"Suryoday Small Finance Bank Limited

Q1 FY '25 Earnings Conference Call"

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"E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 2nd August 2024 will prevail."

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MODERATOR: **MS. PALAK SHAH – ELARA SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY '25 Suryoday Small Finance Bank Conference Call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Palak Shah from Elara Securities Private Limited. Thank you, and over to you, ma'am.

Palak Shah: Good morning, everyone. On behalf of Elara Securities, I would like to welcome you all to the Q1 FY '25 Earnings Call of Suryoday Small Finance Bank. We have with us the senior management of the bank represented by: Mr. Baskar Babu Ramachandran, MD and CEO; Mr. Hemant Shah, Executive Director; Mr. Kanishka Chaudhary, CFO; and Mr. Himadri Das, Investor Relations.

With this introduction, I would like to hand over the call to the management for a brief update on the results, followed by Q&A session. Thank you, and over to you, sir.

Baskar Babu: Thank you, Palak. Good morning, everybody. On behalf of Suryoday Small Finance Bank, I extend a warm welcome to our Q1 FY '25 Earnings Conference Call. I trust that everyone has had the opportunity to review the presentation for the quarter ending June 30, 2024, which was uploaded on the stock exchanges.

Now let me provide an overview of Suryoday's key operational and financial metrics as of Q1 FY '25. On the business performance, the gross advances, the bank's gross advances stood at INR9,037 crores in Q1 FY '25 as compared to INR6,372 crores in Q1 FY '24, an increase of 41.8% year-on-year. The growth is primarily driven by continued momentum in disbursements across all segments. Our Vikas loan continued to grow at a decent pace and were supported by significant traction in the wheels and home loan segments. Gross advances of Vikas loan product stood at INR2,776 crores in Q1 FY '25 as compared to INR1,283 crores in Q1 FY '24, an increase of 116.4% year-on-year. Vikas loan now contributes over 53% of the Inclusive Finance portfolio. We have over 4.8 lakh Vikas loan customers serviced as of now.

On the disbursements front, the disbursements for the quarter rose by 46.3% to INR1,740 crores as compared to INR1,190 crores in Q1 FY '24. Vikas loan disbursements stood at INR513 crores in Q1 FY '25 as compared to INR213 crores in Q1 FY '24, an increase of 141.2% year-on-year.

On the Deposits and Borrowing fronts, our deposits witnessed a growth of 42.2% to INR8,137 crores in Q1 FY '25 as against INR5,722 crores in Q1 FY '24. The CASA ratio has increased from 14.9% in June '23 to 17.7% in June '24. We continue to focus on building a sticky and granular retail deposit book. The retail deposits as a percentage of overall deposits currently stands at 78.9% versus 75.7% during June '23. The bank has been able to source deposits through digital channels, which stood at INR100 crores as of June '24. Currently, the daily deposit run rate sourced through this channel stands at INR1.5 crores to INR2 crores per day.

On the borrowings front, our borrowings as at the end of June '24 form 18.4% of the total liabilities, the majority of which is from the refinancing institutions that are long term and non-callable in nature. Suryoday currently has a network of 701 branches, of which 115 branches were liability focused, while 392 branches are asset focus branches and the balance comprise of rural centers. The bank continues to invest in expanding the branch network coupled with increasing depth in the existing branch network through comprehensive service offerings

On the asset quality front, our bank's gross nonperforming assets has reduced to 2.7% in June '24 from 3% in June '23. Net nonperforming assets NNPA has decreased to 0.4% in June '24 from 1.6% in June '23. Our bank has further increased PCR to 83.9% in June '24. Our bank continues to cover the eligible unsecured portfolio under CGFMU scheme to mitigate any unforeseen risks. Under the scheme, the bank has successfully made its first claim of INR32 crores, which was 100% of the accounts, which are eligible for claim and the entire amount was received in Q1 FY '25.

From the earnings update. Our net interest income stood at INR293.2 crores as compared to INR224.7 crores, an increase of 30.5% year-on-year. Net total income stood at INR363.4 crores as compared to INR275.7 crores, an increase of 31.8% year-on-year. On the yield front, the yield for the quarter on the portfolio stood at 20.1% while the NIM stood at 10% in Q1 FY '25. Our cost of funds is currently at 7.6% in Q1 FY '25 and 7.4% in Q4 FY '24. Our cost-to-income as of June '24, stood at 60.3%, which we has seen marginal moderation sequentially, and we are on track to achieve a favorable cost-to-income ratio of 57% to 58% by FY '25.

On the CRAR front, we continue to remain well capitalized given the capital adequacy of 27.3%, which is well above the regulatory requirement. As we move forward, we are confident in our ability to sustain this momentum and explore new opportunities to further strengthen our position in the banking ecosystem. We are on track to achieve our stated guidance for FY '25. Over to Palak. Thank you very much.

Palak Shah: Yes, we can start the Q&A session.

Moderator: Thank you very much. The first question is from the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Congratulations for a good set of numbers in a very challenging quarter. So I have 3 questions. So first on asset quality, in the 31 to 90, we have seen a sequential which is of around 50 bps. So how much of that do you think is attributable to seasonal factors? And how do you see this forward flow for this? And also, if you can throw some highlight -- some light on the collection efficiency in the month of July, even when the election season has seen a draw.

Kanishka Chaudhary: Yes. So there's a bit of work for us to be done after the first quarter in terms of improving our collection efficiency numbers and they are reflected in our 30 DPD. Our collection efficiency numbers have improved in July from the first quarter. And we will continue to focus on that. Typically, what we have seen is that about 1/3 of our 30 DPD flows further into 60 DPD. And another 40% of that will flow into our NPA bucket. And that's what we are focusing on right now in terms of arresting the same.

Shailesh Kanani: And what will be the reason for this, sir? If you can throw some light on that as well?

Baskar Babu: No, it's stated as felt by the rest of the competitors as well. There has been a little slow down in collections on account of multiple factors, specifically in the northern part of the state and in certain pockets in Tamil Nadu. This is usually seasonal. This can be a little more enhanced, but we're pretty confident in terms of the collection efficiency getting normalized in Q2.

Shailesh Kanani: Fair enough. So my second question is with respect to PCR. So our PCR has seen a major improvement in last 2 quarters. And I guess I think above criteria RBI has kept for universal banking license. So can you let us know how we should weigh this in our numbers for FY '25, '26?

Kanishka Chaudhary: So our PCR reaching 83% was along the lines of the road map that we had put in place. From here on, we will like to be above the 80% number. At all points in time, RBI would want us to be above 75% number. But given that we have reached the stage from here on, we would want to sustain the 80% threshold for PCR.

Shailesh Kanani: And I believe we have aspirations for universal banking license as well for next year?

Baskar Babu: As it comes we play by 3 years. So as of now, we really focus in terms of creating a very strong small finance bank platform. As you know, even from a size perspective, we are just closer to around INR9,000 crores in terms of assets. The intent would be to kind of build a very strong one at around around INR25,000 crores and we'll certainly even think very seriously about the universal banking road map at the end of this financial year not earlier than that.

Shailesh Kanani: Fair enough. Sir, can you help with a book-keeping question with respect to CGFMU claim where that has been reflected in our numbers. Have we deducted from write-offs? How is branding kind of in the numbers?

Kanishka Chaudhary: Yes. So if you look at the GNPA and asset quality page in our investor deck, you will see that we have shown it there. So our gross credit costs were around INR95 crores, and net of recoveries of INR11 crores and INR32 crores of receipts from the CGFMU. Our net credit cost for the quarter stands at around INR51.5 crores, INR52 crores.

Shailesh Kanani: Can you give me slide number, I kind of missed that one.

Kanishka Chaudhary: Sure. Slide #12 in the investor deck.

Shailesh Kanani: Okay. Okay. So that has a detail of the booking of CGFMU.

Kanishka Chaudhary: Have a look at the graph on the bottom right, and it will give you that.

Shailesh Kanani: Okay. Fair enough. Fair enough. That was clear. Sir, one more question if I can squeeze in. So any update on the ECLGS we had or Status of ARC any data point -- if you can share some data points on that as well.

Kanishka Chaudhary: So now very little around INR45-odd crores is remaining on the books, right, and the process of claiming the same continues. We have received about a little over INR9 crores till date. We have our last tranche of claims to be made, which we will do over the next quarter.

Shailesh Kanani: So this is for ECLGS, right? You think, INR45 cores is pending?

Kanishka Chaudhary: Yes. Yes.

Shailesh Kanani: And status of ARC?

Kanishka Chaudhary: So ARC, the outstanding security receipts as of today is around INR20-odd crores. Our collections continue regularly in that particular pool. We see ourselves being able to completely extinguish the security receipts over the next 3 quarters.

Shailesh Kanani: Run rate is around INR7 crores to INR8 crores per quarter that means, right?

Kanishka Chaudhary: We are doing somewhere between 5 to 6 a quarter. So we would just give a push and extinguish before the end of the year.

Moderator: The next question is from the line of Pulivarthi Sai Kiran an individual investor. Please go ahead.

Pulivarthi Sai Kiran: Sir, just 1 broad question on the MFI cycle as such. So probably this is the first time we are seeing the cycle with the Bureau data being there for at least 5, 6 years and also have seen the COVID kind of an impact. How do we see -- and also the industry body continuing very proactive as well. How do you see the cycle this time around what was the last cycles, how deep it can go? And what could be the loss going default for the industry?

And in the context of CGFMU, how Suryoday they can see the credit cost in this cy

cle if it goes based on your understanding or assessment of the current cycle.

Baskar Babu: As we stated earlier, we really always kind of planned this business with a credit cost of anywhere between 2% to 3% on an annualized basis over a period of 4 to 5 years and we look at from cycle to cycle. However, there could be extraordinary event, the CGFMU cover is not planned kind of look at the premium, what we pay on the claims -- the claims may always be much lower and lower than the overall premium pay.

This is for that one-off events and the sharpness can be as much as 7% to 8% or hovers than what we saw. It could be where between 10% to 17% depending on the geographies that you operate. And as it happens in the industry, in any geography, there is a sharp reduction in the collection efficiency or delinquency. It does reflect on all the players currently participating in the market.

What we did in the last 2, 2.5 years, is to graduate to the customers who have a good track record to individual so that we deal with them on one-on-one without the influence of the group, which sometimes turns out to be negative.

Our portfolio on VL is dealing with the customer on her or his ability to take the loan and service the loan and 70% of that gets cleared by the due date of 7th of the month. And subsequently, another 5% to 10% gets cleared by 10th, which is a second presentation and 20% of the customers is what we follow through on a one-on-one basis.

Thirdly, the collection ends up on an overall portfolio closer to 97% to 98%. On the current bucket, as the last quarter probably it was a little lower at 98%, but usually it hovers around 99.5%. So the intent is to really move away from the risk -- mitigate the risk by dealing with the customer one to one. So we have the opportunity to assess. Though not very easy, but over a period of time, it becomes possible.

So we would see this in nutshell around 2.5% to 3% of the credit loss annualized across a period of 4 to 5 years or between cycle to cycle. And that one-off event and they were all unpredictable events was like demo on the fact then there was an Andhra crisis and post that, there was COVID, and you wouldn't know what that event would be -- if at all if it happens in the next 4 to 5 years. It is purely to insure ourselves against that event that we have the CGFMU cover. And we cover it on an entire portfolio-to-portfolio basis. We do not do any cherry picking at all. Hope it clarifies.

Pulivarthi Sai Kiran: Yes. Got it, sir. So tactically, what could be the cross-cycle ROEs can be -- the guidance for FY '25 stands between 14% to 16%. Is there a possibility with the current construct of the business when we were under assumption. Can you just move out further to 15% to 18%.

Baskar Babu: Well, there are possibilities what we have kind of initiated, is it can we really create a banking institution, which consistently delivers between 15% to 16%, 16.5% and moves up by 25 bps over a period of time. So we would not be in a hurry to kind of rush into a 19% ROE probably in a year or next year but as it happens is also, as you know, we are balancing the portfolio to secure assets, which technically means that there will be a drag in terms of overall return. And however, we are confident that we're structuring it in a way that we are always in the 15% to 16% zone and moving up a couple of basis points probably quarter-on-quarter.

Pulivarthi Sai Kiran: Okay. One last question in terms of the data-keeping, do you foresee the capital requirements in the next 12 to 18 months? Or you are sufficiently capitalized for now?

Kanishka Chaudhary: Yes. I think we will have capital requirements somewhere around 15 to 18 months, and we do have that in mind, and we are focusing on that requirement. One thing that I would like to highlight, however, is that our current capital adequacy calculations do not bake in the benefit of reducing our risk weighted assets to the extent they are covered by the CGFMU portfolio. So that's one off-take that we have. So if we were to consider that, our capital adequacy will improve by about 1.5%.

Pulivarthi Sai Kiran: 1.5%?

Kanishka Chaudhary: Yes.

Moderator: The next question is from the line of Karan Mehra from Mehta Investment.

Karan Mehra: Congratulations on good set of numbers. A couple of questions. If you can throw some light like where do you see the cost of funds going ahead in FY '25? And do you anticipate a rate cut in this fiscal?

Kanishka Chaudhary: Well, right now, we will focus on the current financial year. So as you may be aware, in November, December, our SLTRO tranche will mature, which is about INR750 crores in all. So from here on, we see our overall cost of funds moving from 7.6% to somewhere close to 7.90% and thereabouts.

Karan Mehra: Okay. And what is the credit deposit ratio currently? And where do you see it going forward given that RBI is quite vigilant on CD ratio?

Kanishka Chaudhary: Yes. So we are today at around 110%, and we have a road map to reach 100% by the end of the financial year. So as things look today, yes, we will hit that number by the end of the year.

Moderator: The next question is from Kartik Solanki, Elara Securities.

Kartik Solanki: Congratulations to the management on good set of numbers. I have a couple of questions. So the first question is on the lines of what would be the mix of secured and unsecured in our total loan book? And how do we see it shaping up in the next 1 to 2 years? And the follow-up question, I'll come with that.

Kanishka Chaudhary: So today, our mix is 58-42 between micro finance and retail assets. We are constantly improving it. In the first stage, we would want to reach 55-45. As a steady state in the medium term, we look at a 50-50 split between microfinance and retail asset -- secured retail assets.

Kartik Solanki: Okay. And with the shift moving towards the secured side, how do we see our NIMs are shaping up?

Kanishka Chaudhary: So my sense is that our NIMs from current 10% will be somewhere between 8%, 8.5%. That's what we would ideally like to target. I think also important for us will be able to churn our portfolio something, which we have just about started testing. So us being able to securitize our VL book, as an example, will be something that will help us support and prop up our NIMs over time.

Kartik Solanki: Okay. And sir, the other question is on the lines of deposits. So in our total deposits, the total bulk portion is somewhere around 21%. So like how do we see this?like in the near term?

Baskar Babu: It will be in the range, Kartik, between 20% to 30% where we would like to kind of keep it ideally adjust around 20%. We can achieve the flexibility of moving anywhere between 20% to 30%, but not really 30% in terms of the bulk.

Kartik Solanki: Okay. And sir, one question I had on the lines of partnership. So the book is quite small as of now. But just can you throw some color like that you see the GNPAs in the growth factor is around 7.9%. So can you just like throw some color on this book?

Baskar Babu: On the partnership front, it has been a very, very small experiment based on our learning, we'll kind of break in. But however, most of these products are where the credit losses expected are a little higher than what we will do directly. And there is other partners do come in. And with a 5% max FLDG and also the pricing cutoffs that will really fix. We can believe that as long as we get anything closer to 11% to 11.5% into us and into a segment where it is meaningful for us even to directly expand. We look at it. Otherwise, we are not really chasing any percentage or a large target from the partnerships.

Kanishka Chaudhary: Also, it's important to note that this current book of partnership is something that came into being before the new 5% FLDG regulations kicked in. So the FLDGs that we have adequately covered us for all the delinquencies we have in the portfolio today.

Moderator: The next question is from the line of Vatsal Nagelia, Individual Investor.

Vatsal Nagelia: What might be the reasons for the reduction in the CASA guidance? And what do you expect from this?

Baskar Babu: It has been a very tough market, Mr. Vatsal. So certainly, we are fine-tuning our strategy. Also, the reason is that while the overall reduction is marginal. As the deposit book grows, we are not really having challenges, including in terms of sourcing digitally fixed deposit granular. Ticket size is less than INR1 lakh. There has not been similar traction as far as the CASA is concerned. Our focus for the remaining -- of the remainder of the year would be in terms of taking it to a meaningful -- minimum at least 20%. When we are targeting a little higher than that, 20% is what we'll try to achieve sequentially over the next 3 quarters.

Moderator: The next question is from the line of Ashlesh Sonje from Kotak Securities.

Ashlesh Sonje: Congratulations on the good overall numbers. A couple of questions from my side. Firstly, on your growth outlook, how do you see growth panning out for FY '25? So far, you have reported a good set of numbers at around 38% in MFI. I just wanted to hear your comments on the growth outlook for MFI business in FY '25?

Baskar Babu: I think we were pretty reasonably clear that we will kind of have an advances growth targeting between around 30% to 35%. Beyond 30% is apparently out of increase in the portfolio of the secured loan portfolio. We were targeting around 30% to 35% max in terms of the inclusive finance and even that would be predominantly to run the Vikas loan which is catering to the requirements of existing very good customers who we graduate and deal with one-to-one.

The intent of Vikas loan is not to kind of just have individual lending. It is an endeavor for us to really become a holistic banker for the customer, which is the lady of the household and preferably do the household. Not an easy journey, but that is where I think we'll be able to create stickiness and customer experience of that.

So we have focused 30% to 35% advances growth. But however, the growth of the advances will be predicated on the growth of our deposits, which we are targeting a little higher at 40% to 45%. While we do think that it will be possible to achieve it given our smaller base, specifically in terms of term deposit. The challenge, as I was answering the previous question would be in terms of maintaining minimum CASAof around(inaudible 25:32)

The focus of the remainder of that we would not -- just so much only in terms of deposit mobilization, but specifically in terms of CASA being at least around 20% cutoff. And that would drive a growth of in the order of 30% to 35% for this year.

Ashlesh Sonje: Secondly, on the -- there has been some announcement by about putting in place a couple of guidelines around limit on rural exposures of borrowers as well as limiting lenders to four. I wanted to check with you where are we and where is the industry on the implementation of these guidelines. That is one. And secondly, what proportion of your borrowers would fall through these guidelines?

Baskar Babu: So one, I think we are now in terms of Vikas loan portfolio, we would see a broad appraisal of the household of the customers. Mostly 90% of them own their house or have been in the same place for more than 5 years. So that's an individual appraisal that we do. And that's the reason that how the currently, at least and we hope that continues in terms of the delinquency will be substantially lower than it is in the JLG portfolio.

The guidelines, which put by (Inaudible 26:41) is a very, very welcome step. I think across the industry, people are more than happy to (Inaudible 26:45) here. It protects us as a whole. Individually, there could be some disadvantages depending on the markets (Inaudible 26:50) And what we afford is fairly kind of comfortable and our own norms in JLG would have been far more, I wouldn't call it stringent, but far more clear in terms of our own risk management. So we are technically not impacted either side because of the (Correction) norms, but it absolutely welcome step.

Ashlesh Sonje: Sir, just 1 clarification. The Vikas loan or the individual loan which you have, would that also help to abide by these loans?

Baskar Babu: Depends on the household income, but irrespective of whether it is a INR3 lakh or INR4 lakh mostly if you look at it, there are 2 small micro businesses in a household including in the smaller towns, either the household income on a monthly basis exceeds around INR40000, INR45,000. So however, we kind of use [FOIR for that as well, while it need not follow the guidelines of (Inaudible 27:40) MFI guidelines. But the fact that the MFI guidelines state that the repayments should not be more than 50% of the household income.

So here actually, the outgoes in terms of instalments will probably be much lesser than that as the household income. So, to the extent it is compliant. It is not regulatory required because these will be typically in MSME or SMA, small marginal accounts.

Ashlesh Sonje: Okay. Understood. Sir, if you allow me to squeeze in 1 more question. Can you talk about your experience on delinquency across states and if you are seeing any improvement in the month of July in particular?

Baskar Babu: I think May was probably a little harsher than April. June, we saw a little improvement for sure. And July looks to be little better than June. The whole thing is about the current bucket collection efficiency, which used to be reasonably comfortable at 99.5% probably across the sector and for us in the last couple of quarters.

This really comes down to a little less than 99% probably around just about -- around 98% and in the current bucket. The (Inaudible28:43) was which typically for our size, it means around or closer to 8,000 more customers have to be collected. So, we are not really kind of saying that, no collection somehow. I actually we want to understand what is it really causing it. Is it over indebtedness of the customers, which obviously their data, which have -- shows whatever has been recorded on the credit bureau other than they may have other indebtedness which is informal in nature. Or is it really kind of going to do with any other slowdown in specific geographies. But it is not alarming.

It is really kind of a higher by 1%, which is what if you look at our overall collection efficiency is down by around 80 basis points. The focus now is to really kind of a slowdown in terms of looking only at customers or what consistently good track record and probably long track record. The delays are absolutely okay. But what's not kind of hurt is in terms of if there's continuous delay for sequentially more 2 or 3 months. we are not seeing the trend at this point of time.

Moderator: The next question is from the line of Aman Vishwakarma from Philip Capital.

Aman Vishwakarma: I just had 1 question on your loan book, right? So, from our previous conversations, I believe our focus was to grow the Vikas loan book on a higher end. However, we, for this quarter, have seen more growth in the CD and the LAP segment. So, I mean, is it the seasonality that has caused it out, what is the change here? If you could just throw some light on it.

Baskar Babu: Aman, they're not linked. So, within the IF segment, our intent is to really acquire customers through the door in terms of JLG for small-ticket loans. They are the individual credit assessment except for the bureau and the visits may not be very, very deep. And as a graduate and have a track record of more than around 12 months to 15 months, then we graduate them into Vikas loan where we kind of deal with the customer one-to-one based on their ability to service the loan, which currently varies anywhere between INR60,000 to around INR1.25 lakhs -- INR1.5 lakhs, but majority -- 99% of the loans are less than around INR1 lakh.

And on the other side, for the balance of the portfolio, both commercial vehicle and mortgages were having a decent trend and would continue to do so. And that is not fairly linked more the better because -- as Kanishka was explaining, the intent is to move towards 55-45 immediately and probably closer to 50-50 and stay there as a good, nice balanced portfolio.

Aman Vishwakarma: Okay. So it essentially act as a (Iaudible 31:40) for you to move them up the value chain as now we are looking at it, is it sir?

Baskar Babu: Yes.

Moderator: The next question is from Pritesh Bumb, DAM Capital.

Pritesh Bumb: Just a couple of questions. Now given that our PCR has touched 84%. What is your view on the credit cost? And will this CGFMU claims continue to come in the provisioning side from here? Is it like a constant thing? Or how do we build it in our credit cost? So that was the first question.

Kanishka Chaudhary: I think on a full year basis, we will look at the credit cost in the range of 2.7% to 3%. And so far as the CGFMU costs are concerned, they are part of your expenses, right, and which is the reason why you see our PCR.

Pritesh Bumb: No, I mean the -- we've seen some provisioning benefits from the claims, which...

Kanishka Chaudhary: Yes. So operationally, the way the CGFMU program works is that you can make a claim only once in a year. So, we don't see any claims for the remainder of the year. So, this INR32 crores is only claim we will see coming through this year.

Pritesh Bumb: Got it. So basically, if I exclude that claim and which will be for the previous NPA, it looks like that the credit cost is still at about -- or equivalent to how much the slippage has been around 3%, 3.2%. So, you expect it to come down basically is what we should be doing.

Kanishka Chaudhary: Absolutely, yes. yes..

Pritesh Bumb: Got it. And sir, second, a lot of questions around the sector. But if you can give some color around whatever is happening, and we are predominantly around the semi-urban side, urban side. How is that versus -- is it a problem of -- a rural problem or a semi-urban problem or urban problem? What -- if you can just throw light on that?

Baskar Babu: We are, as you rightly said, we are more of a semi-urban player. But however, in many, many small towns, while it is semi-urban where the branch is located, 2 kilometers out it's rural. So, we do have the flavor of rural around 40% of our customers come from rural, which is a (Inaudible 33:51) the small towns. Solapur outskirts and multiple other smaller towns.

So, we have never kind of seen it as 2 distinct things in terms of rural or urban. Since it's -- most offices are in and around the semi-urban localities, the income profiles of the customer is not derived only from either agri or completely non-agri. It's usually a mix.

So specifically, as the things were slipping in terms of a couple of basis points in current, our attempt to kind of truly understand in terms of what is leading towards. One, which is coming out in terms of the There has been Little higher indebtedness as it has happened in the last year, and which is really leading to a little bit of a stress. So, we're really going back in terms of cutting the portfolio consistently and seeing, what is it.

But however, as the data now shows just because somebody has taken 4 loans does not automatically turn itself into high-risk portfolio, probably because people are taking little more higher for 3 loans and 4 loans, have the income to support the repayment. And they are all small loans of around INR40,000, INR50,000.

But even on a mathematical basis -- economic basis, we put it, even if it were at INR2 lakh loan, but for a period of a 4-year span the stress would be much, much lesser, which is where the RBI regulations clearly state, measuring the indebtedness not out of the gross amount. But in terms of the repayment per month as a percentage is the household income.

So if your credit analysis or the arranges, make sure that we are looking at the income and also the overall repayment and looking indebtedness on a holistic basis. Each one will be able to manage their own risk. That, I think, is what we have seen that in Vikas loan portfolio.

We are trying to use our learnings in Vikas loan portfolio to go back and look at we are not really putting a break in terms of no to NTC or kind of reduce it, but making sure that NTC is actually truly NTC, but making sure that all the KYC documents we have are the real KYC documents hence we are not getting any false alerts. Mean that we are not getting it. We are not letting out in terms of loans that has been taken by the customer.

But the focus for the continuous quarters will be to get back in terms of the current bucket collection efficiency to 99.5% which currently is a little less than 99% even as of July.

Pritesh Bumb: Got it, sir. Sir, just again, 1 more follow-up. If you can segregate your portfolio in the affected areas between Vikas loan and JLG, how much will be that percentage? So broadly, some of the areas which are affected right now. how much percentage will have there as the -- in Vikas loans and JLG.

Sasidhar Vavilala: This is Sasidhar here. So first and foremost, ,we right now don't operate in the largely affected areas like Punjab, Kerala market. So we don't have presence as a player. And there are pockets of stress across Rajasthan, UP, Chhattisgarh and Orissa. We do have presence in -- and also Gujarat. We do have presence in Gujarat and Orissa. We do see stress.

So, in our portfolio, we continually see overlapping industry stress overlapping in Gujarat, Orissa and UP. These are the 3 states. It's not a statewide problem. It's a localized problem. And specific to -- there are multiple lenders and customers are being over-leveraged. So, we have our internal check mechanism where we -- by design we don't over-leverage.

So specific to your question, do you see any stress? Yes, we see stress in Gujarat, pockets of Gujarat, pockets of Orissa, pockets of UP in places where we operate. Otherwise, we largely don't operate in the largely affected areas -- the big, affected areas, we do not operate.

Pritesh Bumb: Got it. So I'm assuming that you don't have too much of exposure to these areas is what you...

Sasidhar Vavilala: Our primary markets are Tamil Nadu, Maharashtra, Karnataka and Orissa. Orissa do have some effect, but it's contained. It's in micro markets.

Pritesh Bumb: Got it. Sir, last question from my side is on the yield front. We've seen inch up this quarter. So is it because of the mix change? Or is it because of that we have undertaken some hikes in any of our portfolio in terms of -- especially the micro finance side?

Kanishka Chaudhary: No, no prior repricing is involved. It's essentially a mix impact.

Baskar Babu: Yes, it is a pricing on the portfolio of Vikas loans. Currently 28%, which we are operating to less than would be 26% or 24.99%that is from 1st of August. And the intent is to really go down in terms of the pricing for the Vikas loan customer has a graduate from cycle to cycle even if it's in Vikas loan offer other products.

Pritesh Bumb: Got it. So basically, if I look at in a 2-year perspective, then this yield should certainly go down because you're going to pass on some of the pricing to individual loans?

Baskar Babu: Individual.

Moderator: The next question is from Mr. Prabal from AMBIT Capital.

Prabal: Sir, first question was on liquidity coverage ratio how much acquired and have you assessed the impact of the new guidelines by RBI?

Kanishka Chaudhary: Yes. So our liquidity coverage ratio today is around 175 or thereabouts. And we have done a review of the new requirements. It shows that -- it will impact our liquidity by around 25% to 30%. But even then, we will be still above the regulatory requirement of 100%. As a bank and an institution, we have always kept excess liquidity. So, the new regulations are not going to cause any worry for us.

Prabal: Can this in anyway impact on growth because last year, your LCRwas somewhere around 160%, it came down to 140% as we were doing wholesale deposits. (Inaudible 40:05) your growth plan going ahead?

Kanishka Chaudhary: Not really because if you look on an incremental basis, the amount of deposits that we have been able to raise is the same amount as the book -- by which the book has grown. So, on an incremental basis, my CD ratio is 100% even today. So, we don't see that to be hedged insofar as growth is concerned.

Prabal: And on CGFMU, how much of your loan book is covered by CGFMU?

Kanishka Chaudhary: Around 95% of my loan book is presently covered in the IF business. And we continue to cover all our new business in IF under the CGFMU program.

Prabal: And IF means the individual...

Kanishka Chaudhary: It is a microfinance business -- 95% of the microfinance business is covered under CGFMU.

Prabal: And secondly, sir, what's the coverage, meaning, what's the FLDG from this side, in fact, for example, if you say this percentage of loan book defaults in the MFI segment, then you're covered?

Kanishka Chaudhary: The program allows for up to a 15% cover in terms of impairment. So those are the terms of the program.

Prabal: So when we have a 95% of our book is covered and 15% out of that is covered, why we are not guiding for, say, a lower payout? First why do you have -- why do you still have higher project costs. Are you building in some elevated delinquencies going ahead?

Baskar Babu: Our credit costs are independent in terms of the claims. This is Kanishka was explaining. When we say that our credit costs so much, it is across as this in terms of the portfolio. And whether we are kind of taking a hit or whether we have made a premium payment, of which we are collecting 15%.

Prabal: So just last 1 question. You mentioned about raising capital in 15 to 18 months. The Tier 1 is 26% a month. Why will you require capital?

Baskar Babu: Because we wouldn't -- we always historically raise well ahead in terms of our earlier kind of guidance was in terms of minimum of a 25% as long as the portfolio was substantially in terms of unsecured. While the fact now is that almost 100% of the portfolio in inclusive finance is covered by CGFMU and the rest of it is anyway secured loans, the retail assets.

We believe that around regulatory impairment wise, it is 15% for ex-service. It does not really bake in for -- market risk and operating risk. So if you really kind of put that ideally would like to minimum maintain 20%. So currently, while we do not require because even if we require we can really raise the Tier 2 funding, but we would like to always have a comfort of around closer to 25% in terms of capital adequacy till the portfolio stabilizes at 50-50 between inclusive finance and secure portfolio.

Moderator: The next question is from the line of Vatsal Nagelia, Individual Investor.

Vatsal Nagelia: How many branches do you expect to add going forward?

Baskar Babu: Sorry, how many branches?

Kanishka Chaudhary: We have more than 700 branches today.

Baskar Babu: I would -- but usually, we can do around 40 to 50 branches on a yearly basis. So around the same is what we would like to maintain this year as well and split between liability branches and inclusive finance branches. Last year, we added around closer 70 branches in the inclusive finance and probably around 10 branches in the deposit focus branches. So this year, probably it will be the 10 will remain -- almost another 10. And as for instead of 70 probably we will kind of to do over 30 to 40 branches.

Moderator: Ladies and gentlemen, I now hand the conference over to the management for closing comments.

Baskar Babu: Thank you very much for your continued support. In case you have any queries, please reach out to us, I am happy to kind of address. Thank you very much.

Moderator: On behalf of Elara Securities Private Limited, that concludes the conference call. Thank you for joining us, and you may now disconnect your lines.