance sheet, the data doesn't say so.

I will flip this and say that in times of disruption, be it your demonetization or bit it your COVID, in times of a crisis, the weekly model is the first to come out of that crisis because of the inherent size of the liability, I pay INR600 bucks and I clean up my -- I square off -- or rather I clear off my one instalment, which is INR2,000, which is 4x in a monthly.

So that is why the weekly instalments kind of are slightly better model to follow in when there is a disruption or when there is a natural calamity. So to summarize, no data to support that monthly is less expensive than weekly. There's enough data to support that the companies which are running the weekly model are running at probably better cost to income or cost to AUM --

opex to AUM. And in terms of crisis, obviously, there is enough data in the market to suggest that in times of crisis, the weekly model is the first to come out. So that's the reason we are confident on the model.

Ashwani Agarwalla: One last question, if I can squeeze in. In 2019, we had the Citizenship Amendment Act, just talked upon, and so there was lot of turmoil in the country with few states specific. So what was your experience then in your earlier company in terms of disruption in business, asset quality or any other problem which you have faced?

Shalabh Saxena: At least, to the best of my memory, I can't think of anything significant that would have happened even in a branch level, forget a geography level.

Ashwani Agarwalla: So that happened from 2018 September, October onwards till 2019 Jan, Feb.

Shalabh Saxena: So I was there very much when this happened. And I say this with reasonable confidence that there is nothing which caused disruption to the overall industry, forget specific company. See you will see these minor noises here and there, but does it disturb the equilibrium of the customer repayments? The answer is no.

Ashwani Agarwalla: Okay, sir. Thanks a lot.

Shalabh Saxena: Thank you.

Moderator: Thank you. Our next question is from the line of Sarvesh Gupta from Maximal Capital Private Limited. Please go ahead.

Sarvesh Gupta: Congratulations on a decent set of numbers. Am I audible?

Shalabh Saxena: Yes, yes.

Sarvesh Gupta: With respect to this Project Parivartan, now I heard the numbers. So broadly, your NPAs and SMAs are similar in the non-Parivartan and Parivartan buckets. So now that you are saying that three, four months of pain is less in the half of the portfolio, which is got in under Parivartan and after that, we will tackle the part of the portfolio, which is currently not under the Project Parivartan.

So does it also mean that this year where we are totalling to more than 3%, 3.5% of credit costs. So next year also not on a BAU basis, but overall, on the reported number basis, you might be similar to this year in terms of your credit cost. So that's the question number one. And second, on the Project Parivartan where you have mentioned 50,000 accounts, so what is the expected slippage from this portfolio, which is still to be accounted for in your estimate?

Shalabh Saxena: So Sarvesh, let me answer. Let me -- I'll start the answer and I'll hand over to Ashish. Even though it is a repetition in the call, but I'm sure and happy to kind of repeat. The credit cost, let me first answer the -- Shweta also asked a similar thing. And in our commentary also, we had covered. The 2.9% that you are referring to, Page number 13 in the investor deck, bottom table right-hand side.

We've specified the two cost lines, 1.4% and 1.5%. 1.4% is the credit quality loss and 1.5% is the non-credit loss, which is pertaining to the historical portfolio. There are reasons why this is there. This is a onetime thing, which has been done, and it is over.

There is still some tail left but that is not a part of this discussion, so we're keeping that out. Right now, what we are seeing is that if one has to look at the character of the portfolio and how is it going to pan out in the future, you have to look at the portfolio quality, which is the 1.4% that we have referred to.

We are saying 2%, and it will be under 2%, which we are reasonably sure that is how it is going to play off. Now on the specific thing, I will ask Ashish to repeat the numbers because it is the Parivartan and non-Parivartan is not linear. There is a disproportionate flow in the Parivartan corresponding to the portfolio that we have in Parivartan, so I'll ask Ashish to repeat the numbers so that all of us are on the same page.

Ashish Damani: So if you look at the SMA buckets, the numbers that I gave was INR147 crores out of INR249. This is 61% compared to 39% in non-Parivartan. And this 61% should be related with the overall portfolio is 53%, is there is definitely a higher slippage or a move, which the Parivartan branches are showing at this point in time.

Similarly, in GNPA, the contribution from the Parivartan branches is 56% compared to 44%, which is in non-Parivartan. So overall, what we are trying to explain is the Parivartan branches are posing a larger challenge when compared to the rest of the book. If you have to look at it as a BAU, it is still at 1.4%. But within the 1.4%, the larger challenge is coming from the Parivartan branches, which would normalize is our point.

Shalabh Saxena: Just to complete this, and this was your question, what happens next year and what happens to the unresolved piece on -- which is the non-Parivartan branches. I said it in my commentary, we are wiser by experience. And obviously, we will ensure that we don't do a repeat. Otherwise, we do not -- I mean, we understand very well now how the customer behaves, how our employee behaves, and hence, it will be absolutely calibrated. And we will not start it unless we are fully satisfied with the Parivartan one. That goes without saying, Sarvesh, so that we are very, very - clear..

Number two, next year, what happens to the loss rates on account of this, as I told you, it is more to do with the time when we go -- our loan officer reaches the customer or inability to reach on the same time as decided by the customer and vice versa, which has led to the slippage, will it continue - forever? Obviously not. Will we start Parivartan too unless this is settled? Absolutely not. What is the projection of loss rates for the next year on this? Under 2% is what we are saying. And I think we are -- even the numbers that trend now, if you look at it, I think we are fairly confident that, that will happen.

Sarvesh Gupta: See the reason I was asking, so even if you look at this 1.4%, right, most of it has come into this quarter only. And now we are left with probably five more quarters of this Parivartan Project to be done before it ends completely. And most of it, this has flowed into quarter three only. So if you actually analyze for this quarter's credit cost, it comes to be much higher than 2%. So that is why there is a concern for just this 1.4% itself because now only we have started to see the flows into this NPA bucket. And secondly, on the 1.5% also, if you can give some guidance as to what else is remaining now? Or are we mostly done? Or do we have something more which will come out from the historical book?

Ashish Damani: Yes. So on the first part, see, the Parivartan branches are likely to settle not in four quarters. We've said four to five months. So at best one or two quarters, we should see this kind of settling down. It should not extend beyond that. The second part of the question in terms of the other piece, this was asked in the last con call as well. We do have about INR60 crores more that will come in this other part. Of course, it will come over a period of next one, two or three quarters maybe.

Sarvesh Gupta: Okay. Thank you. All the best.

Moderator: Thank you. Our next question is from the line of Anand Mundra from Soar Wealth. Please go ahead.

Anand Mundra: I missed it in the opening remarks you mentioned about the gross slippage and net slippage. I wanted those numbers?

Ashish Damani: Sorry, GNPA and NPA? Or just the numbers Anandji?

Anand Mundra: Gross slippage, sir, for this particular quarter?

Ashish Damani: INR56 crores was the gross slippage in the GNPA bucket.

Anand Mundra: Okay. And sir, net slippage, there would be some assets, which would have turned standard from NPA or gross and net are similar?

Ashish Damani: INR4 crores was the upgrade from the GNPA to back into the current bucket.

Anand Mundra: Okay, noted, and sir the other question was, what about the bad debt recovery this quarter, sir?

Ashish Damani: So one is the INR4 crores that we talked about. Apart from that, we do have recovery from write-offs to the tunes of...

Shalabh Saxena: This year, I'll give you the yearly number, which I have...

Ashish Damani: INR5 crores is the recovery from write-off. But we do have ARC in other buckets.

Shalabh Saxena: Yes. So Anand, on the nine months number, we've recovered INR71 crores -- INR72 crores is the number that we recovered. We originally started with a target of INR125 crores. This quarter, I think we should tip over the 100 number, 120 might not happen. But next year, we are targeting 150 number, next year, next year. But this year, we are at a reasonable position to cross the INR100 crores of recovery across all buckets, all the GNPA.

Anand Mundra: Sir, next year, you are targeting INR150 crores?

Ashish Damani: So this has ARC, the SRs that we have on the balance sheet, the number includes that part as well.

Anand Mundra: Okay. Understood. Thanks a lot, sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question of a question-and--answer session. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Shalabh Saxena: Thank you very much, all of you, for your sustained interest in our company. Obviously, there are things that we are doing which might not be popular but are extremely important and in the -- from strengthening the company point of view and from ensuring that there is -- this company sustains and is a future-ready company.

We are taking all the steps to ensure that we kind of create a wholesome model, which is more amenable to scalability and withstanding any shock that might come or any disruption that might come in the future. So we are taking all those steps. Thank you for all the support. We will continue our journey of Spandana into Vision 25, which ends the next year and then into the Vision 28 that we've articulated. Thank you very much for all your support. Goodbye.

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