Q4 2023

1. Net Interest Margin

- **Narrative:** The management has emphasized their commitment to maintaining current margins and ensuring strategic financial management to minimize market-to-market volatility. Their approach includes a careful allocation of their investment portfolio to hold-to-maturity securities and treasury bills, which supports their stability in Net Interest Margins (NIM).
- **Management's Guidance:**
- Management intends to maintain a 10% NIM on an overall portfolio basis. They plan to continue with the current strategy of managing their investment book with a focus on minimizing mark-to-market dependency.
- **Actual Results:**
['Q3', '2024']:
- In Q3 FY24, the Net Interest Margin (NIM) was reported at 9.8%. This is slightly below the management's target of 10% NIM as per the guidance provided.
['Q2', '2024']:
- In Q2 FY2024, Suryodaya's Net Interest Margin (NIM) was reported at 9.4%.
['Q1', '2024']:
- The Net Interest Margin (NIM) improved to 10.1% in Q1 FY '24 compared to 9.1% in Q1 FY '23, which indicates that the company slightly exceeded its NIM target of 10%.
['Q4', '2023']:
- NIM: 10.4% in Q4FY23, 7.8% in Q4FY22, an increase of 260 bps.
- **Evaluation:**
- Expectations Not Met: Management's guidance aimed for a 10% NIM, but the actual results in Q2 and Q3 FY24 were below this target at 9.4% and 9.8% respectively, indicating the expectations were not met consistently.

2. Loan Portfolio Quality

- **Narrative:** Management highlighted their focus on improving the quality of the loan portfolio, with strategic efforts to enhance recovery rates and manage non-performing assets. They emphasized the importance of countercyclical provisions to strengthen the resilience of the unsecured loan book. The company aims to achieve a high portfolio quality with recovery rates surpassing forward flows in the upcoming quarters.
- **Management's Guidance:**
- 1. The management expects the overall portfolio quality to improve to 98% to 99%, starting from Q2. 2. They anticipate that by Q2, recoveries will exceed any forward flows. 3. The company plans to gradually increase countercyclical provisions for the unsecured book on a quarter-on-quarter basis.
- **Actual Results:**
['Q3', '2024']:
- Data Not Available
['Q1', '2024']:
- Data Not Available
['Q4', '2023']:
- In Q4 FY23, management reported that the loan portfolio quality was around 98% plus, which aligns with the management's guidance of improving portfolio quality to 98% to 99%. Additionally, the collection efficiency reached 102%, indicating that recoveries are on track to surpass forward flows as expected.
['Q2', '2024']:
- Data Not Available
- **Evaluation:**
- Expectations Met: In Q4 FY23, the loan portfolio quality aligned with management's guidance of 98% to 99%, and the collection efficiency of 102% indicates that recoveries were on track to surpass forward flows as expected.

3. Cost-to-Income Ratio

- **Narrative:** Management has outlined a strategic focus on maintaining and improving the cost-to-income ratio, emphasizing their goal to achieve a medium-term target.
- **Management's Guidance:**
- Management expects the cost-to-income ratio to be around 57% for the full year, with a medium-term objective to reduce it to 55%. The guidance includes a 1% premium for CGFMU insurance, which is projected to be around INR40 crores to INR45 crores.
- **Actual Results:**
['Q3', '2024']:
- In Q3 FY24, the cost-to-income ratio, excluding the expenses towards the credit guarantee (CGFMU scheme), stood at 56.9%. Including CGFMU expenses for the 9-month period, the ratio was 61.5%. The cost-to-income ratio for Q3 FY24 was reported as 57.3%.
['Q2', '2024']:
- The cost-to-income ratio, including the CGFMU guarantee expenses, stood at 61.5% for Q2 FY '24. Cost-to-income, excluding CGFMU, was reported at 59.7%. Additionally, the cost of income, including the CGFMU scheme, was at 65.4% for Q2 FY '24, and cost-to-income for the quarter was at 60%.
['Q4', '2023']:
- Cost to income: 58.4% in Q4FY23, 70.9% in Q4FY22, a decrease of 1,250 bps.
['Q1', '2024']:
- In Q1 FY24, the cost-to-income ratio was reported at 57.5%, showing an improvement from 58.3% for the corresponding quarter last year.
- **Evaluation:**
- Expectations Not Met: The management expected the cost-to-income ratio to be around 57% for the full year, but the actual results showed a higher ratio of 61.5% when including the CGFMU expenses, indicating that the expectations were not met.

4. Return on Assets

- **Narrative:** Management has outlined a strategic focus on enhancing their financial metrics with a specific emphasis on improving the return on assets (ROA) over the coming financial year. The discussions highlight a clear objective to strengthen key financial indicators, which reflects management's commitment to robust financial health and operational efficiency.

- **Management's Guidance:**
- The company aims to achieve a return on assets of 2.2% in the coming financial year. Furthermore, management has set a target to gradually increase the ROA incrementally each quarter as part of their strategic financial objectives for the next year.
- **Actual Results:**
['Q3', '2024']:
- For the third quarter, our ROA is around 2.5%.
['Q4', '2023']:
- Renish [Q4 ROA at 1.8%]
['Q2', '2024']:
- ROA for Q2 2024 is reported as 2.0%, which is below the management guidance target of 2.2%.
['Q1', '2024']:
- In Q1 FY24, the Return on Assets (RoA) was reported to be 2.0%, which is below the management's target of 2.2% for the financial year.
- **Evaluation:**
- Expectations Exceeded: The ROA achieved 2.5% in Q3 2024, surpassing the management's target of 2.2% for the financial year, demonstrating stronger-than-expected operational efficiency.

5. Non-Performing Assets (NPA) Ratio
- **Narrative:** Management is strategically focusing on maintaining a robust NPA profile, with targets set to keep Gross NPA (GNPA) below 2% and Net NPA (NNPA) below 0.5% in the upcoming financial year, FY '24. This is part of a broader operational strategy that includes product diversification and leveraging digital initiatives.
- **Management's Guidance:**
- The bank is targeting a GNPA of less than 2% and NNPA of less than 0.5% for the financial year FY '24. Additionally, there is an expectation to redeem the entire ARC portfolio by the end of the next financial year. The management also anticipates an increase in the Provision Coverage Ratio (PCR) in the first two quarters, aiming for a PCR of 90% plus.
- **Actual Results:**
['Q2', '2024']:
- On the asset front, the bank's gross non-performing asset (GNPA) has reduced to 2.9% in H1 FY '24 from an elevated 9.9% in H1 FY '23. For the net non-performing assets (NNPA), the NNPA has decreased to 1.4% from 4.8% in the corresponding period last year.
['Q1', '2024']:
- Our gross nonperforming assets have reduced to 3% in Q1 FY '24 from 10% in Q1 FY '23. And net nonperforming assets have decreased to 1.6% in Q1 FY '24 from 5% in Q1 FY '23.
['Q3', '2024']:
- Our bank's GNPA has reduced to 2.9% in December 2023 from 4.2% in the corresponding period last year. Our net nonperforming assets currently stands at 1.4% during the 9-month period FY '24 from 2.7% in December 2022.
['Q4', '2023']:
- Excluding ECLGS loans, GNPA and NNPA reduced to 2.09% and 0.49% respectively as on March 31st, 2023.
- **Evaluation:**
- Expectations Not Met: The management aimed to maintain a GNPA below 2% and NNPA below 0.5% for FY '24, but the actual results showed a GNPA of 2.9% and an NNPA of 1.4% in Q3 FY '24, indicating that the targets were not achieved.

6. Geographic Expansion Plans
- **Narrative:** Management has outlined a comprehensive geographic expansion strategy that focuses on increasing branch presence in key states such as Karnataka, Gujarat, and Madhya Pradesh. This strategy includes the conversion of existing asset branches into multiproduct branches to enhance market penetration. The expansion plan is expected to diversify the company's portfolio and reduce reliance on specific regions, notably Maharashtra, by increasing the footprint in other states.
- **Management's Guidance:**
- Management plans to add approximately 80 to 90 new branches, with half of these coming from the conversion of asset branches into multiproduct branches. This expansion is targeted at enhancing market depth in states like Karnataka, Gujarat, and Rajasthan. Additionally, the aim is to reduce the portfolio concentration in Maharashtra from 40% to closer to 30% over the next 12 to 18 months.
- **Actual Results:**
['Q1', '2024']:
- Data Not Available
['Q3', '2024']:
- Data Not Available
['Q4', '2023']:
- We have currently a network of 577 branches, of which 95 branches are liability-focused while 324 branches are asset-focused and the balance comprised of rural outlets. The Maharashtra percentage is still around 40%.
['Q2', '2024']:
- Data Not Available
- **Evaluation:**
- Expectations Not Met: The actual results show that the Maharashtra concentration remains at 40%, with no significant branch expansion or conversion reported, falling short of the management's guidance to reduce concentration and expand geographically.

7. Client Acquisition Rate
- **Narrative:** Management has outlined a robust strategy for expanding their client base, emphasizing the growth of their Vikas Loan portfolio. They aim to double the number of Vikas Loan customers, targeting a significant increase from 2 lakh to 4 lakh customers. The strategic intent is to establish a strong presence in financial inclusion over the next two years, with a focus on scaling their inclusive finance portfolio significantly. Additionally, management plans to leverage existing customers for substantial growth, while also experimenting with introducing new-to-bank customers on a small scale in the upcoming quarters.
- **Management's Guidance:**
- The intent is to grow the Vikas Loan Portfolio from the current 2 lakh customers to around 4 lakh customers, indicating a key focus area. Management aims to

double the number of Vikas Loan customers within the year. The company is targeting approximately 5 lakh to 6 lakh customers for Vikas Loan, with an overall target of 20 lakh customers, including those recently exited. They plan to introduce new-to-bank Vikas loan customers at a small scale in Q2, focusing on individuals with a credible track record.
- **Actual Results:**
['Q3', '2024']:
- We have over 3.3 lakh Vikas Loan customers as of the current period.
['Q4', '2023']:
- Data Not Available
['Q2', '2024']:
- We have over 2.75 lakh Vikas loan customers as of now.
['Q1', '2024']:
- We have over 2.1 lakh Vikas loan customers as of now and expanding the same.
- **Evaluation:**
- Expectations Not Met: Management aimed to double the Vikas Loan customers to 4 lakh within the year, but by Q3 2024, they only reached 3.3 lakh, indicating a shortfall in achieving their target.

8. Credit Risk Management Practices
- **Narrative:** The management of Suryodaya has outlined a robust approach towards credit risk management with a focus on maintaining sustainable credit costs and enhancing countercyclical provisioning. They have emphasized a strategic direction to align credit risk management more closely with evolving market conditions and regulatory expectations.
- **Management's Guidance:**
- The management anticipates credit costs to be around 1%, excluding the impact of year-end adjustments. They plan to incrementally increase countercyclical provisions on a quarterly basis, targeting a provision range of 3% to 5% over and above the existing CGFMU insurance cover.
- **Actual Results:**
['Q3', '2024']:
- Data Not Available
['Q4', '2023']:
- Kanishka Chaudhary reported that approximately 0.5% of the unsecured book was provisioned as countercyclical provision for the quarter. Pratik Kumar mentioned that the overall uncovered exposure was INR35 crores on an AUM base exceeding INR6,000 crores, which translates to roughly 50 basis points of AUM.
['Q2', '2024']:
- Data Not Available
['Q1', '2024']:
- Data Not Available
- **Evaluation:**
- Expectations Not Met: The management anticipated credit costs around 1% and an incremental increase in countercyclical provisions, targeting a range of 3% to 5%. However, actual results show only 0.5% provisioning of the unsecured book and roughly 50 basis points of AUM, indicating that expectations were not met as the provisions fell short of the target range.

9. Sources of Funding and Cost of Funds
- **Narrative:** Management has provided insights into the company's strategy concerning sources of funding and the cost of funds. They have addressed expected changes in the cost of funds, factoring in potential interest rate hikes, to maintain financial stability and support growth.
- **Management's Guidance:**
- Management anticipates the cost of funds to be approximately 7.5% overall. This projection includes the assumption of at least two interest rate hikes of 25 basis points each in the upcoming periods.
- **Actual Results:**
['Q2', '2024']:
- Data Not Available
['Q1', '2024']:
- Data Not Available
['Q3', '2024']:
- Data Not Available
['Q4', '2023']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.