SPANDANA

Ref: SSFL/Stock Exchange/2022-23/58
Date: August 12, 2022

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

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

Dear Sir/Madam,

Subject: Transcript of conference call held on Thursday, August 04, 2022

Ref: Company Letter No.: SSFL/Stock Exchange/2022-23/48

In furtherance to our above mentioned letter, please find enclosed the transcript of conference call held on Thursday, August 04, 2022 to discuss the financial and operational performance of the Company for Q1 FY23.

The aforesaid information shall also be made available on the website of the Company at www.spandanasphoorty.com.

Kindly take the above on record.

Thanking you.

Yours Sincerely,
For Spandana Sphoorty Financial Limited

Ramesh Periasamy

Digitally signed by Ramesh Periasamy
Date: 2022.08.12 22:33:41 +05'30'

Ramesh Periasamy
Company Secretary and Compliance Officer

"Spandana Sphoorty Financial Limited Q1 FY2023 Earnings Conference Call"

August 04, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on August 04, 2022 will prevail.

MANAGEMENT: **MR. SHALABH SAXENA – MANAGING DIRECTOR & CEO - SPANDANA SPHOORTY FINANCIAL LIMITED**
MR. ASHISH DAMANI – PRESIDENT & CFO - SPANDANA SPHOORTY FINANCIAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Spandana Sphoorty Financial Limited Q1 FY2023 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shalabh Saxena – Managing Director and CEO of Spandana Sphoorty Financial Limited. Thank you and over to you, Sir!

Shalabh Saxena: Thank you very much Aman. Good evening to all of you, thank you for taking time out to join. Thank you for showing interest in our company. We as a management team addressed all of you about three weeks back when we had presented the Q4 Results. Quarter one of FY2023 was the first full quarter for the new management since we spent only 11 days in Q4 which is the month of March in Spandana. Needless to say it has been an exciting journey. Last time around we presented the vision 2025 for Spandana and had clearly articulated the way forward for the next three years. We did receive encouraging support from all of you and the other stakeholders post the last call and a various meetings we have had. While we are enthused I just wanted to add about a caution. We are playing as they say in cricketing parlance. We are playing a test match and not a T20. Hence we are measuring our steps and taking prudent calls to ensure that the next level of growth for the organization is built on a robust foundation. With this let me move to the quarter one results.

Friends, post COVID and internal disruptions which the company witnessed, there was an impact which the portfolio had to bear. While approached the results for the quarter we evaluated the portfolio, drilled it at a customer level, approach the customers to check on their financial health, and then made a choice. So as to ensure that the path we lay towards the vision 2025 is strong, definitive and robust, so we took our time. However we wanted to do a thorough and detailed job. While the results have been uploaded, I would want to briefly take you through the same.

Disbursements in quarter one: We disbursed 1320 Crores as against 216 Crores in Q1 of FY2022. This is the 1320 Crores is almost the same what we disbursed in Q4 of last year so sequentially there was a debit was about 1380 Crores last, it is 1320 now, but as all of you are aware quarter one is always a muted quarter and then slowly then pace picks up.

Point number two: Member acquisition. Our focus on customer acquisition continued, we acquired 1,06,000 customers during the quarter. For the year we have a target to take the base to 2.8 million which will be 4.5 lakhs for the year. As highlighted earlier our growth story in Spandana will be a customer acquisition led growth story.

Pont number three: Portfolio composition. With respect to the collection efficiency and the write-offs that we have taken. All of you have seen the results, however we will get into the details of both the pre and the post so that it is amply clear to all of you. We had a book of 6214 Crores, what we have done is we have split or rather when we took this decision to write-off we divided the book into three parts. Book one was the post April 2021 sourcing, book two was pre March 2021 sourcing, however non-restructured, and book three was pre-March 2021 restructured.

The split was as follows: Post April 2021 was 62% of our portfolio this was giving us 107% collection efficiency. So just to repeat of the 6214 Crores this is the pre-write-off book and the reason why I am kind of stressing this is so that all of you are able to appreciate the exercise that has been done and where we stand at this point in time. So 6214 Crores pre-write-off, 62% of the portfolio which is the entire portfolio post April 2021 was giving us a 107% or is giving us a 107% collection efficiency.

Pre March 2021 the split into non-restructured and restructured the non-restructured book is 25%. This is giving us a 99.6% collection efficiency. The third book which is the pre March 2021 restructured book is 13% or was 13% which was giving us 62.5% collection efficiency.

With this, what clearly comes out is 96% of the NPA was the pre March portfolio. Post April sourcing which is the book one as I said has shown very strong asset quality traits. So what did we do, we did a detailed analysis of the portfolio on the customers who are intermittent and non-payers. We reached out to them to understand the financial health and engagement levels with the company. Post a drill and evaluating the opportunity we have, the management decided to clean up the book. We have hence decided to write-off 702 Crores in the quarter which is predominantly the pre March 2021 book. I will repeat we have written-off 702 Crores in the quarter which is the pre March 2021 book. The residual book or the retained book as I have earlier highlighted is showing a very strong asset quality and we do not as management anticipate any material incremental written-off, from this portfolio in the current financial year.

As I said this is a step which we have taken to ensure that the foundation and the future that we built for Spandana for the next three quarters and onwards in the subsequent years is build on a quality which is good and which will continue to deliver us good results over the quarters. So hence after the write offs the re-composition of the book we now have an AUM of 5513 Crores this now is split into a post April 2021 now because of the write-off the share goes to 70% so now we have the current book is 70% of the cost the portfolio is at 107% pre March 2021 non-restructured is now 24% at 106% and 6% of the cost which is pre March restructured book is also giving us a 104.6%. So as you would have seen all the three books are giving us a collection efficiency of upwards of 104% the average is about 105%, 105.5%.

So with this we believe in our wisdom and basis the experience that we have in terms of dealing with this profile and the portfolio that we have done whatever we have to do in one go. The book that we have now we are reasonably confident that we have a book which will deliver us quality now. Whatever we had to do it is now past us we have a book now which will now continue to grow and we will continue to now build on this in the subsequent quarters and years.

Come to provision: Post write-off also we are adequately provisioned the potential recovery upside from the written off book will be a plus it is important for all of us to know that while this is a balance sheet item which has been done the field the team will continue to engage with these customers we will continue to perceive the portfolio where we are confident of recoveries all of you are aware that microfinance customer needs a long run way and if given a long run way with the right level of engagement there is a lot of potential upside on the write backs which we will continue to do.

The consolidated GNPA thus after this exercise is 6.7%, the net NPA comes to 3.4%. The last but very important the total provision that exists on the book after this exercise is 275 Crores which is 75% of the NPA book now. So the last time around I recollect very vividly for Spandana it is not a balance sheet issue, the issue that really existed is what we have resolved the balance sheet as we speak even after this exercise the company has a networth of 2817 Crores with a capital adequacy of 47.9%. Our liquidity position remains strong as on 30th June we had a cash and bank balance of 657 Crores which was 3x of the required monthly liability. Our Q1 results hence are while the results are uploaded our income total income is 259 Crores because of the write off the profit after tax is 220 Crores of loss.

To summarize we have moved to the new regime of lending as per RBI beginning July to all new lending which will happen, will happen or is happening in the new regime which is the income assessment etc. I will repeat once again and the investor deck we have uploaded has all the details that one would look for and if there is more we will be happy to engage with you and give you more. One of the things that we promise is at most transparency in terms of detailing out the portfolio and the split. Any questions we will be happy to take, but we post this exercise and the stage one, two, three, which we will elaborate as we move on. We are from what we were in Q4 we are in a very comfortable position.

The balance sheet remains strong. I will repeat the CRAR of almost 48%, we anticipate clear roads now for business. Spandana has a great distribution and a very good team of brand staff in the field and in head office. We are proud of them and like in the past we are confident they will build a solid growth story towards our vision 2025.

We are strengthening the team at the head office at the senior management and the middle management level. This quarter we were joined by the new Chief Risk Officer, Mr. Amit Anand who joins us from Shinhan Bank and he has his earlier experience with Bank of India, Bank of Baroda. In the future quarters you will see recruitments in the middle management and we have seen couple of them in the senior management which I have been highlighting in the past as well.

I will reiterate the top five priorities that we had articulated at the right time they have not changed and will not for at least two more quarters. Number one people - we have to reinforce the right people at the right place. Spandana has to move to a system and process driven company and not people dependent company. So we are taking all the steps to do that. Number two - strengthen the governance, risk and control with added focus on refining processes. Number three - focus on customer acquisition led business growth while ensuring retention of existing customers. Number four - technology scale up to deliver an end to end paperless customer experience. Number five - customer led initiatives with emphasis on product, service and meeting their lifecycle needs.

Friends we remain focused on our goal. We have a task to deliver and we are taking incremental steps to reach the destination. Thank you very much for the patient hearing. I have the entire management team with me and we are ready to take questions now. Thank you very much. Over to you Aman!

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Hello Sir, good evening and thank you for giving me the opportunity. The question was with respect to our interaction during the last quarter wherein, I mean, as you highlighted that it was 20 days back so wherein we had highlighted on the credit cost and also in the presentation this time also around there is FY2023 growth aspiration. So what really changed in the 20 days that we are revising our credit cost guidance with a lumpy provisioning during this quarter and is there still an area where you are still evaluating the loan book or still looking at the quality of the book which could further derail our FY2023 guidance.

Ashish Damani: This is Ashish, Let me take this question, Yes what we have guided was 2% but that was for the steady state we continue to maintain that on a steady state basis the credit cost for the company should not be more than 2% and that by end of this financial year we should achieve on a quarterly basis the steady state guided cost for sure. In terms of the book Shalabh kind of covered it in the opening remarks we are very confident that the retained book which is a book left over after the write-off is giving us very strong collection efficiency number across the cuts whether we look at the restructured book whether we look at the book which is originated prior to March 2021 or for that matter post March 2021 and non-restructured. So we are seeing the collection efficiency north of 105% across the book so people are not just repaying their current month's amount but they are paying slightly more than whatever the dues in the current month and kind of recovering their overdue position as well. That is why we feel that the rest of the book there is no further need to do any kind of this thing it will mature with slight delays wherever there are let us say stage two or stage three but there is no reason for us to believe that this will go into loss.

Shalabh Saxena: Let me answer this question and address the point that you have raised. I covered it twice in my commentary write-off is a big decision and hence it is extremely important that we are very sure of the path that we are planning to take. We engaged the first step was we drilled the customer level portfolio we did a lot of analytics in terms of the past behavior of the customer with us. There are other reference points that one can refer to if you want to find out the profile of the customer with and outside of the behavior that has been displaced and most importantly there was a level of engagement that had to be done with the customer before we walked the step. We in Q4 it was a 11 day stint that we had because we joined on the 19th of March we wanted to be very, very sure of the path that we are taking and hence we took our time we were aware about the fact that we have to come out with our Q1 results and hence we said even if it takes time even if it gets a bit pushed we have to be sure and we have to be very sure that there is nothing coming now which is the point you asked. If you see our stage one, two, three post the write-off our stage two is now 3.5%, the stage three is 6.7%. So there isn't that we are every sure of this portfolio otherwise if we had that chance we could have done it now. From now onwards and that is the reason why I am emphasizing the foundation that we stand today and tomorrow that we look at we are very sure that this is a portfolio and I made this statement today itself in the commentary that from this portfolio there is not any material incremental I am just any material incremental write off that would come this year and once we keep there is a profile of this customers that we have engaged with we are pretty sure that we are done with whatever had to be done.

Shreepal Doshi: Sir just one data keeping question so of the restructured what is the outstanding restructured book and how is it split in stage two and stage three and what is the specific coverage on the same.

Ashish Damani: So 406 Crores is the total book that we have in the restructured book of that what is current is 318 Crores if I take it at a stage one level then it is 349 Crores what is in stage two is 20 Crores and 38 Crores is in stage three.

Shreepal Doshi: So most of this majority of the restructure customers has become current in nature in their repayment cycle what is coming out from this numbers.

Ashish Damani: Let me give you the numbers again what we have seen is that while these customers are in let us say stage three they are still engaged with us and they have paid us a good number of installments if I have to look at the collection efficiency of the restructured book as a whole 104.6% is the collection efficiency for Q1 even if I look at, at a net basis it is 80% so these customers are paying their current month installments for sure that is the most important thing in microfinance that whether this customers are engaged with you or not whether they are making payments for their monthly dues or not so that is the reason why we are kind of confident here and more over the book has come down to 406 Crores now so from the earlier position..

Shreepal Doshi: So earlier it was 995 Crores so the write-off from here would be close to 590 sort of Crores right.

Ashish Damani : Write-off of 702 Crores the breakup I will give you. Basically 460 Crores was written-off from the restructured book and 241 Crores was written-off from the book which was originated prior to March 2021 but was not restructured.

Shalabh Saxena: I would also draw your attention to slide #6 and slide #8 of the investor deck that we presented that has all the splits might not have staging but that kind of very clearly articulates the movement of the book pre and post that will give you a clear sense of which way we are which is the three types of books that I have mentioned.

Shreepal Doshi: That is very, very helpful actually those slides are very helpful actually. What is the last question would respect to your FY2023 guidance and vision FY2025. So are we sticking to our loan book guidance for FY2023 which is close to 9200 Crores because from here on we are talking about almost say 60% growth for the next nine months or we would be revisiting that for FY2023.

Shalabh Saxena: So if you go back to the last time when we presented this it was a back-ended growth of Q3 and Q4 the number that you quoted is an AUM growth and in a monthly model when you backend your disbursements that is the number that you will arrive at. We are reasonably confident that we will deliver the numbers not just FY2023 but which is a FY2025 vision of a 15000 microfinance book.

Shreepal Doshi: Got it Sir thank you so much and good luck for the next quarter.

Moderator: Thank you. The next question is from the line of Parag Jariwala from White Oak India. Please go ahead.

Parag Jariwala: Thank you and just continuing one of the questions of the earlier participant. Here I understand or maybe at least in my mind or an analyst mind we were working with 2% as a credit cost for FY2023. Now Ashish, I understand you are now saying that basically it is on the closing book or probably the stable book but even if you look at the profitability guidance which would given for FY2023 like 4% to 4.75% is the ROA what now what happens to that.

Ashish Damani: Thanks for the question. The profitability guidelines that we have given if you can see we have said that it is without taking into account the credit cost coming out of, I mean, basically credit cost needs to be added it was a normalized profit that we talked about in the guidance if we knock off the credit cost then these are the numbers that will work out and probably we will deliver that, there is a clear probability that we will report the numbers minus the credit cost that we are looking at, at this point of time.

Parag Jariwala: What you are trying to say that basically the FY2023 growth number that are in the last presentation is on the normalized basis -?

Ashish Damani: Sorry what I was saying was there are two guidance that we have given 2023 and 2025, 2025 there is no issues we in a steady state we should achieve 4% to 5% ROA there is no problem with that. I was referring more towards FY2023 if that is what you were asking.

Parag Jariwala: Yes, so see very honestly Shalabh and team, I mean, actually we are fine with the way you have articulated about pre book been coming on a clean slate right now and for a three years this is extremely encouraging and maybe we were expecting this in the last quarter. But something which changes in 20 days something which we are worried about and I know you have answered that but one disclaimer in the last quarter that probably we are still assessing the book could have been better for us.

Shalabh Saxena: Point noted however I did give you the reasons because you have to be very, very sure when you are walking that path but we have heard you…

Parag Jariwala: If you can just briefly highlight what exactly is the profile of the customer where you I mean so what were the issue have you taken a call that since these guys are not paying on time or probably not clearing the installment even the COVID is now settled for more than a year or there are any specific issue with the category of customer or the process by the what Spandana could have followed earlier is there any pattern is there any way in which we can look at it.

Shalabh Saxena: The start point of the answer that you seek for the type of question you asked starts at a quantitative and then slowly graduates into a subjective cum customer meeting. Since it is not just a data which gets thrown and you take a decision a data is the start point and then you reach out to the customer. When you reach out to the customer you gauge and plus you also study the profile of the customer in terms of repayment behavior across other financiers not just Spandana. A combination of what you learned from the market which is both primary and secondary source of data is what converges into your final decision point which is you have two options you keep on pursuing the customer and wait for whatever one quarter, two quarter or there is an opportunity time and opportunity cost. The same field force you can employ by creating a new business which is of a much, much cleaner profile. If you clearly see the post April 2021 book which is now a 70% delivering of a 107% of collection efficiency I would rather ask my person and by no stage of imagination and I am saying we are going to abandon the book which has been written off look written off or a write off is a balance sheet item it has limited, it has not much to do with the effort on the ground we will continue to engage with these customers and we will continue to get the money for the reasons that I have specified earlier. However when you have to take a point in time decision what you decide is do you churn the book and get fresh customers in who are of a much cleaner profile while still continuing to pursue with the others while on the balance sheet you written-off but you can go and kind of still pursue them and get them to pay because these are not customers who are a cycle one or a cycle two because while that is predominant but there are some customers with a cycle three, four, five or an vintage of about three to five years with us.

But in order of priority and it is the choice there is no right answer it is a point of view in order of priority I would want to churn the book and get fresh set of 4-4.5 lakh customers this year so that my profile improves while still continue to pursue the older customers. So there was a choice we have taken the choice we pick the choice and the choice is get fresh customers in of the customers you written off not you do not pursue everyone you pick and choose and go where you are confident that you will get the money and regularize them rest obviously you kind of move on because there is an opportunity cost to the time and the effort that is being made. So it is a much more detailed level of thought that goes into taking these decisions as you will appreciate and which is what we have taken and that is the reason why we took some bit of time.

Parag Jariwala: No problem. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Congrats on the good set of numbers. Just first one is on the clarification sides on page #9 we have said that our collection like so we have a 94 so this is including the demand for restructured in gross NPA book or this is excluding that book.

Shalabh Saxena: Everyone I think the legends if you read it explains the question that you are asking there is the grey bar is including arrears and the green bar is excluding arrears this is the post write-off book which is the title and the 5513 is the AUM that we are talking about.

Renish Bhuva: Sir my question is that excluding arrear collection efficiency is including the demand for restructured in gross NPA book or this is excluding the demand for restructured and gross NPA book.

Ashish Damani: Yes, entire book.

Renish Bhuva: And the second is be it on the strategy front so of course we do understand that we have cut the AUM in pre Mach or post April but even when we look at the April 2021 originated book this is again sort of originated under the erstwhile MD so what is the clear difference which when you have sort of analyzed this book why the pre March book has done so bad and the book which is originated post March 2021 or April 2021 again under the same management has led to the better collection efficiency.

Shalabh Saxena: He can do a analysis paralysis on this but the data is what drives us to this decision making. There is the pre-COVID, post-COVID element in the periods that you have mentioned which has to be we have to be cognizant of number two. Number three if a data gives you such a one sided view I mean to be very honest but I do not think we really would deliberate too much except obviously touching this with the customer because there were some disruptions at a company level so which we just wanted to be doubly sure off that those disruptions did not trigger this behavior once we were sure that that is not the case and if the data plus the subjective personal meetings etc. kind of give a one sided view that this kind of is good for the book and right for the book and for the company I think there was just a one way that we could have gone and that is the way we have chosen to go.

Renish Bhuva: And lastly if you can just broadly highlight a top two, three, four underwriting mechanism you have changed which sort of reinforce your view that the incremental book which will be of the much better quality.

Shalabh Saxena: So, here is my thing, here is nothing dramatic you can do when you run a microfinance operations over night you have to calibrate and move the ship in such a way that there is minimum disruption because the stake holders here are not just your customers there is an employee as well that could not be critical number one. Number two and which is why I would if given a choice I was led by your question but if you were to ask me how you run a process in microfinance is extremely important. Microfinance is command and control, microfinance is a process that you make and how well you execute the process how well you review the process how well you monitor the outliers and what do you do after with those outliers that is the fundamental of a microfinance distribution. The industry today has moved away from just a product led industry to a distribution led industry, product is incidental and once we are able to through technology once again because when you run a distribution which is 70000 villages 6700, 7000 people there is a little that you can do on a line to line or individual to individual basis so technology plays an extremely important part we have made significant investments in Q4 and Q1 on technology in a quarter from now and between Q2 and Q3 this company will move to a paperless organization with all escalations on risk metrics on control on audit the triggers will be technology so it will be a IT led initiative company where we will supervise all execution of processes through tech and all supervision will be the primary driver will be tech that is the most important thing once we have a good handle on that there is absolutely no chance that you will because if a person or an individual or a customer for that matter deviates on a process if you do not correct it at that point in time the game is lost, I am sorry I am just sort of dragging this, in this business it is important to do right things and not things right that that is what it is. So it will take nothing and as I said this is not a T20 we are building this organization which will be more robust and strong it will take about two to three quarters because one is there are two elements to this there is a people part and the process part and the second is cultural orientations to align with these initiatives which we are taking. Culture obviously we will take about two quarters to internalize this amongst the people from an initative perspective we will kind of do itby the quarter.

Renish Bhuva: This is very, very helpful, very detailed one. Thank you very much for this.

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

Nidhesh Jain: Thanks for the opportunity. Firstly can you share the trends in terms of PAR 0 and PAR 30 in absolute amount as of March, June and July end? It would be useful if you can incorporate that in PPT how the PAR 0, PAR 30, PAR 60, PAR 90 trends are playing out. So I think those trends are pretty useful in microfinance setup.

Ashish Damani: Yes, we will do that from next time onwards in the meantime this we will read out the numbers. So I will just slightly change this Nidhesh I will just give you stage wise numbers so that it can be tracked easily. Stage one numbers for March was 4777 Crores, stage two was 399 Crores and stage three was 912 Crores. Now as it stands right now post the write-off stage one is 4953 Crores stage two is 192 Crores and stage three is 367 Crores. This is what we have as of June after the write off. 90% of the book is in stage one and churning more than 107% collection efficiency.

Shalabh Saxena: Overall at this point in time post write off our entire book is delivering a 105 north of 105% collection efficiency that was one of the reasons we said as what I said I do not want to repeat the whole thing again but now we are reasonably confident that the past is behind us whatever we had to do we did not really want to stretch this beyond a quarter which we have done why was it not done 20 days back and now I kind of having two answers I have detailed it enough.

Sorry I will just add earlier also this question was asked by Shreepal I think. In terms of stage wise restructured book I will repeat the numbers I think there was one number that was incorrect when I was saying it earlier so stage one restructured book is 228 Crores, stage two is 61 Crores, stage three is 117 Crores out of the numbers that I have given just now on the overall book basis.

Nidhesh Jain: And can you share trends in terms of July and if the stage two, stage three book has in absoluter amount if that is possible.

Shalabh Saxena: Apologies but July is a different quarter you know at an appropriate time we will kind of engage with you and give it but broadly speaking we are in line with the expectations that we had when we have kind of did this exercise.

Nidhesh Jain: Secondly in terms of restructured book just to clarify the entire restructured book we have not provided the moratorium and that restructured book has been billing for almost last eight, nine months, ten months probably is that right understanding.

Shalabh Saxena: Correct, so restructuring was just a restructuring in true sense without a moratorium or a payment holiday so when the 30th of September the event happened 1st of October the unpaid installments are added to the tail of the loan the demand started again from the month of October onwards so from that event date until now we are three quarters first this is a tenth month so whatever and that is one more reason why whatever had to happen has happened we have a decent future ahead.

Nidhesh Jain: And there is no ballooning of repayments in restructuring it is not on repayment structure.

Shalabh Saxena: I don't get ballooning method it is as simple as straight forward - no ballooning.

Nidhesh Jain: And lastly if on 1st of July when we move to a new regulatory framework how are the disbursement trends rejection trends we have.

Shalabh Saxena: So the disbursements were a bit muted because we had to migrate 1100 branches on to the new regime it is left about tech it is more about teaching the people on how to assess the income what are the early warning signals and how do you kind of communicate it back to the head office for us to really build it into the decision making process for a distribution of 1100 branches and the 6500 plus loan officers about 1100 branch managers and the hierarchy above we are talking about 8000 people so practically the month was spent in transferring them but we were very clear that we have to move to that so for the quarter whatever we had expected when we started the year we are more or less in line with it. Q3 and Q4 is where we will see all the numbers by which time the entire distribution plus the system would have seasoned.

Nidhesh Jain: And despite this regulatory framework you are confident of achieving the full year guidance.

Shalabh Saxena: In spite not despite so in spite of the regulatory system I think it is a very good initiative which has been taken by the regulator it builds a lot of maturity into both the lending community and the customers the microfinance industry is now a two decade old industry and there is a lot of maturity which has reaped into the system into the operating environment be it the executive or be it the customer or be it the employees so I think it is a great initiative in the right step so I think there will always be whenever you change from A to a B you will always have a bit of teething problems because various stakeholders involve I do not foresee this to last long.

Nidhesh Jain: Thank you Sir that is it from my side.

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

Sarvesh Gupta: Good evening Sir and thanks a lot for taking my question. Sir first question is that on the credit cost guidance so initially of course it was 2% that then we have done like 5% this quarter itself so as I understand that for the remaining three quarters we should do like 0.5% on the book is that the right understanding or are we saying that by Q4 we will reach 0.5%.

Ashish Damani:: Like I was explaining earlier the 2% guidance was primarily without taking the impact of the COVID and last quarter also when we have this question we kind of explained that we were building in some recoveries as well. Yes on a BAU basis and a steady basis the business should not give you more than 2% kind of credit cost and we continue to believe so. On an ongoing basis on a quarter-on-quarter if we have to look at it yes you are right we will not see more than 0.5% in terms of the credit cost.

Sarvesh Gupta: So quarter two onwards itself the expectation is that got…

Ashish Damani: May get this from Q3 onwards in fact Q2 should also be in line we do not see any reason for it to be higher than the BAU.

Sarvesh Gupta: That is one secondly on the write back potential now we also even the best of the players in this industry did tell us that once the loan is written off may be next three years you will achieve 5%, 5% recovery at best 15% of the total so is our expectation different on the write back side.

Shalabh Saxena: The example that you quoted is has to be you have to draw the context when that answer players out in the sense that if you do a regular write offs what you are saying could be in the range I am not saying 5% or 10% but I am saying it could be possibly correct when you do it in the manner that we have done then the potential could be very different the answer could be very different we can assure you that we have not been very aggressive while as I said we will keep on pursuing the right customers not the entire set of customers but the right customers and we will ensure that the money comes back because we do feel that they still need some time I will just answer your question the calculations that we have built are in line with the current rates that we are already getting so there is nothing there is no skeweither ways. We will continue to pursue this but it is not that everything will depend on it we will do it because we think it is the right thing to do.

Sarvesh Gupta: If you can quantify what is your expectation in write back that would be helpful.

Shalabh Saxena: We can get back to you with the numbers what right now we do not have the numbers immediately but what I can say is that it is not a unusually high number which kind of skews the year end this way or that so there is we build a normal trade is that we are already getting that is what at this. But we will get back to you with the numbers.

Sarvesh Gupta: Now in terms of the yield slide there was a slide where you were showing yield of 19%, - while your cost of borrowing has moved from 11% to 12% in this quarter and going forward you are incrementally giving loans at 24% so overall once all of this settles where are we seeing our spreads and NIMs for the remaining three quarters of the financial year.

Ashish Damani: The way we look at it is your cost of borrowings has a slightly higher number at this point in time given the recent challenges we had plus there has been an increase in the repo rates and everything which his kind of driving a higher cost of funds for us at this point in time but we see that on a steady state basis maybe by Q3 and Q4 we should have NIMs which are north of 12%.

Sarvesh Gupta: And spreads because the book is really under levered so what is the spreads that you are targeting.

Ashish Damani: The leverage is something that is likely to change I do not have the math right now with me but NIMs like I said should be 12% to 12.5%. In terms of our leverage we should get to maybe something like 3x by end of the year but the timing is something that we are still calibrating.

Sarvesh Gupta: And can you share your July disbursement and or your July NPAs at gross and net levels.

Shalabh Saxena: We will look this is a quarter which has just begun and not really appropriate to sort of we have just come out with our in fact we are announcing our Q1 results we can engage separately and share the details with you but for now I mean let us stay focused on the story the evolving story is that we have kind of I do not want to use the word cleaned up the book but we kind of got the book into a shape which will now deliver quality for the future that is what we intend doing once again this is still about eight months to go for the year we are continuing the path that we laid out to and with whatever results we declared I think we are in a good position to deliver a profitable growth.

Sarvesh Gupta: Thank you Sir and all the best for the coming quarters. Thank you.

Moderator: Thank you. The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Thanks for the opportunity. You have also mentioned about the potential of high ticket individual loans. Any sense what proportion of customers would be eligible for it now that we are already into the income assessment kind of a process.

Shalabh Saxena: We are talking so there is a bread and butter book which is the microfinance JLG book the subset of that and we are and at least in our mind as the management we are very clear we are talking of a single digit customer base we are not talking of a 20%, 30%, 40% where these are the microfinance customers who have been with us for five cycle, six cycles they graduate from a joint liability to a individual loan the individual loan also and I go back to what I said the last time around we are a great fan of a lower, level lower indebtness than the industry by maybe a 10% walking the customer alone the path of her financial involvement and journey and ensuring that we give her the loan that she and in this case the husband as well would need for their individual businesses that they run. So we are talking we have given a quantum of about 2000 to 3000 Crores in a 15000 Crores over and above the 15000 Crores steady state book of FY2025 in the various product lines that we had articulated the right time or at the last time around. So this will be a small segment which we feel needs to be graduated but we will not be aggressive either on the ticket size or just or on the need to really push this percentage number from a single digit to a 20% or a 30% that is not the way.

Sameer Bhise: Sure so the 15000 is the pure JLG number.

Shalabh Saxena: Absolutely it is a pure microfinance bread, butter, cherry.

Sameer Bhise: All the best and thank you for taking my questions.

Moderator: Thank you. The next question is from the line of Vedant from Clearview Capital. Please go ahead.

Vedant: Good evening and thank you for the opportunity. Sir I just had one additional question on the asset quality. The way we depict this book let into say pre March 2021 and post March 2021. What is the significance in this debt the reason I ask this because the few quarters back we were showing like pre COVID and post COVID now it is pre March 2021 post March 2021 few quarters down the line if it turn to like say pre new management post new management then what is the significance of March 2021 is there any difference in disbursement quality before and after because never the COVID wave before March 2021 there were two COVID wave after March 2021 so just wanted to understand your thought process and why do we look at the book in this way.

Shalabh Saxena: Look we now are in the seat and we own up for every single penny of the portfolio that we own and every rupee of the portfolio is something that we own so there is nothing, there is no colors to pre management, post management that you articulated. The reason why we pick that is there these books were very clearly displaying signs which were very different to each other that is number two. Number three is that our experience with the customers across the three books that we have laid out is what was very I would not call it an eye opener but it was a very clear distinct way in which there was a behavior which was being displayed and hence we set that if this is what it is then so be it let us just do it and if at all we want to walk that path what happens and when we did this analysis much before it was presented to everyone we did see a merit in kind of cutting the line at March 2021 and post April so that is the reason it is as I said again at the cost of reputation the data drovers into working the path in terms of knowing which path to take and then obviously the customer engagement and our feedback from the field etc. kind of helped us take that decision.

Vedant: But one follow up isn't it natural for a loan book with an average tenure of 18 to 20 months to show as a delinquency we will only start after 12 to 15 months time. So this pre book like if you roll it forward every year it will always be more delinquent.

Shalabh Saxena: In a steady state yes but COVID is what more on factored so COVID has changed the rules of the game and hence the COVID analysis should not in my mind and both ways our regular analysis and the customer behavior should not spill over onto a COVID book and vice versa. COVID kind of and that is the reason why our only data does not work you have to have a engagement and both ways of subjective and objective decision making process in this whole thing so while what you are saying could be true in a steady state in a COVID, COVID one and COVID two with the containment, non-containment, regular, non-regular rural urban and a lot of ifs and buts that come into a decision making process because of the nature of the environment that we were operating in so hence my personal view is we should recommend, we should look at this particular sort of crisis with a slightly different lens than a normal. So post March of or rather April of 2021 if you see and if I were to replay your statement yes what you are saying is right but the earlier one periods we will have to look at it differently. Thank you very much.

Vedant: Understood Sir thank you and all the best for that.

Moderator: Thank you. The next question is from the line of Vinit Rai from JM Financial. Please go ahead.

Vinit Rai: Good evening Shalabh. Just couple of questions more on the liability side, I can see that of course you are looking to disburse about 8300 Crores during the year out of which 1300 Crores which is done under Q1 so of course 7000 Crores more need to get disbursed and then of course you have your liabilities maturing as well. So which means from a cash flow perspective what is it that you need to kind of raise in the next eight, nine months since it was lead since like 9000 odd Crores from the lending system or maybe even more and what are the and since Q3 is now maybe 6, 7 weeks away so what is the pipeline of sanctions and especially given that your ratings are still under watch how do you look at all this.

Ashish Damani: What we would need to raise is not 9000 Crores, we will have to raise about 5800 to 6000 Crores to meet this disbursement of the remaining disbursement of about 7000 Crores rest will be internal accruals because we are a positive cash flow on a month on month basis and that is the reason your requirement in terms of borrowing should be slightly lower. We have a very strong pipeline and we believe that these numbers should be well achievable yes there has been slight delay and that is why Shalabh kind of highlighted earlier in the call that our disbursements and our growth will predominantly happen in the second half of the year and by then this pipeline which is the strong pipeline start converting into the cash impact.

Vinit Rai: You are saying 6000 Crores of raising of debt in the next eight months is not really challenging I mean it is fairly realistic.

Ashish Damani: Yes we believe so.

Vinit Rai: And when will this ratings under watch move to when will this status change any timeline on this.

Ashish Damani: We are engaged with the stakeholders clearly it is not in our hands. We are engaged with them and we are hoping for the best.

Vinit Rai: And in terms of your monthly collection so what is your monthly collection today from the field.

Ashish Damani: Average would be about 450 Crores is what we collect and this keeps increasing as we start disbursing more and more and in terms of our cost if you would have seen is roughly about 90 Crores for the quarter 30 Crores roughly for a month and post the repayments to the banks we still left out with about 150 Crores on a month-on-month basis.

Vinit Rai: So 150 Crores is your surplus available to disburse and if you have to disburse and other 7000 also which means also so that is the balance you need to raise from the banking or whatever…

Ashish Damani: That is right correct.

Vinit Rai: And that you are saying sanctions will pickup maybe very quickly so that you meet that kind of demand that is basically what you are saying right.

Ashish Damani: That is right.

Vinit Rai: Okay great thank you so much for the answer. Thank you.

Moderator: Thank you. Ladies and gentlemen due to time constraint that would be our last question for today. I now hand the conference over to Mr. Saxena for closing comments. Thank you and over to you Sir!

Shalabh Saxena: Thank you very much all of you for the interest shown we are quite positive that with the results that we have come out we have kind of cleared the way for the company to March and a growth path which will deliver high quality and a great value to all the stakeholders as always we look forward to your support and any suggestions that you would have. Thank you very much, thanks to all of you.

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