"Suryoday Small Finance Bank Limited Q4 FY-24 Earnings Conference Call"

May 10, 2024

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MANAGEMENT:	**MR. BASKAR BABU RAMACHANDRAN – MANAGING DIRECTOR & CEO, SURYODAY SMALL FINANCE BANK LIMITED** **MR. HEMANT SHAH – EXECUTIVE DIRECTOR, SURYODAY SMALL FINANCE BANK LIMITED** **MR. KANISHKA CHAUDHARY – CHIEF FINANCIAL OFFICER, SURYODAY SMALL FINANCE BANK LIMITED** **MR. HIMADRI DAS – INVESTOR RELATIONS, SURYODAY SMALL FINANCE BANK LIMITED**
MODERATOR:	**MR. AMAN – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and Q4 FY24 and FY24 Earnings Conference Call of Suryoday Small Finance Bank Limited hosted by PhillipCapital PCG Deck.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aman from PhillipCapital (India) Private Limited. Thank you and over to you sir.

Aman: Thank you, Manuja. Good morning, everyone. On behalf of PhillipCapital Private Client Group, I welcome you all to the Q4 FY24 and FY24 Earnings Conference Call of Suryoday Small Finance Bank Limited.

From the Management we have, Mr. Baskar Babu Ramachandran – Managing Director and CEO, Hemant Shah – Executive Director, Mr. Kanishka Chaudhary – Chief Financial Officer and Mr. Himadri Das – Investor Relations. I now handover the conference to Mr. Ramachandran for his opening remarks and we will then open the floor for the question-and-answer session. Over to you Mr. Ramchandran.

Baskar B. Ramachandran: Thank you, Aman. Good morning, everybody. On behalf of Suryoday Small Finance Bank, I extend a warm welcome to our Q4 and FY24 Earnings Conference Call. I trust that everyone has had the opportunity to review the Presentation for the Quarter and for full year ending March 31st, 2024 which was uploaded on the Stock Exchanges.

Now let me provide an overview of Suryoday's key "Operational and Financial Metrics" as of Q4 and FY24:

On the Business Performance:

On gross advances front, the Bank's gross advances stood at 8,650 crores in FY24 as compared to Rs. 6,114 crores in FY23, an increase of 41.5% year-on-year. The growth is primarily driven by increased disbursements across inclusive finance, commercial vehicle and mortgages segment. We're happy to share that Vikas Loans, the individual loan portfolio offered to Bank's graduating JLG customers has surpassed Rs. 2,600 crores of AUM and now contributes over 53% of the inclusive finance portfolio. We have over 4.3 lakh Vikas Loan customers as of now.

On the Disbursement front:

Our Bank disbursement for the full year rose by 36.1% to Rs. 6,919 crores as compared to corresponding previous period last year. The disbursement during Q4 FY24 stood at Rs. 2,340 crores a growth of 38.6% year-on-year. Vikas Loan disbursement almost doubled to Rs. 2,523 crores in FY24 as compared to Rs. 1,270 crores in FY23. On the deposits and borrowing front, our deposits witnessed a growth of 50.5% to Rs. 7,777 crores in FY24 against Rs. 5,167 crores in FY23. The CASA ratio has increased from 17.1% in FY23 to 20.1% in FY24. We continue to focus on building a sticky and granular retail deposit book. The retail deposits as a percentage of overall deposits, currently stand at 78.8% in FY24 versus 73.1% during FY23.

Our borrowings at the end of March '24 formed approximately 20% of the total liabilities, the majority of which is from refinancing institutions SIDBI and NABARD.

On the Distribution front:

Our Bank has a network of 695 branches of which 109 branches were liability focused while 392 branches were asset focused and the balance comprises of rural centers. The Bank continues to invest in expanding the branch network, coupled with increasing depth in the existing branch network through competitive service offerings.

On Asset Quality:

Our Bank's gross nonperforming assets have reduced to 2.8% in FY24 from 3.1% in FY23 and the net non-performing assets has decreased to 0.8% in FY24 compared to 1.5% in FY23. Our Bank will continue to cover the eligible unsecured portfolio under the CGFMU scheme to mitigate any unforeseen risks.

On the Earnings Update:

Our net interest income stood at Rs. 962.2 crores as compared to Rs. 746.6 crores, an increase of 28.9% year-on-year. Our net income stood at Rs. 1181.6 crores as compared to Rs. 844 crores, an increase of 40% year-on-year. Our yield has improved to 20.2% in FY24 from 19.3% for FY23. NIM has increased from 9.5% in FY23 to 9.8% in FY24. Our cost of funds has increased from 6.7% in FY23 to 7.3% in FY24. Our cost to income excluding CGFMU investment stood at 57.1% as compared to 60% in FY23. Cost to income including CGFMU expenses stood at 61.6%.

On the CRAR front:

We continue to remain well capitalized with our CRAR at 28.4% which is well above the regulatory requirement. We continue to invest in our people infrastructure with focus on employee's wellbeing and believe this is key to serving our customers meaningfully. We continue to invest in technology and is a key enabler for our controls and growth. Going forward our strategy would be to transition from predominantly being a micro lender to becoming a micro-banker for low-income households with a sharper focus on going deeper into our existing geographies and continuing to provide holistic banking services to our customers. Going granular on both the lending and deposit side would be a key enabler to achieving our core strategy.

Let me thank all of you for participating in the call and over to Aman.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shailesh Kanani from Centrum Broking.

Shailesh Kanani: I had a few questions. First is on concentration risk, any plans to reduce the exposure to top three states because on a year-on-year basis still at 66% the concentration seems to be high? So, if you can highlight any strategy with that.

Kanishka Chaudhary: Shailesh, that is something that we will work on for progressive improvement. So, on a year-on-year basis we have had a little over 2% improvement and I think this year will be crucial for us to improve that mix.

Baskar B. Ramachandran: However, Shailesh as you know that our portfolio is substantially covered with the CGFMU which mitigates substantial at least in terms of balancing of an unsecured to secured in a meaningful manner.

Shailesh Kanani: Can you throw some light on the CGFMU cover, how that extends, shape up for next year and in case of, where do you start getting recoveries from this piece? Is it expected in FY25 and how does it work? Can you just give little bit of detail for that?

Kanishka Chaudhary: We are now eligible for making claims for the first set of cover that we did about a year back. And we would want to see that we are able to make offers claim in this quarter itself, just to one test our housekeeping in terms of how we have been able to earmark the customers as well as maintain the documentation as is required for the program. So that's the way that things stand today. I think we have a very program level approach for the CGFMU scheme. We don't cherry pick. We are very clear that insofar as our JLG customer portfolio and the Vikas Loan customer portfolio is concerned, we will continue to insure them and as things stand today more than 90% of the portfolio is insured.

Shailesh Kanani: Can you just quantify that? So, when we say the first tranche is eligible or the first cover is eligible for claim in the first quarter, so can you just quantify that what is that tranche which has been covered and what is the expected-on recovery side?

Kanishka Chaudhary: So, amount which would be eligible for claim under the CGFMU scheme would be about 44-45 crores worth of NPA, of which 72.75 as per the scheme is something what we would be making a claim on again for the recovery.

Shailesh Kanani: That's a very decent sum, so that is expected in first quarter itself next year in FY25?

Kanishka Chaudhary: Yes, that's what we are targeting, Shailesh. So, for this financial year we would look to make claims, gross claims somewhere in the region of 45 to 50 crores. As per the program parameters about 70% of the claim that is made by us gets paid back to us.

Baskar B. Ramachandran: Shailesh as you know there's a credit insurance scheme, our credit parameters continue to be as well without the cover and our insurance premium which we pay in the years may be higher than the claims that we make but the intent was to really cover that one-off instance which keeps happening 4 or 5 years at least based on historical trends, do not want to really have the portfolio open ended. And the purpose of the cover is for that not necessarily the cost benefit analysis in the short term.

Shailesh Kanani: And on the expense plan how do we see the expense for the next year? The second part of my question on CGFMU.

Kanishka Chaudhary: So, I think with the way that we see the book growing, our expense on CGFMU will be somewhere in the range of 70 to 80 crores. That's what we have in mind for the time being.

Shailesh Kanani: So, can we get some guidance for FY25 in terms of growth in advances, deposit, CASA?

Kanishka Chaudhary: You can refer to the last page of the investor deck that we have put up. So, in terms of loan book, we are talking about a 30%-35% of growth and in terms of deposits we intend to have somewhere around a 40%-45% kind of a growth. Keeping in mind that we have made a regulatory commitment to improve our CD ratio to 100% by the end of the financial year.

Shailesh Kanani: So, in that if you can give me a color of secure and unsecure in that piece of 30%-35% growth, how would that look by end of FY25?

Kanishka Chaudhary: So today my secured book is about 41% and by the end of next year we would want to be around 45%.

Shailesh Kanani: A couple of more questions from my side if I may. There is some marginal decline in terms of collection efficiency for our Vikas Loan in this quarter, one EMI adjusted. Anything to read into it especially when we are hearing from many players that more efforts are required on collection front. So, anything if you would like to highlight about the quality.

Kanishka Chaudhary: We do recognize that the book has grown almost 2X as compared to last year to 2,600 odd crores. As a matter of fact, this is now the biggest part of the portfolio today which obviously means that we now need to augment our organization. So, we are already in the process of recreating our collection organization where, given that these are individual borrowers, we will have a collection mechanism commensurate to the portfolio size. So, we are rebuilding our entire collection organization which caters specifically to the increasing number of VL customers.

Shailesh Kanani: So basically, right now we are not seeing any stress in terms of collection efficiency and that is what I wanted to understand?

Kanishka Chaudhary: Not really, yes nothing at this particular point in time.

Shailesh Kanani: Just last question, on customer addition, I think we are a little bit of a lower side as compared to our growth in general for advances. How do we see that and what is the strategy going ahead for FY25 on that front?

Baskar B. Ramachandran: Shailesh, we added around closer to 70 branches in a year. The intent is to really kind of increase at least the new customer acquisition to 40,000 to 50,000 which you are seeing a traction. But however, we continue to be prudent in terms of acquiring new to credit customer and as far as a new to Bank customer while regulatory norms allow us to kind of acquire customers even if they have a relationship with two or three MFI/Banks on that front, we continue to focus in terms of their overall indebtedness not beyond around Rs. 6,000 to 7,000 including our installment.

Kanishka Chaudhary: And just to give you a bit of a color Shailesh, in the microfinance book, we have added 122,000 customers in Q4 and this number was 90,000 odd in Q3.

Moderator: The next question is from the line of Dhruv Shah from Ambika Finance.

Dhruv Shah: I just have one question and that's on your ROI guidance because in last couple of quarters we have been mentioning that we want to inch about 2.5%-2.6% and you're still guiding for 2.2%. Because if I'm not wrong in the analyst meet also you were saying that we want to reach at 3%. So, if you can just guide us why the ROI guidance is still around 2.2%?

Baskar B. Ramachandran: What we are really looking at is in terms of look at the ROA, KC to add later is that this is net of CGFMU which is approximately closer to around 30 to 40 basis points. That comes around closer to 2.6. And if impute that in terms of ROE from 12.9%, it will be around closer to 15.5%-15.6%. We are also equally cognizant of the fact that as a responsible industry in the low-income household, our intent would be to kind of go down the pricing and kind of keeping making sure that we pick the right customers and to that extent Vikas Loan will be the pivot on which we will do it. So, we are not excessively focused in terms of high ROA-ROE. We are looking at on the medium-term, long-term basis steady state ROE of 14% to 16%. You may say that probably there's a partial shift in terms of chasing a very high ROE or ROA to saying that, can it be meaningful and a very consistent ROA of anywhere between around 2.3% to 2.6%? But more importantly is from an ROE point of view a consistent 14% to 16%-16.5% inching up by 25 to 50 basis points on a quarter-on-quarter basis. Over to KC to add.

Kanishka Chaudhary: At this particular point in time, we would look to target an ROI of around two quarters or little over that. Given that we may want to offer slightly better pricing, especially for the second cycle VL customers. So, our VL program started in a big way about 18 months ago. So many of these customers will be coming up for the second cycle and we would want to give them a better pricing based on the kind of credit performance that they have had.

Dhruv Shah: Just one follow up on this since we are growing at 30%-35% and our ROE is still at 14%-16%, we will be consuming a lot of capital this year and next year. So where will be the right capital adequacy you will look to raise funds, like around 20% will be the right place where you think that we have to raise money?

Baskar B. Ramachandran: Our comfort capital adequacy ratio earlier was around 25% when we were 100% unsecured. As we shift the balance from unsecured secured as KC guided from 41% to 45%, we'll be comfortable anywhere in the region of around 20%.

Kanishka Chaudhary: I think that's the kind of horizon we will have in mind. We should be able to raise capital when we are inching towards that 20% number.

Dhruv Shah: So that will be at least 1.5 year away according to you?

Kanishka Chaudhary: Yes. In terms of an event yes, it will be anywhere between 15 to 18 months away.

Moderator: The next question is from the line of Anil Tulsiram from Contrarian Value Edge.

Anil Tulsiram: My first question is on secured loans. I guess the weighted average yield for our secured loan book is around 11% to 12% and our cost of funding is around 7.5% and the overall OPEX is 5.5%. So even if I assume 3% for secured loans, our ROA is less than 1% on secured loans. So, do we have any plans to increase the yields on secured loans by going up the curve?

Baskar B. Ramachandran: Anil I think no, the intent is to really grow a very strong mortgage portfolio and specifically focused on LAP targeted on business customers. On the long-term basis there are multi products including liabilities raising from these customers. So, it is little more strategic and the cost of operations for mortgages drops down substantially at a good base. Currently we have 1,600 crores including micro mortgages which is at 235 crores at this point of time of the 1,600 crores. We think that now on 2,500 crores it will give a pretty decent ROE of around closer to little above 11% but it from a long term business perspective and also from a strategic point of view of having a balanced portfolio as a Bank, we would continue to operate in this range not really increase the pricing because it was a change of mix from looking at a near prime as far as the mortgages are concerned except in micro mortgages where it will be predominantly NTC and one graduated JLG customers.

Anil Tulsiram: And coming to the ROA guidance, if we look for next 3 to 4 years sustainable ROA, will it be still around 2.5% or you will aim around 3%, the ROA guidance?

Kanishka Chaudhary: No, given the way we would want to increase the mix of our secured book, we would want to be range bound to 2.3 to 2.5. So that's the kind of a horizon that we have in mind.

Anil Tulsiram: Is this because of the pressure from the RBI to reduce the interest rates to the customers, the revised ROA guidance?

Baskar B. Ramachandran: Not really. So, kind of what we are really looking at is in terms of one on our own which is what we in fact Board had instructed earlier is that as Vikas Loan stabilizes **(Inaudible)** (20.30). in

Vikas Loans there is no pressure on the customer to pay on behalf of anybody else whether it's a half installment or one installment. So initially the cost of operations for Vikas Loan was higher as KC mentioned as we have more and more seasoned customers who are paying on their own as a Bank our intent was really going on the pricing path in terms of reducing it from current 28% to around closer to around 24% over the next 1 year. There is an imputed risk because we are dealing with an individual customer. So collection efforts required will be higher in terms of even a marginal stress as Shailesh asked at this point of time while we do not see, we want to create a robust secondary collection infrastructure even for good customers. And what we are investing this year and which we have started investing quite a bit back is that to ensure that all our borrowing customers do not continue to be only borrowing customers from Suryoday, we wanted a main focus in terms of PMJJBY, PMSBY and basic term insurance not from a purpose of cross sell or commission but in terms of ensuring that we have a far higher stickiness and the customers are overall financially comfortable. That would mean more investment from us. While we may not earn anything out of a PMJJBY PMSBY, the investment per customer would be closer to around Rs. 50 to 100. We are building that architecture. We have already done so, we have already piloted it. The intent is to really cover the customer and the eligible spouses under these government insurance schemes. So to that extent there will be a little increased expenses which we would consider as more as investment.

Anil Tulsiram: And coming to CGFMU, I was under the impression that we will be able to claim only once the NPA on whatever the book we insured is beyond 3%. So how are we eligible to make claim in the current year itself?

Kanishka Chaudhary: So, there are two prerequisites for this. So, your first claim should be only after 12 months of your having insured a portfolio and the second is that the claim accounts should be NPA for a period of 6 months. So, if those two criteria are met then you would be able to make a claim under the program.

Management: Just to add to what KC said, the 3% that you are referring to I believe is the first loss 3% that is not on the portfolio loss that is on the amount which has become NPA. So, suppose Rs. 100 is the amount of NPA, Rs. 3 is the first loss which has to be borne by the member lending institution. And then out of the balance 97, the loss proportion is or rather the guarantee proportion is 75% of that. So, when we said 72.75 that was taking into consideration the 97 into 75.

Kanishka Chaudhary: 3% of the first loss.

Management: After taking into consideration the 3%.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: In terms of provision was there any additional provision we did this quarter because our gross NPA declined, in spite of that even our PCR ratio has gone up to 71%. So, was that the thought process behind the higher provision? So, some light on that would be helpful.

Kanishka Chaudhary: So, we have tweaked a little bit a couple of our policies insofar as provisioning is concerned which has certainly helped in improving our PCR numbers. So, for example for the unsecured microfinance book going forward on a regular basis, the moment an account becomes NPA, we will be making 50% provision. So, which is the reason why you see that in the P&L we have taken about 40 odd crores of specific provisions relating to NPA and that has certainly helped us improve our PCR.

Deepak Poddar: And we intend to keep the 70% kind of a PCR going forward as well?

Kanishka Chaudhary: Yes, it will be our endeavor to stay very close to that number. As you are aware when we started the year, we were a little under 50% and took us a year to reach to this number as we had guided right throughout the year. So going forward we would stay very much close to that 70% number and as a matter of fact even try to improve it.

Deepak Poddar: That's a prudent policy. I mean that's very good actually. And so, what do we see in terms of credit cost in FY25?

Kanishka Chaudhary: Well very difficult to predict. But I mean if you ask me my opinion would be that I would want to be at the same stage where we are today for this financial year which has been somewhere in the range of 1.5% to 1.8%.

Deepak Poddar: 1.5% to 1.8% credit cost outlook.

Kanishka Chaudhary: Yes.

Deepak Poddar: And my third question is on your ROA. So, you did mention that in the medium term we are looking at 2.3% to 2.5%. So, one of the major reasons is that we want to increase our secured book mix where ideally your NIMs would be on the lower end as compared to what we are seeing currently.

Kanishka Chaudhary: Yes, that's true. So, our being able to stick to a 2.3 ROA and also improve the mix is contingent on a few things that we would need to do. So like Baskar indicated, micro-LAP and micro mortgage is something that we would need to grow in a big way. Some of the other products like providing funding to merchants is something that we would need to start building up in a big way. And importantly bancassurance business is something that we are really looking forward to build so that we can see significant growth in our fee business.

Deepak Poddar: And in 2-3 years what would be our target? I think FY25 you mentioned 45%. It does a secured book. So, where you want to reach in 2-3 years?

Kanishka Chaudhary: So that's the kind of mix we are targeting at this particular point in time and our endeavor will be to be closer to the two quarter or little better than that in terms of ROA.

Deepak Poddar: I was just trying to understand the secured book mix.

Kanishka Chaudhary: So like I said, secured book today is 41%. We would want it to be around 45% in about 3 years' time.

Deepak Poddar: In about?

Kanishka Chaudhary: In about 2 to 3 years' time, we would want to have a secured book which is in excess of 45%.

Deepak Poddar: In 2 to 3 years around 45%, right?

Baskar B. Ramachandran: If the intent is the scale up starts in micro mortgages the ideal percentage, we would you like to go and then kind of stabilize there would be a little above 50% for secure and that will also be part of that would be secure funding to are inclusive finance customers.

Deepak Poddar: And then my last question is on because of this election, and all are we seeing any kind of slowdown in any region or kind of any stress in any particular region?

Baskar B. Ramachandran: We haven't. We haven't to an extent not heard anything from the market or from our peers. So, one I think it's a phased-out election and we haven't really seen or heard anything.

Deepak Poddar: And not even a slowdown, are we slowing any disbursement in any particular region because of this event?

Kanishka Chaudhary: That's an ongoing activity. We keep evaluating the bottom 25 branches and keep slowing down and we keep tightening the policies. That's our prudent risk management practice.

Moderator: The next question is from the line of Pulavarthi Sai Kiran, an individual investor.

Pulavarthi Sai Kiran: Just one question on the asset quality side, if I look at it one, we have already ECLG is covered and over and above that we also taking CGFMU. And over and above that we are also taking conservative provision of about 50% immediately after it becomes an NPA. So, if I look at on a sustainable basis on terms of the P&L impact, if the credit or the GNP is below 3% then typically the CGFMU plus the provision charges in the P&L should be equal to only the CGFMU cost, is our understanding right?

Kanishka Chaudhary: Assuming that we don't have the kind of moderated flow forwards that's what we would ideally like to target.

Baskar B. Ramachandran: So, the fact is till now the base year was FY23. FY24 was whatever you can call it the cooling period. So, first claim of what we covered in the base year which is FY23, we can make a claim and CGFMU as you are aware and as we have discussed it will be once in a year claim only. Once the flow starts coming in terms of our NPA coverage in 72.5 as Karthik explained. So, to an extent our investment in CGFMU while this year it could be closer to 75-80 crores, net-net debt if you take also, the inflows that is coming out of it will get normalized starting probably from this financial year.

Pulavarthi Sai Kiran: So essentially the cyclicality which you would have seen in the credit cost historically will not be there going forward considering the CGFMU plus probably some sort of an ECLGS, is that understanding that primary on the MSI book?

Baskar B. Ramachandran: Believe the same.

Pulavarthi Sai Kiran: And the second question in terms of the capital consumption with the guarantees being there, would you like to see some benefits from the capital as well?

Kanishka Chaudhary: So today if you look at the composition of our book, our risk weighted assets are around 77% which very closely approximates to the 75% risk weight that we carry for MFI business which is about 60% of what we have today. I think there are two things that we need to keep in mind as we go forward which is that if we are doing more of home loan kind of a business, our risk weight will be somewhere around 35% to 40%. But if we do more of LAP it carries a risk weight of 75%. So, we would need to have a right mix of the two or start evaluating when we need to raise capital if we foresee that LAP is the predominant business for us and we are trying to price our products accordingly given the capital consumption involved.

Pulavarthi Sai Kiran: My question is that because you have got an MFI book and also got it guaranteed from CGFMU, will there be any benefit of risk weights coming down from 75% for the MFI book because 100% of the MFI book is CGFMU that will come down from 75% to lower or we still carry 70%?

Kanishka Chaudhary: No, at this particular point in time we have not exercised the option of carrying a lower risk weight. We can always do that. We can have around a 15% benefit but for the time being we are being cautious and not exercising that.

Pulavarthi Sai Kiran: If you choose to exercise that option that will come down from 75% to 60% is my understanding, right?

Kanishka Chaudhary: No. To the extent of the cover that you have up to a level of 15% assuming that your credit losses are well within that then that's the benefit that you enjoy.

Baskar B. Ramachandran: So, Sai some put it out the 15% of the coverage which is on a 5,000 crores portfolio we have full coverage, 750 crores can be risk weighted at zero. So, which means that no….

Pulavarthi Sai Kiran: That's what I thought because MFI book anyways you will go to 100% CGFMU cover within a quarter or two once this happens and if you choose to what I can say option that MFI book which currently is carrying 73% risk weight, we can go down to 60%. That's what, is my understanding right?

Baskar B. Ramachandran: I would not know the mathematical needed to put but if you say 100% is covered, 15% which is a credit loss can be risk weighted at zero instead of 75%. Overall, on current portfolio balance, the capital adequacy can probably go by around 2% to 3% max.

Moderator: The next question is from the line of Prabhdayal Sharam from Yash Investments.

Prabhdayal Sharam: One question is on universal license, are we eligible for it or not and if we are eligible then till when we will get universal banking license?

Kanishka Chaudhary: So, I think we will take about a year to be eligible to fulfill all the criteria for being eligible to apply for being a universal Bank.

Prabhdayal Sharam: On which parameter we are not able to get the eligibility?

Baskar B. Ramachandran: Last year our GNPA was above 3%, there are four-five conditions, one was GNPA should be below 3% for the two consecutive financial years, net NPA should be 1%. So, we had 1% more last year. We have 0.84% for this year.

Prabhdayal Sharam: My second questions is,Big players in the market seeing inorganic growth like recently AU bank has acquired some small finance bank so do we have such proposal in our mind?

Baskar B. Ramachandran: Right now, we don’t have such proposal, we are growing right now, and we have an aim of growing as micro-banking beyond micro-lending. We will take 2-3 years for it and that’s why we don’t have ambition on only financial, can we make an impact on the society 1% of the Indian population. This is our aim. Till that time, we are not thinking of anything else.

Prabhdayal Sharam: My last question is, for next 2 years ROE, AUM and Bank expenses how are you going to look at them?

Kanishka Chaudhary: Like we told earlier is that our aim will be to have a guidance for ROE for 14% to 16% and as far as loan book is concerned we would want it to grow till 30% to 35%.

Prabhdayal Sharam: For next 2 years?

Kanishka Chaudhary: Yes.

Prabhdayal Sharam: What are the plans for branch expansion for next 2 years?

Kanishka Chaudhary: Branch expansion we will keep doing. This year also we have added 70branches in micro-banking. This will be our endeavor to keep expanding like this.

Moderator: The next question is from the line of Pritesh Bumb from DAM Capital.

Pritesh Bumb: I had two questions. One is basically, if you not answered on this, cost of funds and cost of deposit this quarter it's been a little better. What has been the reason and what will be the trajectory ahead?

Kanishka Chaudhary: I think given how things are playing out, we would want to see our cost of funds stabilize at this level. You would note that in Q3 as well we were at the similar levels. What we have done as a Bank is that we are constantly reviewing the various modes of financing available to us. For example, for the last two quarters we have been actively looking at the IBPC market which does provide us with a 2% interest that we charge. But at the same time, we are conscious of the fact that a component of our financing is SLTRO financing which came to us at 4% and that financing will retire and mature by December of this year. So, it is important for us to be able to find and substitute and the primary substitute for that will be the growth in the CASA.

Pritesh Bumb: Second question was on your cost to income, this quarter we have seen very stable but we were in a range of something like 50 to 60 maybe around 62. But how do you see it going ahead for you given that there is some expansion going to happen but overall, how do you feel that number can pan out? And that is also important factor for ROE improvement.

Kanishka Chaudhary: So, if you look for this year, our cost to income including the CGFMU expenses was 60% and excluding it was 57%. Our ambition is that for the next year, our cost to income including CGFMU will be in the region of 57%.

Pritesh Bumb: So, will this now CGF, the insurance premium which we used to pay on the previous book now that is more or less over, so that's why we get the benefit, is that correct?

Kanishka Chaudhary: So, it's become the norm. So, we insured for the first-time last year, and we will continue doing that. So, the improvement that you see from 60% to 57% is something that's largely attributable to the growth in the book and the operating leverage.

Moderator: The next follow up question is from the line of Shailesh from Centrum Broking.

Shailesh Kanani: Just two questions. The SLTRO part, what is the quantum of that which is we are going to repay in December 2024?

Kanishka Chaudhary: 750 crores.

Shailesh Kanani: And just one question with respect to our non-interest income, it has really grown. Sequential because also there is a huge jump. So, is there any one off? And what would be the consistent run rate for FY25? If you can just throw some light on that.

Kanishka Chaudhary: So, the quarter-on-quarter growth that you see is largely on account of the higher disbursements that we have done. This quarter we did around 2,400 crores. And of that 1,000 crores were from

Vikas Loan where we have a processing fee of 2.5%. And even on the JLG book we make around 1.7%. So, all of that has certainly helped us improve our other income on a quarter-on-quarter basis.

Shailesh Kanani: So, basically, it's business as usual. There is no one off in that and that is expected to continue as the book grows.

Kanishka Chaudhary: Correct. There's no one-off involved in this case.

Moderator: The next follow up question is from the line of Anil Tulsiram from Contrarian Value Edge.

Anil Tulsiram: Just one more question on CGFMU. Unfortunately, in a bad year if our NPA reaches 20% on unsecured book, how much we get from this scheme CGFMU?

Baskar B. Ramachandran: God forbid for the reason that even in the worst of COVID I think we didn't really kind of reach that level except for a spiking of in one odd quarters. So, the maximum coverage I think is you can expect.

Kanishka Chaudhary: Maximum on a portfolio cover basis the claim will be 15% of the amount which is disbursed. So obviously basis the rundown, it may become a little higher percentage in terms of what can be claimed but obviously we don't believe we would want to reach to that levels.

Anil Tulsiram: And we get 100% of the 15%, right?

Kanishka Chaudhary: No, we get 72.75% of the claim that you make.

Anil Tulsiram: And now that we reduced our ROA guidance, will we also adjust our advances growth or we want to grow over a long term 3 to 4 years of our 30%-35% or a little lower? What would you think?

Kanishka Chaudhary: No, we will continue to, I mean we see ourselves growing in this range at this particular point in time. The ROI moderation as you talked off is largely on account of the mix change that we seek to achieve, first from 41% to 45% and then hopefully 50% over a 3-year period.

Anil Tulsiram: But this mix were guiding earlier also, then I'm just unable to understand all of a sudden why we are reducing the guidance from 3% to 2.5%. Earlier also we were clear about the mix change, mix strategy is not new.

Baskar B. Ramachandran: True Anil, what kind of look at it, predominantly we can get closer to around 16 lakh active inclusive finance customers and Vikas Loan has been at this point of time as we speak has given us experience in terms of looking at a holistic banking for our customers. So, we are not excessively kind of sweating over in terms of how can we really maximize. Even if the customer we are willing to pay 30% in Vikas Loan and whatever, our intent is to really kind of can we responsibly take it as you ask. There has been at this point of time we had no regulatory requirement or regulatory nudge. But being responsible in this segment, we really felt that we have to be a long-term respectable Bank creating an impact. Our intent is 1% to a positive impact on the Indian population which is around close to 35 lakh households. We drilled back and we said can we on our own, we are responsible in terms of going down from 28 itself to around 24 with the clear guided which we are not probably qualified and disclose it but that's the intent. So can we be a solid steady state 14% to 16% aided by CGFMU focusing on income generating loans and focusing on the other side in terms of secured, a substantially lower credit loss which means that we are not going to do there as well in terms of only NTC. So that will be a little different profile of a segment from a risk management point of view and here is where we would like to kind of put it. So overall ROA and ROE is a factor is in terms of the leverage. So as the mix goes up otherwise earlier as a NBFC-MFIs, we are leveraged no more than 3, max when you go to 4 we raise capital. As the balance becomes 50% approximately our intent is that ROA is around 2.2 to 2.3 to 2.3 to 2.5 and an ROE offer on a consistent basis around 15% to 16% and inching up maximum to around 17%.

Anil Tulsiram: And the last question is on the liability side over the next 2 to 3 years, what are the additional initiatives you want to take to increase your retail book?

Management: So, I think first our major focus is to continue and build our retail granular book which I think is very demonstrated over the last 1 year. Secondly, we have launched or soft launched rather our premium banking program. So, this quarter you will see a formal launch on the same happening and we have also have widened our focus on the value generating segments such as stock and institutional business. Further I think we would like to continue this journey in space of digital banking through either our own video banking or partnerships. And of course, the focus on getting deeper into existing geographies and also looking at leveraging our microfinance centers and higher locations.

Management: So, to add on to this, digital banking we are going to strengthen. We have already seen early success in that, we will build on that. And micro-banking is another journey which we started which we clearly see that's where while initially it's going to be a little bit of heavy lifting that will be required but that's what we see as a sustainable growth coming the next 3 to 5 years over and above the strengthening of the retail deposits and the granular deposits that we are targeting.

Anil Tulsiram: The last question is on the tech initiative, over the next 2 to 3 years what tech initiative can you elaborate that also?

Management: So, as a Bank we have invested heavily on the back end and middle where we are one of the early ones to move to TIBCO. Indeed, we have done 250 crores of investment in the peak of COVID, and we have done we have strengthened our entire middleware. Our entire middleware is API first middleware. So microservices enabled architecture. So, we haven't done much of investments on the front end and the experience so far in the past few years. Now the next 2 years is going to be complete focus is on the digital first customer friendly and RPA, robotic process automation and we will be simplifying the processed for the customer. That's the primary focus.

Hemant Shah: Just to add what has been mentioned, I think it would be more in terms of the front end, typically a good CRM and all other stuff which we really want to take it up because when the back end of the middleware is in line and then now we can leverage further better on that to make sure that the better customer experience and customer journeys, including the digital path can be built up.

Moderator: Thank you. As there are no further questions, I hand over the call to management for closing comments.

Baskar B. Ramachandran: Thank you. We thank you all for taking time out to attend our conference call and look forward. Thank you very much.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.