Ref: **SSFL/Stock Exchange/2022-23/104**

Date: October 25, 2022

To	**To**
BSE Limited,	**National Stock Exchange of India Limited,**
Department of Corporate Services	**Listing Department**
P. J. Towers, 25th Floor,	**Exchange Plaza, C-1, Block G**
Dalal Street,	**Bandra Kurla Complex, Bandra (E)**
Mumbai – 400001	**Mumbai – 400051**
Scrip Code: 542759	**Symbol: SPANDANA**

Dear Sir/Madam,

Subject: Transcript of conference call held on Monday, October 17, 2022

Ref: Company letter No.: SSFL/Stock Exchange/2022-23/088 dated October 15, 2022

In furtherance to our above-mentioned letter, please find enclosed the transcript of conference call held on Monday, October 17, 2022 to discuss the financial and operational performance of the Company for Q2 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: 2022.10.25 16:49:29 +05'30'
Ramesh Periasamy
Company Secretary and Compliance Officer

Encl: as above

"Spandana Sphoorty Financial Limited Q2 FY2023 Earnings Conference Call"

October 17, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 17th October 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 Q2 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 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 – MD and CEO. Thank you and over to you, Sir!

Shalabh Saxena: Thank you very much Faizan. Good evening to all of you, thank you for taking time out to join the call. Thank you for showing interest in our company.

Friends, over the past two quarters, we have been trying to steer Spandana towards the path that we had articulated for the organization through the Vision 2025. Suffice to add, we are moving on the right path. We have received tremendous support from all of you, all our stakeholders, which is lenders, shareholders, employees and our customers thus giving us the confidence of achieving what we set out to achieve by FY2025.

Friends, quarter two was a quarter of consolidation. 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 two results. While the results have been uploaded and I know there are some technical challenges on the site, but BSE it was uploaded, I think slightly more than an hour back and NSE also it is more or less there, but I will take you through the results and brief highlights, and happy to take questions now or from tomorrow. While the results have been uploaded, I would want briefly to take you through the same.

Let me start with the first point which is on ratings. Spandana's ratings were on watch until quarter one post the various developments in the operating environment all the three agencies have dropped the rating watch, our ratings now are India rating it is A stable from rating watch with negative implications. CRISIL we are A stable from ratings watch with developing implications, and ICRA A minus stable from ratings watch with developing implications. This was one of the highlights of the quarter.

The second highlight and here I would want to just build on this which is the borrowing story. One of the key challenges that we as a management team had been to start the borrowing cycle from our existing and new lenders. Together as a team that was a single important task that we had committed to ourselves more so because this is the primary driver for fueling our growth plans. We have made the right start, we have on-boarded 10 additional lenders, and two new first-time lenders. We borrowed during the quarter 1080 Crores against 155 Crores in quarter one and 308 Crores in quarter four of FY2022. The marginal cost of borrowings has decreased from 14% in Q4 of FY2022 to 13.1% in Q1 of FY2023 to 12.64% in quarter two of FY2023, which is the last quarter. So 14% to 13.1% to 12.64% this quarter. Banks and capital mix market, the mix is 58% banks. We have in our past through various interactions with all of you we have kind of articulated that we would want to take this number to a number starting with 7. So we are on track for that. Apart from this, our liquidity position was comfortable with 964 Crores cash balance as on September 30th. In the quarter, many lender doors opened for us. Quarter three holds equal promise.

On the financial performance our Q2 results are presented herewith. Total income: Our total income this quarter was 311 Crores, this is an increase of 20.1% compared to Q1 where it was 259 Crores. On the net interest income: The net interest income is 219 Crores an increase of 35.2% compared to Q1 net interest income of 162 Crores. Our yield in Q1 was 16.4%, in Q2 it is 19.5%, which is an increase of 310 bps compared to the previous quarter.

Cost of borrowings: In the quarter our cost of borrowing was 11.2% which was 11.8% in the previous quarter, which is a decrease of 60 bps compared to Q1. Profit after tax we have declared is 55 Crores as you are aware in the first quarter we had declared a 220 Crores of loss.

On the business side, let me start with the various elements, starting with member acquisition. All of you are aware and we have repeatedly said that our focus or our growth strategy will be driven by the member acquisition story. We acquired 1.23 lakh customers during the quarter, which was a growth of 16% over the previous quarter. We have said that our growth story will be customer acquisition led and hence we are building the blocks both culturally and identifying pockets of growth to further our plans.

On the disbursement side, we disbursed 1391 Crores as against 1320 Crores in the previous quarter, which is a growth of 5% and if I look at a Y-o-Y, which is quarter two of the previous year it was 1150 Crores. So Y-o-Y it is a growth of 21%. On the AUM our book has increased by 5% from the previous quarter. This is a trend reversal since the past few quarters we had a declining AUM trend. On the portfolio composition, because this is very important. Our portfolio composition all of you are aware comprised of two books or rather three books. Post April 2021 and pre-March 2021. Our book composition has changed from March of 2022, the post April 2021 book which was 48% and the reason why I am mentioning the post April 2021 book is that this is a new book post the COVID era, and while you would have seen the numbers, but we will spell out the numbers, the portfolio is behaving well. It is a new book so it is in line with what one would expect of a distribution house like Spandana. So the post April 2021 book which was 48% in March 2022 became 70% end of quarter one and is now 82% in quarter two. So the post COVID sourced book is 82% of our total portfolio. The new portfolio as I said, is exhibiting good collection efficiency and hence assumes criticality, by end of quarter three, it will be upwards of 90% and onwards.

We have a book of as I said now of 5782 Crores of which 4730 Crores which is 82% is giving us a net collection efficiency of 97.5%. This is slated to improve over the next couple of quarters. The pre-March 2021 book which is 1052 Crores which is 18% of the overall book is giving us an 88.7% net collection efficiency, this is excluding arrears. The residual book post write-off taken in Q1 is showing strong asset quality, we will continue to pursue quality growth.

Friends you are aware we have articulated in various forums our desire to strengthen our rural portfolio. Happy to announce that we are at 88%, our overall rural portfolio now has increased to 88%. We will continue this journey because that is where the tier three, four, five, or rather the Bharat of India, which we have already articulated is very much a part of our vision 2025 where we plan to grow. On the collection efficiency side, our total book which is the entire book irrespective of the splits has or is delivering us a gross collection efficiency and gross as you are aware includes the arrears. Gross collection efficiency of 101.3% and net collection efficiency of 93.3%.

The provisioning position: We are adequately provisioned, the potential recovery upside from the written off book is a plus. We have recovered 15 Crores from the written off portfolio in the quarter, in the previous quarter. We will continue to pursue this for the next two quarters. We anticipate reasonable upsides in this, and we have clearly articulated plans on how to engage with these customers and bring them back into the mainstream. The consolidated GNPA is 7.47%, the net NPA is 3.96%. The total provision that exists on the book is 303 Crores, which is 5.23% of the AUM.

On the balance sheet, networth of the company is 2867 Crores with a capital adequacy of 45.3%. Our liquidity position remains strong. As on 30th September as I said earlier, we had a cash and bank balance of 964 Crores, which was almost equal to 4x of the required monthly liability. We have a diversified borrowing profile and are further deepening our relationships with new and existing partners.

So to summarize the results and the way forward, we are moving as per plan. The lender's confidence, disbursement, member acquisition, portfolio quality is moving as per plan and in the right direction. We anticipate clear roads now for business. Spandana has a great distribution and a very good team of staff in the field and in HO. We are proud of them and like in the past we are confident that they will build a solid story on towards our vision 2025. We are strengthening the team at HO at the senior and middle management, we have had five CXO levels joining us over the quarter. I will give you more update on the people's story in the next quarter.

Similarly, we have enhanced the board with addition of two more illustrious board members Mr. Animesh Chauhan, Former MD & CEO of Oriental Bank of Commerce and Mr. Neeraj Swaroop, Former Regional CEO of South East Asia and Singapore Standard Chartered. We are strengthening our board also to ensure that we move towards a more professional setup. On strengthening the organization, we added 300 loan officers during the quarter, given the trajectory of growth that is required, we are planning to add another 752000 loan officers in the current quarter.

We continue to make progress on various technology initiatives which have been highlighted earlier. Our risk audit and control teams are being strengthened as we speak.

Thank you very much for the patient hearing. I will repeat very humbly what I said in the last call, we are playing a test match, and this is a cricketing parlance example. We are playing a test match and not a T20. We are building the organization, we have a task to deliver, we remain focused on our goal which is Vision 2025. Thank you once again, I have the management team with me, and we are ready to take all the questions. Thank you very much Faizan, over to you.

Moderator: Thank you very much. We will now begin with the question and answer session. First question is from the line of Jignesh Shial from Incred Capital. Please go ahead.

Jignesh Shial: Hi! Thanks for the opportunity and congrats on the decent set of numbers. Just a couple of questions I had, firstly I can see there is a sequential jump or an improvement on the margin trajectory side which is from 9.9 to roughly around 13 plus. So how do you see it panning out to be in the coming quarters because if I remember it correct, we have been guiding for somewhere around 10% sort of a margins, so do we see that numbers to come down or this will be the new trajectory you are looking out for.

Ashish Damani: 13% yes is the present NIM. We have discussed this last quarter and our guidance was that we are looking at NIMs to the north of 12.5% and this should continue.

Jignesh Shial: So this is the new trajectory and considering that the borrowing mix has improved significantly and expecting it to continue we should see similar kind of margins going ahead also right.

Shalabh Saxena: That is right, and just to give you a color. We moved to the new RBI framework on the 1st of July where we increased our rates to 24% with the repo rates which have been going up and there is a further this thing we will or rather we have increased our rates by 1% more and we intend to stay put now for the next couple of quarters. So this is more in line with the market, so the reduction in the borrowing rate has to be looked at in the context of what is happening in the market and obviously our reach out and the support that we are getting from the various lenders.

Jignesh Shial: So basically, we have a dual advantage whereby the cost basically is coming down whereas the rates moved up and that is basically flowing into the margins, correct.

Shalabh Saxena: Correct.

Jignesh Shial: Secondly obviously there had been sequential search on the stage three as well as if I see it on the overall book net collection efficiency has also dipped a bit from 94 to 93.3. So this is overall book I am saying about originally post to April 2021 is pretty stronger. So how do you see the trend and can you give some more color on it on the stage three as well as on this collection efficiency side.

Shalabh Saxena: Let me answer this more holistically and we are ready to happy to take detailed questions. See there was a time when we were reaching out to the customers because there was some disruption on the data side and hence, we had to go, and we collected a lot of arrears. So the past results have to be looked at in context. The current result also if you see the gross collection efficiency of the book as I mentioned somewhere in my commentary it is at a 101%. The point you are making is correct, it has dipped a bit, but then it is a temporary phase because we have been kind of we have been managing multiple priorities from a customer point of view and the quality of customer point of view we are completely engaged with all the customers and a few bps here and there including flows if you remember the last time around we had said that while we might see a few flows here and there, but overall the quality of the book is now reasonably under control more so with every quarter when we see the customers will attrite because they would have expired their contracts of 24 months with whatever tail is left at 82% on the new book end of quarter next it will be probably with a number starting at 9. I think we should continue to see both in percentage terms and in absolute terms improvement.

Jignesh Shial: Is it fair to see or considering that overall your pre 2021 book, April 2021 book will be getting translated or gradually should see repayments and recoveries is it fair to assume that collection efficiency post April 2021 would be a new benchmark to keep an eye on it.

Shalabh Saxena: Any benchmark forget a pre or a post a microfinance book has to or should deliver upwards of 98.5% minimum. So that is the number that we are targeting at a books stage. Any number that starts with the double nine is what we aspire to, I think we should see those days very soon when we hit a quarter four or towards the end of quarter four. So a microfinance book, a quality book should deliver a 98.5%, 99%, 99.25% kind of a number.

Jignesh Shial: Understood, this is pretty helpful. Secondly just quickly if I can get how the moment has happened you have explained in your initial remark, but if I can just get a moment of sequentially how the opening disbursement and repayment has happened and if there is any write-off during the quarter if you can give me that kind of number that will be really useful.

Ashish Damani: There has not been any write-off so there is basically we have a monthly repayment. So the book and average maturity of the book is roughly about 16 months or so. So that is how the book kind of runs down because our disbursement for the quarter has been 1391 Crores and most of it was towards the end of the quarter and has the relative impact.

Jignesh Shial: So the balance would be your repayments only since there is no write-off correct.

Ashish Damani: That is right.

Jignesh Shial: Perfect, that is really useful. Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Dhruv Shah from Ambika Fincap. Please go ahead.

Dhruv Shah: Hi! Team, congratulations on a good set of numbers. I just have one question, are you still maintaining your disbursement target for the current year of 8100 Crores.

Shalabh Saxena: Yes.

Dhruv Shah: Because in just first half we have delivered round about of 2700 odd Crores. So H2 has to be really good.

Shalabh Saxena: Let me explain I go back to what I said at that time and I am just repeating what I said. We said in the first quarter we will disburse 1200 to 1300 Crores, the second quarter we will discuss 1400 to 1500 Crores, quarter three will be 2500 Crores, quarter four will be 3500 Crores. This was the narrative, this was the quantification of the plan that we had and we are sticking to the plan.

Dhruv Shah: Okay Sir great that is it from my end. Thank you so much.

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

Nidhesh: Thanks for the opportunity. Sir, two questions, firstly your margins have now reached a normalized levels credit cost has also reached normalized levels. How should we think about ROA what is the operating leverage we should build in over next couple of years and what will the normalized ROA that you expect from this business.

Ashish Damani: Yes, so we would talk more from a perspective of the normalized the BAU or know maybe when we have fully in a BAU maybe if we are talking about couple of years down the line we aspired to be in the range of 4% to 4.5% kind of a ROA when the leverage and everything will play out that is the kind of ROA we are looking at.

Nidhesh: Just a follow-up on this. So the incremental kicker on ROA will come from which part because I think the only lever that we have left which is left from this quarterly performance is on the Opex front, Opex to AUM.

Ashish Damani: I think there are two other levers which we have not talked about, one is we expect the cost of borrowings also to come down further one. Two, if you look at the yield presently the yield is at 19.5% but on an ideal basis if I have to look at the yield it should improve at least another 100 to 150 basis points. Given that we are coming out of COVID and there is a book which has some bit of overdues or whatever as this book kind of winds out, your yield should start improving. Having said that Shalabh kind of initially covered in his commentary that our new disbursement will be at a higher rate of interest the H2 disbursements is going to be at 25% rate of interest, and this should start playing up by Q4 and should have a positive impact on the yield which will also drive your ROA.

Nidhesh: Second question is on the asset quality, basically on the collection efficiency on the new book the collection efficiency is around 97.5% and I think on the old book the collection efficiency has deteriorated quite sharply in this quarter versus last quarter because in the new book the collection efficiency remains stable and the share of new book has gone up. So how should we think about the incremental credit cost because we still have 4% net NPA and my belief is that it may lead to higher incremental credit costs in coming quarters. How do we think about that number and how should we also think about the 97.5% collection efficiency on the new book.

Ashish Damani: Th e way we look at it is yes there has been slippage, but this should not definitely result into losses. The engagement with the customer is there. Between 1 to 90 book if I look at 95% of the customers have been engaged with us and have paid more than one instalment and during the quarter. So clearly and earlier in the call we have explained that we are bringing in more field force on the ground which will help us do some focused drives on the ground to address the engagement issues more to say, the customer have shown intent it is just that we need to be little more engaged with them for better outcome and this should start playing out from this quarter onwards. So our strong belief is that we will be able to improve upon whatever the marginal slippages that have happened in this quarter, in Q3 you should start seeing a much better kind of outcome from the book.

Shalabh Saxena: Just to supplement we have presented it in our slide 13, if you see all the stages there has been a flip in the 90 plus of which the new book contribution and the fresh slippage is about 0.29% rest everything is old book. So I am not saying there is a problem with the old book, the old book are the customers who are very well engaged and that is the reason why we have held on to that portfolio. If you see the other stacks which is stage one both in the current the 1 to 30 stage two there we have seen some improvement one can argue that there has been a slippage from there into a greater than 90 yes, sure, but from a pure play quality of the portfolio and the customer and the engagement levels of the customers, I think we are comfortable and we hold on to the story that we kind of narrated when we were decided to take the write-off, we were clear that the set of customers who we thought was not worth pursuing is what we decided to write-off and the others our customers through our various analysis and our engagement and our field report they are fine. So these flows here and there we will still see them between quarter three and quarter four, but from a real damage perspective I do not think so. So we maintain what we said first time around.

Nidhesh: So incrementally we should not expect any elevated credit cost from the current book.

Shalabh Saxena: No so we had said that the new book on a standalone minus the COVID if you remember the Q4 results that we presented we said it is going to be under 2% it is going to be half of that is my intelligent guess on the new book part we are on the old book either way it is attritting because all those customers are seeing the end of their loans number two, number three is from a provisioning perspective we are well covered in terms of if at all there were some slips were to happen, but overall we do not anticipate anything which would happen or would lead to a deficiency in the judgment that we had when we kind of worked those thoughts. So to that extent I think we are good. The slips and the flows given the nature see we have to consider that as a company, we have almost 98%, 99% which is a monthly book monthly repayment, so it is difficult for the customers to really move the reverse bucket once they really slip and that is the challenge that we have. So that we are kind of at least Q2 was very, very critical that we have kind of reasonably managed to win I think Q3, Q4 with a decline in that book plus the overall engagement level I think it should be fine.

Nidhesh: Sure thank you that is it from my side.

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

Renish: Hi! Sir, congrats on a good set of numbers. Just one question on this the 18% of AUM which is 1000 plus Crores. Now if I back calculate the collection efficiency on this 18% it is roughly around 75% to 80%, I mean, let us say 82% of the book is having 97.5% collection and when we have a blended collection of 93% that 18% of the book should be around 75% to 80% of collection and when I look at the stage three assets, it is around 420. So what is happening with this 600 Crores of the balance book because of that also restricted book is hardly anything. So if you can help me with some reconciliation on this 1000 Crores book which is the pre April book.

Ashish Damani: The connection efficiency on the 18% book is 88.7% this is the net collection efficiency and that is the number, I mean, if that is what you were asking for 88.7% will be the collection efficiency on the old book. The simple average is when you do the disbursement this will not actually give you the right color because not all book would have had any dues in the current quarter. So collection efficiency is what was due vis-à-vis against that how it was collected. So as you go forward you will see this number kind of improving because the book which has been disbursed in this quarter like I said was disbursed primarily towards the end of the quarter we will see its dues and recoveries in the coming quarter only.

Shalabh Saxena: Just to give you some numbers on the question that you asked, the net collection efficiency of the pre-March book is 88.7% and the gross collection efficiency is 97.2%. So it has to be looked at in context of the narrative that we have been saying that these are the customers who are paying, but with a lag and with arrear obviously given a monthly liability that they have it is difficult for them to really clear off their two or three installments. Hence the pace is slow not what you or I would want or not what we would definitely want, but I think with a declining book and we are able to hold a 97.2% on a gross I think and net also if I see at a 88.7% closer to 89% I think we are there.

Renish: Again just a follow up. So in this 1000 Crores only 400 Crores is stage three and 100 Crores is restructured so balance 500 Crores are you seeing this book as a stress book or do you see this will recover over a period of time.

Shalabh Saxena: This will repair and that is why I said so this the reason why it is here means obviously it was not a regular book otherwise it would not be here having said which it is not something that we can sort of case book by. We have great engagement with each of these customers it is just that there is no way they can jump from a greater than 90% into a standard hence they will take their time most of them will wait for their loan tenure to be over and then the extended tenure will kind of get them back into a loan termination. So that is how it is so we will have to buy it our time and see how their individual loans run out. In parallel obviously this is the new disbursement that we are doing our regular book which is at 82% will obviously keep on increasing and by end of the year, I think the pre-March 2021 books should be a lower single digit.

Renish: Just a last question is it fair to assume that the stage three assets in absolute terms which is 4.2 billion is peaked out at current level or we feel that there will be some flows covered from this 1000 Crores book and it should ideally peak out in Q3.

Shalabh Saxena: See there is a nuance to the question you are asking, and I will just attempt maybe I am not able to communicate. I am saying the flows could be there, I am not saying they will not be there, but the so-called bad customer peaked out that is I am just answering your question slightly differently. The customer's will I be stressed or as our institution will we be stressed to take a write-off etc., unlikely. Right now the way they are and the way the story goes they will drag themselves towards the end of the tenure and that is how they will kind of exhaust themselves that is how it is going to work.

Renish: Got it Sir. Thank you very much.

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

Shweta Daptardar: Thank you Sir for the opportunity. Just a couple of questions, one is what is incremental benefit on cost of funds because of revision on rating stance and just a follow-up there, 33% of our borrowing mix today is coming from capital markets. So given that the shorter end of the curve and the capital markets have been slightly tight off late. So do you see any change in the liability mix going forward, that is the first question.

Ashish Damani: Do you want me to answer the question or you want to put out your other question also. I will go ahead and answer and then as the next question. Basically the liability mix, our stated position is that we would want to improve on the exposure with the banks. We would want to take it closer to 75% over a period of next couple of quarters and the capital market exposure should come down to around 25% or so. Having said that we do have interest even on the capital market transactions, if you see in the current quarter also there have been certain transactions that we have done. But when we look at microfinance space the primary funding is being done by the banks given that we originate a lot of book which is helpful to meet the agri and the priority requirements of the bank, they do tend to give us a good amount of support on the funding side and that is what we would want to leverage on. The one thing which should also play out in the second half of the financial year is a lot many more PTC transactions and DA transactions is what we feel will help us improve the share of the banks.

Shweta Daptardar: Sir second question is on, you have mentioned in your presentation and also in the opening remarks that 46% of your new disbursements are coming from new customers. So what has been the start which is on the new customer acquisition front especially where we are coming from the transformational stage.

Shalabh Saxena: I will give you a 60 second answer so what happens is as far as when you look at the composition of a microfinance book our current distribution or the portfolio that we have about 33% comprises of customers who have a relationship only with Spandana, another 34% are customer who have a relationship with this Spandana plus one more financer. So this is about 67%-68%, if you go back to the Vision 2025 we had laid out along with the quarter four deck, we had very clearly said that our growth story will be customer acquisition led, we are conservative or we will be conservative on ticket sizes, we are still not there we will be walking towards that, but this 66%-67% which is a single lender relationship and a one plus one relationship we as a company want to take it to 80% to 81% then one plus one plus one will be another 11% to 12% and then the rest will be single digit.

Consciously on the field we are reaching out and trying to disburse more and more to customers who are new to us, it could be a mix of the three books or two books that we have said but clearly our direction is either a direct single relationship or one plus one. Where we want to churn the existing base a little bit there are we have identified about 4 to 5 lakh customers where we feel that at some stage they will go or we will have to let them go. A new set of customers entering your books is always a good way to refresh your portfolio because they come with a new one, they are obviously in geographies where their liabilities are less plus they are more current in terms of the way the JLG works. So this is a part of a conscious strategy and that is why 46 of the 100 customers that we have disbursed in the last quarter are new customers to Spandana, we will continue this approach for the next right until FY2025 and that is how we kind of projected our numbers.

Shweta Daptardar: One last question from my side. So you just explained the customer acquisition strategies and we had the capital infusion happening in Q4, and we have been standing at very favorable levels. So where do you see the book now from this 6000 odd number in next one to two years.

Shalabh Saxena: Gearing is your question, we are at I think 1.2x to 2.1x or something. Anything south of 4 we will be comfortable that is the leverage we would want to carry which is a long way off obviously from where we are. So that is the ideal one that is our direction as I said the balance sheet and I will ask Ashish to chip in. The balance sheet as I said is pretty strong, directionally we are very clear in terms of which way we want to go.

Ashish Damani: So gearing will be at any number south of 4x is a good enough number for us directionally that is the thing this is right until FY2025.

Shweta Daptardar: Okay Sir thank you so much for patiently answering the question. Thank you.

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

Sameer Bhise: Hi! Thanks for the opportunity and congrats on a good quarter. You mentioned about Opex how long before we again start adding branches.

Shalabh Saxena: Sameer your question is, sorry, you are asking when will we start opening new branches is that what you asked.

Sameer Bhise: Yes.

Shalabh Saxena: So the effort starts this quarter I go back to our narrative, we said first two quarters will be consolidation the growth story starts now. We have already a plan to open branches between Q3 and Q4 all put together we have projected roughly about 400 plus 160, 560 branches all put together from now until FY2025. Now for branches to deliver we will have to ensure that we kind of open all of them max Q1 of FY2025 for which we will have to start the effort now. So we would want to get the maximum runway for every branch to kind of deliver and make meaningful contribution, the opening of new branches starts this quarter.

Sameer Bhise: Secondly the staff cost is lower Q-o-Q was there an arrear angle in prior quarter.

Ashish Damani: So basically, we had some programs that we have run between Q4 and Q1 which were having those one-time payments and that is how the number for Q1 was higher, but right now the number that we have is pretty much the stabilized kind of employee cost for us.

Sameer Bhise: Fair enough. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Hi! Sir, thank you for giving me the opportunity and congratulations on the quarter. Firstly, my question was on the disbursements. So while if we see in June quarter, we had already clocked in close to 900 Crores of disbursements then what led to the run rate sort of moderating in 2Q.

Shalabh Saxena: Look once again sorry I am going back to my old this thing with our two factors one is we are running multiple priorities and they will continue until the year end, priorities are more in terms of control, governance, supervision, putting the risk and the audit teams in place, managing acclimatizing the field to the new tech stack that we have kind of rolled out to the field, which will help us do the supervision control monitoring, etc., in a good way. So we had very clearly said that this is the pace that we will take which is about 1300 to 1500 Crores in quarter two and then 2500 and 3500. So we are just following the narrative which we thought we are following the numbers that we had understanding of what will give us good enough time to invest in the areas that I have just about spelled out to you so it is a part of the plan it will be a back end growth.

Shreepal Doshi: Got it Sir. Just wanted to check because if there was anything specific that happened so just asked that question. So the second question was on the liquidity front. So if you look at while on a conservative basis we are maintaining the liquidity, but going ahead by FY2023 end or in normal FY2024 what is the percentage of liquidity that you would want to maintain on balance sheet.

Ashish Damani: Sorry we lost you in between for a couple of seconds are you asking what kind of liquidity we will be maintaining by the year end.

Shreepal Doshi: On balance sheets, yes, by the year end and in normal in a business that the year that is FY2024.

Ashish Damani: I will just respond to the question on how we are going to look at the liquidity. Internally we have a conscious decision that will stay put liquid from a balance sheet standpoint and the idea is to maintain cash in bank of anything north of two months of our obligation. So we will be liquid for some period of time, actually this is something that is always good for a microfinance company to have enough and more liquidity on the balance sheet. So we will run it a little conservatively.

Shreepal Doshi: In the presentation it has been mentioned that there is a strategy to add another thousand loan officers. So it will all be in 3Q only and what is the level of AUM per loan officer that we are comfortable in a normal business of usual environment.

Shalabh Saxena: The normal AUM per loan officer if it is anywhere between 125 lakhs, which is 1.25 Crores is a decent number anything south of 1 Crore is not a very exciting number which we are at this point in time any number which is around 1.5 Crores is a great number to aspire. So in a short-term right now what we have done is that the thousand loan officers we have kind of allocated we have slightly operational but we are in the branches and the portfolio which is doing good we are trying to hit a borrowers per loan officer in the range of about 450 to 500 that is the destination model. So we have it and separately I can take to take you through the numbers, but it is a detailed one what we are trying to do is to ensure that in the next few quarters we start we get to an enterprise level average of about 1.25 to 1.3 Crores and then onwards into 1.5.

Shreepal Doshi: Just one last question on this new customer acquisition that we have done. So there if you could give some color from the geography point of view is it from the newer geography or from our main geography such as Odisha, MP or is it from the new geographies.

Shalabh Saxena: No, so we are mindful of the concentration and the fact that we cannot be stacked into a specific geography. So the acquisition is very secular across the industry wherever we are one. Two in fact it is the other way around. What we focus on is any branch which is not at an optimal level of AUM that we would want is where we push more because we have to drive the profitability metrics as well. So all the new branches for example that we are going to open this quarter and the next quarter will all be only in customer acquisition. So you will see this number kind of either in the same range any number upwards of 40 is good in terms of a distribution so that is the level that we are going to drive in terms of your specific questions it is a secular one across all geographies, wherever we start hitting the ceiling where we are not very comfortable is where we slightly tone down the customer acquisition number and then we focus on the existing customers.

Shreepal Doshi: One last question like you had answered this to a previous participant, but just from different angle. So you said that you have 33% of the customers which are unique to Spandana currently and the thought process is broadly to bring it down to close to 8% to 10% is that the understanding right.

Shalabh Saxena: No, sorry, I do not think, let me repeat what I said. Our single lender relationship portfolio is 33% customers, one plus one which is with Spandana and one more financier is 34% that put together is 67%. This together from a 67% as an enterprise in the next two to three quarters we would want to take it to an 80% which means you will have to definitely take up the 33% to a 38%, 39%, 40%. There is no other option and the other piece also has to move up simultaneously.

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 Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Good evening Sir and congratulations on a good set of number. First question I think you had mentioned something about write backs. So, if you can shed some light because we have also done a lot of write-offs in the previous quarter so how was the collection if any from those pool which we have already written off and what is the expectation going forward and second is so this 97.5% on the new book is sort of still below what is your expectation from a BAU point of view. So what is sort of holding back this book from behaving at a pristine collection efficiency quality sort of a metric, if you can answer these two Sir.

Ashish Damani: I will answer the first one and then I will request Shalabh to kind of talk about the new book and how it is going to play out. So in terms of the collection from the written off books, we had 14 Crores that we have collected in the current quarter. The way to look at it is if you have to go by the industry benchmark, then anywhere between 10% to 20% around 15% or so is the industry benchmarks in terms of collections from the written off portfolio over a period of year and a half. So one should expect us to have at least similar numbers if not better given that we are going to make some focused drives on the ground these numbers should be better in my mind.

Shalabh Saxena: Just to supplement, the last quarter I think the last quarter we have recovered about 15 Crores from the write-off book, the next two quarters we have planned to recover about 40 Crores minimum we will do more than that, that is number one. Number two is on your question about 97.5%, so the gross collection efficiency, so deliberately if you would have seen we as a team we are trying to culturally bring about a change where the timely collection of money is very important, which is the net and the gross ideally should not be any gross ideally everything should come on time on the day it is due. Right now we have a net collection efficiency of 97.5 as you said on the post April 2021 book, the gross if I see, which is arrears with arrears our collection efficiency is 105% of the same book. So I deliberately sort of muted that entire narrative because when we speak to our teams it is not about the 105% it is about the 97.5% moving to as I said upwards of 98.5% and greater than 99% is what we are aspiring to. So that is what we are pursuing. Slowly the net of 97.5 we anticipate to see a figure upwards of 98.5 and a 99 around about that number. So we have narrated we have given you both the numbers and the gross number also is 105% but then obviously it comes with a lag, which might not be what a microfinance institution ideally should be very, very happy about.

Sarvesh Gupta: So how soon do we expect to get to this aspirational number of 98.5 to 99.25.

Shalabh Saxena: We are targeting this quarter and the next quarter for all of whatever I have said anything beyond because now COVID is kind of done and settled there we have a book which is now 82% so there is no reason for us to really hit that number and we have already started working with the field on the ground to ensure that we kind of hit this because then it will be a perfectly BAU situation.

Sarvesh Gupta: Understood thank you and all the best.

Moderator: Thank you. The next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: Hi! Sir, I wanted to ask that on disbursement we guided around 8500 Crores sort of number which we told for Q3, Q4 but now even also we had guided for 8000, 8200 Crores of closing AUM by this year end, is that right.

Ashish Damani: Yes, that is right given that our disbursement is largely in the second half and the Q4 will be a higher number the AUM is likely to close north of 8000 Crores anywhere between 8000 and 8500 Crores.

Sanket Chheda: So even if we expect some flow through in the 90 plus DPD, but as far as its share in the current book is concerned maybe 90 DPD plus and 1 to 90 DPD, the share in the book should have topped out in this quarter is that correct assumption to make so share will keep dropping in the coming quarters because of the high growth.

Ashish Damani: On percentage terms mathematically absolutely yes but we do expect improvement in absolute terms also is what we were trying to explain earlier in the call.

Sanket Chheda: Yes, that I got it Sir. Yes, that was only question, congrats for this quarter on a very strong operating performance and wish you all the best for the coming quarters as well.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to Mr. Shalabh Saxena for closing comments. Thank you and over to you Sir.

Shalabh Saxena: Thank you very much once again to all the participants on the call. It is over the quarter when we reach out or when we have a chat with each one of you separately not everyone, but whosoever we managed to strike a conversation or vice versa, we have had good response and good feedback on various initiatives that we would have taken, there are many ideas that also flow into us and thank you very much for kind of giving us those valuable piece of advice. We have set out on a mission which is to get to the numbers, but it is less about numbers more about how we do it. While the destination counts but the journey towards the destination is very, very important and that is what we are embarked on. We will ensure that we deliver quality, we will ensure that we create an organization which people will be proud of and thank you, you are an integral stakeholder to this whole journey and thank you very much for all the support. Thank you very much.

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