"Suryoday Small Finance Bank Q4 FY21 Earnings Conference Call hosted by ICICI Securities"

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Moderator: Ladies and gentlemen, Good Day and welcome to Suryoday Small Finance Bank Q4 FY21 Earnings Conference Call hosted by ICICI Securities. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Renish Bua from ICICI Securities. Thank you and over to you, sir.

Renish Bua: Thanks Aisha. Hello and welcome to Q4 FY21 Earnings Conference Call of Suryoday Small Finance Bank. We have with us today Mr. Baskar Babu – MD and CEO, Mr. Bhavin Damania – CFO, Mr. Narayan Rao – Chief Service Officer, Ms. Radhika Gawde – VP Finance. Mr. Chintan Shah – Investor Relation and along with me we have Mr. Amit Singh from Investor Relations team. I will now request Baskar sir to take us through the opening remarks and then we will open the floor for Q&A. Over to you, sir.

Baskar Babu: Thank you Renish. Good evening everyone welcome to our maiden earnings call post listing. I hope that all of you, and your loved ones are safe and well.

The year that went by was extraordinary and a challenging year not only for us, but for the entire industry. After the events of health and economic loss there was hope with the introduction of vaccine and gradual opening up of the economy. Similarly on the business front we were back on the recovery path in Q3 FY21 and we ended the fourth quarter with a very strong performance. Although this uncertainty continues with the second wave hitting us harder than other countries, we continue to work towards a state of normalcy in partnership with all our employees, customers and stakeholders.

As on date 667 of our colleagues were infected with COVID but the good news is that 508 of them have recovered fully. Unfortunately we lost two of our colleagues due to the pandemic, the rest of them are recovering well. Although, disheartening we continue to brave through the second wave, local lockdowns have impacted the recovery which were shaping up well till Q4 of the last year. Due to uncertainty created by the second wave we will have to wait for couple of months to understand the incidental impact on our business. Suryoday has been proactive in managing and mitigating the risks to its employees. During the year we sufficiently increased the health insurance cover through COVID Kavatch a separate COVID health insurance policy and we also have an adequate health insurance policy for covering our employees and their family members.

We are engaging with employees to ensure that their and their family wellbeing is taken care of and specifically in terms of any financial support which is really required on account of hospitalization or other medical expenses. We trust that mass vaccination program introduced as well as our own efforts to vaccinate our employees will prove to be sufficient in terms of mitigating the health crisis for our employees and their family members. I hope all of you have received our investor presentation and had the chance to go through it before the call.

I will, however, give a brief highlight of the performance for the quarter and the year that gone by:

We disbursed Rs 2,217 crores in the last year compared to Rs 3,090 crores in the FY20. The fall is mainly due to near nil disbursement in the first half of their last financial year. The quarter ending March 21 recorded the highest quarterly disbursement of Rs 1,058 crores compared to Rs 777 crores in the same quarter of last year. We disbursed ECLGS loans worth Rs 95.2 crores during the financial year.

Our collection efficiency (on a one EMI basis adjusted) as of end of March was 87% for the month and has consistently improved over the last two quarters. Overall collection efficiency in March including repayments was 121%. One EMI restricted collection efficiency in the inclusive finance business as of March 31st was 85% and improving from 81% as of December 2020 whereas in commercial vehicle, home loan and secured business loan products the collection efficiency was 93%, 96% and 89% respectively compared to 89%, 94% and 88% respectively for the quarter ending December 2020. Paying POS (though they are delinquent in the PAR 1+ bucket) was closer to 70%. Collection efficiency is likely to be volatile in the Q1 of this financial year due to intermittent lockdowns in various states.

In terms of our asset quality:

Our gross NPA was 9.4% as at 31st March 2021 compared to performance gross NPA of 9.3% as of 31st December 2020 which was 2.8% as of 31st March 2020. Net NPA as of 31st March was 4.7% as compared to the pro forma net NPA of 5.4% as of December 2020. The 1+ DPD portfolio as of 31st March reduced to 20.7% from 28.5% as of 31st December 2020. The bank has done one-time restructuring of customers comprising of 3.3% of our advances as of 31st March. The bank charged Rs 169.2 crores as total provisions in the financial year. The provision coverage ratio as of 31st March was 63.7%. The bank fully utilized the COVID provision reserve of Rs 140 crores which includes COVID provision of Rs 66 crores created during the previous financial year. The Bank increased the floating provision on microfinance portfolio from 2% to 3.5% in March 2021. This totals to a floating provision of Rs 91 crores as of 31st March 2021 which is fully unutilized. For the period ended 31st December 2021 the bank has made provision for interest reversal on proforma NPA as against reversal from interest income for the year 31st March 2021 and hence the impact on P&L is incremental to an extent of interest reversal for the Q4 of Rs 72 crores. Net interest income for the full year fell 16% year-on-year to Rs 411 crores. The fall in NII for the year was primarily on account of interest reversal on NPA, impact of negative carry on the significant excess liquidity which we maintained during the entire year and lower disbursement due to uncertainty relating to COVID during the last year.

The profit after tax for the full year fell 89% year-on-year to Rs 11.9 crores as compared to FY20 primarily due to additional provisioning on increased NPA, increase in floating provision from 2% to 3.5% which is an addition of Rs 37.5 crores. Floating provision was built up primarily due to the uncertainty leading to the second wave of COVID-19 and lower disbursement in FY21. Cost-to-income ratio increased to 64.4% as compared to 47.1% for the previous financial year. This was higher on account of interest reversal on increased NPA, and significant negative carry is on account of excess liquidity that was maintained throughout the year.

On the advances front – our gross loan portfolio grew 13% to Rs ~4,206 crores in the financial year as compared to Rs ~3,900 crores in the previous financial year. The bank ended with the year with total customer base of 14.7 lakh customer of which asset customers were 13.3 lakhs whereas liability customers were 6.3 lakhs. There was an overlap of 4.9 lakh customers between asset and liability products. In our main inclusive finance business, the gross loan portfolio grew by 3.9% year-on-year to Rs 2,923 crores in the financial year. Suryoday achieved a highest quarterly disbursement in this business segment in Q4 disbursing Rs 865 crores in the last quarter which included a disbursement of Rs 54.4 crores under the ECLGS scheme for the customer segment in inclusive finance.

Collection efficiency has improved significantly in the segment during the last quarter. In the month of March collection efficiency improved to 85% from 81% in the month of December 2020. The gross NPA in the inclusive finance business was 10.1% as of 31st March. This was after excluding the restructured portfolio of 3.6% of the JLG book. The bank disbursed 1,00,503 ECLGS loan amounting to Rs 74.6 crores during the financial year in the inclusive finance business segment. Ex gratia scheme of the government of India for interest-on-interest was implemented by bank wherever applicable. We launched overdraft product called Smile overdraft product for our inclusive finance customer during the financial year to meet the working capital needs. This was a one-click product wherein customers were onboarded completely digitally making real time opening of bank account. The limit setup for this customer segment was Rs 365 crores for 3.8 lakh of our inclusive finance customers of which the utilization was approximately Rs 135 crores which is 37% compared to 33% as of December 2020. We increased our presence in the affordable home loan segment, we made meaningful progress and our gross loan portfolio increased 71.9% year-on-year to Rs 311 crores during the financial year. We achieved the highest quarterly disbursement in this business as well during the last quarter of Rs 72.8 crores. Our collection efficiency continued to improve during the last quarter. In the month of March collection efficiency improved to 96% from 94% in the month of December 2020. We are continuously monitoring gross NPA in this particular segment. The GNPA in home loan segment was 4.2% as of 31st March.

In our commercial vehicle business, the segment continued to remain under stress due to various market environmental factors. We took a strategic call to focus on the small ticket OD product for the commercial vehicle segment by extending working capital to customers and building a relationship with them. The gross loan portfolio in this segment however fell 4.6% to Rs 353.4 crores overall. The bank setup 798 accounts with 56% utilization in the working capital segment.

The bank aims at deepening its relationship with these customers and capitalize on the business opportunity afforded by working capital for mid-size fleet operators. The gross NPA in this segment was at 12.8% as of 31st March 2021.

Our secured business loan product predominantly secured by immovable assets grew strongly, up by 49.3% year over year to Rs 158 crores during the financial year. The bank disbursed Rs 27.4 crores in this segment during the last quarter. Disbursement in this business were made in a calibrated manner, the clear focus on higher credit profile customers prior to disbursement owing to increased stress in the market environment in this product segment. Collection efficiency in this segment remained strong during the quarter. In the month of March collection efficiency improved to 89% from 88% in the month of December 2020. Collection efficiency in the new secured business loan in the month of March 21 was 95% as compared to 96% in the month of December. New secured business loan portfolio constitutes 90% of the overall secured business loan portfolio. Gross NPA in this segment was 7.4% which was predominantly due to the small ticket LAP portfolio which we did previously. The GNPA is the new SBL portfolio is 2.2% which comprises ~90% of the overall secured business loan portfolio.

On the deposits and borrowings, we ended the FY21 with a total of 96 liability focus branches as of 31st March adding 5 liability focused branches during the year. Since the onset of the company as a bank the focus was to create substantially granular deposit franchise starting with granular deposit franchise in terms of the term deposits and subsequently focusing on CASA specifically in the SA segment.

As of March 2021, our retail deposits form 80% of the total deposits as compared to 54.4% as of the previous financial year. Most of our bulk deposits however are non-premature in nature. This give us significant certainty on the duration of liabilities helping us manage our ALM better. As of March 21, 91% for bulk deposit (i.e. deposits about 2 crores) are non-callable in nature.

Our CASA grew to 15.4% as of March 31st, 2021 as compared to 13.3% as of December 2020 and 11.4% as of 31st March 2020. We continue to focus on investing in our CASA growth, which is likely to grow at a stable, but sustained pace. During the year our cost of deposits fell 57 basis points year-on-year to 7.7% from 8.3% in the previous financial year. Our overall cost of funds fell by 59 basis points to 8% from 8.6% in FY20. As of 31st March, our borrowing formed 24.8% of the total liabilities. Majority of the total borrowings approximately 92% are from long term refinancing institutions like SIDBI and NABARD.

We are very well capitalized, and we continue to maintain high capitalization levels. We ended the year with a capital adequacy ratio of 51.5% with Tier-1 comprising of 47.2%, Tier-2 comprising 4.2%. We successfully got listed on both NSE and BSE on 26th of March 2021. Through the public issue the bank raised primary capital of Rs 248 crores. In the last week of February, we also successfully completed pre-IPO around Rs 152 crores. The total equity infusion in the bank during the financial year FY21 was Rs 522 crores. On the other updates during the financial year FY21 the bank added a net additional manpower of 436 people and the total number of employee strength as of 31st March was 5,131.

Our total branch count as of 31st March was 556 as compared to 477 branches as of 31st March 2020. During the financial year ended 31st March 2021 the bank launched various new initiatives such as small overdraft facility for microfinance customers what we term as Smile OD, increased focus on overdraft product for commercial vehicle segment, implementation of government scheme of Mudra subvention, Ex gratia and ECLGS segment including in the inclusive finance segment and various digital initiatives enabling us to give our customer curated solutions. Although we had a very tough year, we continue to remain focused on the core of our business. We achieved a milestone of getting publicly listed as per regulatory requirements and as I mentioned raised closer to Rs 520 crores in times of uncertainty which shows confidence in the long-term structure of our bank as a bank of inclusive finance customers.

With this, I close my remarks and request for any questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Deepak Agrawal from Axis Mutual Fund. Please go ahead.

Deepak Agrawal: Sir, wanted to understand that now considering that we are into the second wave, what has been the trend in the month of April and May in terms of the collection efficiency and how should we look at credit cost for FY22 from here?

Baskar Babu: In April, our collection efficiency came down from 87% in March 21 to 80%. There was a marginal reduction of 7% and as we see the trend in May it looks more to be in terms of contact issue. Currently at around closer to 65% is what we are running in terms of our collection efficiency. In terms of the non-inclusive finance segment collections will be closer to what we saw in April marginally low now, but however I think in inclusive finance segment which has more of a contact in collecting the installment, it is likely to be down by closer to 10% to 12% as compared to the previous month which is April.

Deepak Agrawal: Sir, in terms of credit cost for the full year now what kind of credit cost should we work considering some stress might come in the in the second year?

Baskar Babu: I think the wave one took all of us by shock. I think during this year in the face of intermittent lockdowns and in touching base with customers a couple of learnings have been in terms of continuing to be in touch with the customer in a meaningful manner without really creating a stress for collections at any cost seems to have really helped us in managing the relationship. While the impact of the second wave is not fully known, it is likely that as it opens up slowly. The focus of the bank has been to continuously be in touch with the customer which is why what we are seeing 10% to 12% reduction compared to April in a severely impacted month like this where there are very strict lockdowns in some states like Tamil Naidu, Madhya Pradesh and also in many parts of Maharashtra. We do believe that now the big question will be is in terms of if and when do we start opening up in the month of June and at what point in the month, which may come to what we saw during March. However, it is really too early Deepak at this point of time to kind of sight out anything, but I think through our focus on keeping in touch with the customers, we realise that it does not really seem to be an intentional default, it seems to be more of a circumstantial one in a way that we have to summarize it as more of a timing issue in terms of delayed repayments as compared to a substantial deterioration if things were to come back to that kind of near normal opening up in the next one month.

Deepak Agrawal: What we did is essentially standard asset provisioning which used to be 2% earlier on the portfolio level we increase to 3.5% in Q4. The entire portfolio this 91 crores is the 3.5% standard asset provisioning and we have used all the COVID related provisions till date provided, so provision we carry right now is this 3.5% only on the books?

Bhavin Damania: So, you are right we have utilized the COVID provision, and it is entirely gone against the NPA provisioning we have done during the year, and you are right on the 3.5% we are carrying as of March, and this is a one-time additional impact we have taken of 1.5%. So, 3.5% of the microfinance book right now is covered in the floating provision. It is not a standard asset it is a floating provision.

Deepak Agrawal: We will be able to use it in FY22 depending on how the stress moves and some part of this floating provision we will be able to draw down because once it goes in standard asset provisioning then it becomes difficult to draw it down, is that the way to see?

Bhavin Damania: Yes, absolutely that is the reason why we made floating provisions.

Deepak Agrawal: Sir, another question I had was now in terms of growth I understand obviously last two months have been difficult for everyone, but how should we look at growth from here, is it like we will grow closer to the system level growth whatever it is between 5% to 10% or do you expect we will be in double digit in terms of loan growth?

Baskar Babu: The credit requirement for the segment is intact. As things really start opening up, the lower income households and the small business segment usually bounces back a little faster because there is not much of a capital loss which would have happened during the lockdown period. So, given that the demand for credit, as things open up will be very robust, growth should be back. We have, entirely during the last year focused on only our existing customers and introduced small ticket OD product or Smile OD product and for what we see, there is, I think the stickiness with the customers and the customer's comfort that the credit access is available is probably driving different behavior unlike what we saw in the past. Earlier the 30+ bucket would tend to move forward substantially to a 60+ bucket, 60 to 90 bucket and hence towards a credit loss. What we are seeing is that the customer is intermittently paying one out of the two installments. That is what we saw in March end with 76% of our delinquent customers making at least one installment. If you count the month of February and March. So, if the trend were to be taken as an extrapolation, it will be more of a timing issue as compared to a complete default on account of the customers stopping to or kind of delaying the installment payment. So, it is very hard to really kind of put a number Deepak at this point of time, but when it opens up, we have 14.5 lakh customers of which we realize that 1 lakh plus customers have been excellent in terms of not even taking a borrowing either from us or from the market and have paid all installments on time and remain in current bucket. So, given that if things open up, the growth maybe much better than probably what you are contemplating at this point of time.

Moderator: Thank you. The next question is from the line of Nikhil Walecha from SBI Life. Please go ahead.

Nikhil Walecha: Sir, I just want a clarity on slide number 27, it is mentioned that 76.5% of our delinquent customers are paying us over 2 months, so these 2 months are April and May, or something else? Can you clarify this?

Baskar Babu: February and March.

Nikhil Walecha: Can you tell this number for April and May? Obviously May almost is done, but if you still have that number?

Baskar Babu: So, overall, I think if we have to take the trend, in terms of the payment itself is down from 87% in March, to 80% in April and 80% is likely to be very close to probably say 67% to even at the top end maybe 70%. So if we look at 87% in March, it is already down 20%. I do not have the exact number, but I would say that probably it will be 50%.

Nikhil Walecha: So, 50% of the delinquency customers would be paying?

Baskar Babu: Should have paid at least one installment. I am just hazarding a guess, we will get the exact number, but it is likely that it will be one out of the two installments of either April or May.

Nikhil Walecha: Given that the situation is still uncertain, and lockdowns still persist, do you think this pool of 50% odd that is SMA 1 to 90, would either slip or get restructured in Q1 based on the collection behavior right now because it is a very highly unlikely that they will be able to pay 2 EMIs in the month of June and regularize?

Baskar Babu: Now that the restructuring option is available, we will take it to the customers. But the thing is that as I said is more in terms of a timing it will not be possible to collect both installments from the customers because they have skipped one. The intent would be to kind of keep it going by at least collecting one installment at a time.

Nikhil Walecha: Just operationally you have mentioned that you are not doing any physical collection as of nowBut what is the customer response? Can you tell me if their business is still fully functional and it is still like 50%, 60% normal and they will be able to pay the installment or the business is in a shutdown? Just wanted to have a qualitative factor like how many of the customers would be able to run at efficiency of 60%-70% odd and would we able to make the payments?

Baskar Babu: See the impact is different in different places. In Mumbai it was very severe in phase 1, but we really see in lockdown 2 it is not that bad as it was in lockdown 1. In lockdown 1 it was complete kind of a choking off the train services and similarly the people were taken by shock. This time what we are seeing is that in states like Karnataka, it is far more severe, and this is the first time probably they are kind of encountering this which was not the case as far as phase 1 was concerned. So, if you have to kind of extrapolate the experience in states which went through heavy lockdown during phase 1 which is in Maharashtra, the customers do comeback. What percentage depends on market-to-market, but we will have to kind of go by the trend that around 76% of the customer end up paying and of which mainly what we are talking about is from the 31 to 60 bucket and upwards. 1 to 30 bucket has paid one installment in the last 2 months. So, if we look at that segment which is kind of 31 + itself was 76% paying (one of the two months) as of March.

ikhil Walecha: And have you given any ECLGS 3.0 to any of your customers or have they asked for it?

Bhavin Damania: So, we are in the process of disbursing those ECLGS 3.0 to the customers. As the timeline is extended up to the June, there will be some loans which will be given. As of now we are in the process of sanctioning as per the customer's request.

Nikhil Walecha: And just final question. The accounts which you have correctly restructured obviously they must be stressed accounts, so will you increase that tenure of these restructured accounts or do you think they would be able to pay in a normal way and they will not need any fresh capital thereby not slipping into NPA?

Baskar Babu: See the behavior of the customer when they are in delinquency is little different than when they are current. So, what the trend that we have seen in these restructured accounts are not the ones who have not been making payments at all. So, they would have made payments once in 2 months and they were in the 60+ bucket or in the 30+ bucket. We have given them a 2-month moratorium or a 1-month moratorium and then it continues. Mostly it is not a substantial elongation considering the door-to-door tenure of all the loans in inclusive finance segment is not more than 2 years predominantly except for a very few customers whom we call as Vikas loan customers is more than 2 years, most of the loans are 2-year tenure. So, the extension will be 1 to 2 months of moratorium which will kind of extend the overall tenure by 2-3 months maximum.

Nikhil Walecha: And just final thing is just wanted to understand from the accounting perspective as you said that you will be giving 2 months of moratorium to these customers. What about the interest component? Will you take the hit in Q1 itself or will it be spread out? I am not clear how the interest part will work?

Bhavin Damania: See in microfinance segment we never charge overdue interest. It is an industry-wide practice that we follow. So, following that and obviously by elongating the tenure the hit will be taken I would say over the period not only in the Q1, but as I said the restructure book is not that large

It is nearly 2% of the entire book. So, the impact on the P&L because of the restructured book may not be that large.

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

Jay Mundra: Thanks for the detailed presentation that you have put in. I have couple of questions first is on ECLGS loans, so it looks like you have disbursed around Rs. 100 crores total ECLGS within which Rs. 75 crores are in inclusive banking, of which Rs. 21 crores have already turned NPA. So, I just wanted to understand the reason for such quick NPA in this book, is there any particular reason or what actually happened here?

Baskar Babu: Let Bhavin answer that, but broadly it is not the ECLGS loans per se which have turned delinquent. It is that the tagging of these loans happens because the other loan which the customer is running in parallel could have touched 90 plus. As you would see in the other chart where we have published, all our gross NPA is not 90 plus. We have Rs. 393 crores of gross NPA recognized as of 31st March which means the customer account touch 90 plus DPD at one point, but nevertheless at the end of March it is Rs. 244 crores of accounts. Principal outstanding worth of accounts are in the 90 plus. So, if that were to be part of the 393 crores and the account tagged as a gross NPA, the ECLGS loan also get tagged as an NPA, but otherwise in the ECLGS loans per se what we have given I do not think the NPA is very high.

Bhavin Damania: I think it will be in a few lakh rupees. I would say this ECLGS loan itself will be in default mainly because of the gross provisioning requirement of the RBI for which we have to tag them as NPA.

Baskar Babu: It is 0.2% of the ECLGS loans which are per se in 90 plus.

Jay Mundra: Sir even if we say that the NPA has been done at borrower level, for instance let us say that if the exposure was Rs. 100 and on that you have given Rs. 20 where the borrower also had a facility, the other facility which was running wherein they defaulted. I think 20% additional money in one facility would have been good enough to at least keep it standard because I think you would have disbursed only in last quarter and in one quarter it has gone bad. I mean it looks slightly unusual that even if a person has got Rs. 20 extra he has not been able to pay let us say 2 months EMI. I mean otherwise you would have survived at least one more quarter or is there something else?

Baskar Babu: The loan what we give is on the principal outstanding as of 29th of February. Let us assume that the customer has taken a Rs. 40,000 loan and the loan outstanding as of 29th February was only Rs. 12,000 and we can give only 20%, not on the original disbursal, but on Rs. 12,000 which is Rs. 2,400 which probably is equal to 1 or 2 installments at max., and it is also possible that even before we gave the customer could have touched 90 plus. I do not have the exact number, Bhavin can clarify, and hence post the RBI announcement on 24th March we had to tag not only 90 plus customers as on that date, but also customers which touched 90 plus during that interim period. If they touched and got classified as gross NPA this loan which you have given to them also gets tagged as gross NPA otherwise per se on the ECLGS loans we have mentioned that 0.2% of the loans are 90 plus as of 31st March.

Bhavin Damania: Just to clarify not only the last quarter we have given ECLGS since the beginning of the Quarter 3, so it is not only in the last quarter that we have disbursed ECLGS loans.

Jay Mundra: Second thing is sir on your write off, on the inclusive finance this Rs. 97 crores write off which is only ~3.3%. Considering the loss or the GNPA and the PAR book that you still have the write off amount is slightly on the lower side. Is it because as you had said quite a few NPA is now below 90 DPD, but still NPA, is that the reason or why is the write off slightly liberal? I mean you have capital, then why have you not written off aggressively?

Baskar Babu: Write off that happened does not necessarily pertain to accounts which have turned NPA because of the COVID. We had gross NPA as of 31st March 2020 and those are predominantly the accounts where in spite of the efforts where we are not comfortable that we will be able to collect and will result in a credit loss were written-off. The rest, as I said again 76% of the customer who are in 30 plus are continuing to pay. As long as the payment is really coming in even if it has skipped one installment and even if they are in the 90 plus bucket (I think close to around 25% of our customers even in 90 plus are paying) we are kind of reasonably confident with the time lag we will be able to kind of recover the money and hopefully the customer will come back to normalcy.

Jay Mundra: And Sir, if you can broadly explain what is your write off policy and provisioning policy. Once an account turns NPA within how many months would you provide 100% for MFI loan?

Bhavin Damania: So, we do not have a specific write off policy like you see in other companies 180 plus and 365 plus. Only when we are satisfied that the amount is not recoverable based on inputs from our business we write off. Generally, we do write off only after the 365 days we have never taken a call of writing off before 365 days except for the current year very small amount. Out of the Rs. 78 crores of write off in microfinance only around Rs. 16 crores is pertaining to the current year otherwise entire amount pertains to the more than one-year NPA kind of accounts. We do not have a specific policy, but on a prudent basis we take a call over a period.

Baskar Babu: We provision aggressively, but we do not write it off aggressively.

Jay Mundra: So, what is the provisioning policy on MFI once it turns NPA?

Bhavin Damania: So, over and above the RBI norms, we make this floating provision. So, at any point in time if you have seen our last three financial years including current one, we have been making 2% of our microfinance portfolio as a floating provision at any point in time which has now grown to 3.5%. On a case-to-case basis where there is a natural calamity etc., for those specific cases we may make an additional provisioning up to 100%.

Jay Mundra: And the last question from my side is on the accounting treatment. So let us say as you have given in slide 27 which shows the 90 plus DPD and that there are a few people who are still paying. So, let us say a customer who is in 120 plus DPD and she pays one installment she still remains NPA, what happens to the money that she is paying? Does it go in recovery or how does it work?

Bhavin Damania: Unless the customer is written off it will go fully towards the recovery direct hitting the entire amount in P&L. Otherwise it is based on the cash basis of accounting where we recognize interest of the EMI portion which she has paid. Interest and the principal in the ratio of EMI.

Jay Mundra: If you can share the movement of NPA? If you have or otherwise it is okay to me if you can share the addition and the reduction either through upgrades, recovery and write off. Write off I think you have given, but if you have the full year slippages, full year recovery, upgrades and write off, it will be useful?

Bhavin Damania: I think you will find that in detail in our financial when we publish because that will be a long list. But just as a reference, we have total of Rs. 398 crores of additions during the year and after making provisions and some sort of recovery of the opening NPA, (I am not considering the current year NPA but the opening NPA), our write offs would be around Rs. 10 crores of opening NPA, and after the write off recovery and the provided-for amount we have what is remaining as Rs. 180 crores of net NPA.

Moderator: Thank you. The next question is from the line of Rajesh an Individual Investor. Please go ahead.

Rajesh: So, I just like to know what is Smile OD?

Baskar Babu: Sir it is a very small ticket OD for our existing inclusive finance customers for value between Rs 5,000 to 20,000. It is only for our existing well-paying customers. While majority of the microfinance customers have access to term loans, historically, we have seen that they have access only when the entire group is ready or it is given at one point, they will be able to draw out that money. But the customer requirement maybe for Rs. 5,000 and the term loan which is being offered is for Rs. 20,000 to Rs. 30,000. So, the customers end up taking the money while they may not have an entire use for it at that point of time and then they may even have a surplus up to 15 days, but they will not be able to repay over and above the EMI. They will restrict themselves only to one EMI. Before being introduced, this product has been a product in design for a very long time. During this pandemic the customers did not require credit but wanted access to credit. So, we did it all on a one click basis.

Rajesh: What would be our delinquency for it?

Baskar Babu: In the Smile OD around 10%.

Rajesh: The other thing which I was unable to understand is our NPA in the retail assets were very high and the yields were very low compared to our peers, so being three years into this business I could not understand what is going wrong for us?

Baskar Babu: In which segment specifically except for commercial vehicles?

Rajesh: Overall retail as a sector NPA was very high.

Baskar Babu: See in terms of home loan our collection continuous to be around 96% which is affordable home loan average ticket is around Rs. 10 lakh. In secured business loan earlier when we started, we started with the small ticket loan against property which is kind of understood in the beginning itself that it has to be collection intensive it is almost like an inclusive finance.

Rajesh: Within retail which sector is contributing for highest NPA?

Baskar Babu: Commercial vehicle.

Rajesh: So, overall sector is into stress, but what are our collection efficiency into this then?

Bhavin Damania: So, our collection efficiency in commercial vehicle has gone up to nearly 86% in the month of the March and currently even in the month of April we are on 84% of the collection efficiency. I stand corrected, the collection efficiency in March was 93%.

Rajesh: In the month of April and May how much percent would be lower than the March number?

Bhavin Damania: For April we can tell April was 84%, May still yet to get hold so I think it will be pretty early because most of the collections also happens during the end of the month.

Moderator: Thank you. The next question is from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijit Sakhare: So, across different measures that we have to kind of deal with stress accounts like ECLGS, restructuring or some form of OD, how do we identify which product or which facility to offer to which kind of customer?

Baskar Babu: For ECLGS one of the primary conditions, is that at the time of sanction and at the time of disbursement customer should not be NPA. So, that becomes a selective pattern, and we have kind of preapproved closer to around Rs. 500 crores of ECLGS, utilization is only Rs. 99-100 crores at this point of time. So, I think we are one of the few banks where we offer ECLGS to our existing customers in inclusive finance segment. They are very small ticket and hence had to be done substantially out of our digital flow. Not all the customers we preapproved have utilized ECLGS including in the inclusive finance segment. Smile OD we have set up around 3.8 lakh customers and set up a limit of around closer to Rs. 300 crores. The utilization happens to be at around less than 50% at probably around Rs. 150 crores. These are the customers who have been with us for minimum of a year and kind of paid well and we have setup a limit for them to utilize when they want, and they repay flexibly. The minimum amount we collect on this Smile OD account is Rs. 250 if the amount drawn is less than Rs. 5,000 and if it is more than Rs. 5,000 Rs. 500 is the minimum repayment they have to make on a monthly basis.

Abhijit Sakhare: These are fresh loan accounts, so the collection happens through the group lending mechanism or there is some other way we sort of pull money from those accounts?

Baskar Babu: This is only for existing customers Smile OD is not given as a standalone product. This is after the customer kind of prove their repayment for a period of one year we setup these limits.

Abhijit Sakhare: But the repayment happens in the group model itself the usual and the fair collection?

Baskar Babu: As of now that is how it is happening. Increasingly, the intent is to really have that collected. Since the primary operative principle obviously is that to give a Smile OD we need to have a bank account with us and once we kind of setup a bank account then we setup an OD limit on that. At some point, the way in which we are really seeing the digital transformation happening is that at the customer household level probably they have gone financially digital, but the customer per se has not. So, that transition can happen at any point of time. When that happens, the intent is to use this platform so that the customer can make their payment digitally without us really getting in touch. I think that is one of the key learning of the pandemic. Also, we are increasing our footprints in terms of customer service point (CSPs) as we really expand, the customer should be able to walk in any of the CSPs and make the repayment or rather running in the Smile OD account. That would be the kind of mid-stage of the journey.

Abhijit Sakhare: And ECLGS accounts have 9% in terms of interest rates, but still, that take up is not very high. What do you think?

Baskar Babu: Because they are too small in size because you need 20% of the principal outstanding as of February and average principal outstanding for a customer is around 20,000. So, by and large the limit is around Rs. 4,000 to 5,000 and given that, I think the traction is not very high.

Abhijit Sakhare: And just some comments on the performance of loans where the fresh disbursements happened only in let us say Feb or March this year. How has been the collections on those loans let us say in April and May?

Baskar Babu: Fresh disbursements started from September of last year. Over the last 7 months the performance on that I think we have not listed separately, but I can broadly tell you that it is close to 98% which constitutes approximately 52% of our book.

Abhijit Sakhare: See bulk of the disbursements happened in the fourth quarter which has been the trend for the industry as well. But on these fresh disbursements where the customer is now sitting with much higher loan amounts, whether the repayments on those customers have been any different compared to the rest of the customers in April or May this year?

Bhavin Damania: Only thing we can tell you on overall book as Baskar mentioned earlier, our collection efficiency has been trending around 65% to 70% across the various states which is including all the loans put together. But I think what we are seeing is that the major stress is only coming from the already delinquent portfolio as of the March. So, we do not have exact number at this point in time, but we can tell that this is majorly from the delinquent portfolio.

Baskar Babu: I just like to add that you know on our current portfolio and like what you rightly mentioned the February and March book which has been recently created we are trending even in this month at about nearly 80% of collection efficiency on that particular book. So, like what Bhavin just mentioned the stress of course can be seen from the delinquent portfolio, but the newer book which has been created which is usually the current book has trended at about 80% collection efficiency this month till now.

Abhijit Sakhare: And how are the collections happening like door-to-door or through some other means digital or any other way?

Baskar Babu: No, it is not very high on the digital front, so it is kind of the more doorstep banking and that is what got severely impacted in two states in the last two months which is Karnataka and Tamil Naidu which is where we see a drop in collection efficiency.

Abhijit Sakhare: Last question is the floating provision is reduced from the NPL and calculating that NPL right?

Bhavin Damania: That is correct.

Moderator: Thank you. The next question is from the line of Manav Vijay from Deep Financials. Please go ahead.

Manav Vijay: So, sir my first question is regarding the total stress that we have in the book and sorry if my calculation turns out to be wrong. So, we have a PAR 90+ book of at least 6.5%. We have a restructured book of 3.5% and we have a net NPA book of around 4.7% so approximately 15% of the total book or approximately Rs. 600 crores of the book is under stress, is that number right or wrong first of all?

Bhavin Damania: I think there is an overlap between net NPA that you mentioned. So, the current book under stress you can say Rs. 188 crores which is the net NPA, and you are adding up 3.3%, but the total restructuring of the standard book is around 2.6% of entire portfolio (including the restructuring). So, not the entire stress which you are seeing Rs. 600 crores is true.

Manav Vijay: So, sir if you can just help me so let us say whatever that you have the overlap what could be the total stress book apart from of our net NPA?

Bhavin Damania: So, maybe I can refer to the same slide we are referring to. So Rs. 244 crores is a 90 plus we have shown which is actually the stress book at the end of the March. The differential customer we are not calling as a stress, there would be some stress, but not the real stress because they would have paid something by the end of the month and hence, they are not taking above the 90 plus. So, actual stress being around Rs. 244 crores at the end of March was there.

Manav Vijay: And against that we are holding Rs. 91 crores of floating provision?

Bhavin Damania: Yes you can say that.

Manav Vijay: My second question would be sir, in Quarter 1 and in Quarter 2 we are carrying excess liquidity on our book. Though I do not have the number in terms of what you did in the month of April but assume that Quarter 1 turns out to be not as good as last quarter, and you continue to carry the excess liquidity that you have on your book, apart from the Rs. 65 crores interest reversal that you took in Quarter 4, Quarter 1 P&L should look more or less similar to Quarter 4 at least till PPOP. Provisions depending upon these situations you will take a call but till PPOP should more or less look similar? Would that be a very safe decision to make or not?

Baskar Babu: I will not kind of grade you in terms of what the PPOP will be at this point of time. What we kind of intend to do with the substantial excess liquidity which we carry as a strategy of focused balance sheet both high capital and high liquidity as we pass through. In hindsight it looks that we carried much more excess liquidity than probably was required, but I think that was what we wanted to do as we entered the pandemic and as we are coming out reasonably well. If we continued our trend in terms of disbursements which we did in the month of February, March and around that which is approximately between Rs. 300 to Rs. 400 crores so would have drained out all the excess liquidity in the first quarter which as you rightly said given that business environment now it may be difficult. Hence, we will kind of explore options including in terms of prepayment of some of the refinance which you have taken if there is a possibility otherwise it may wait for a clarity as a business picks up without increasing our liquidity further through any other mode. The focus will be in terms of deployment and as you know the interest cost on this excess liquidity is already absorbed into the P&L.

Bhavin Damania: And just to add on our excess liquidity which we are seeing also includes monies we have received from the IPO and the pre-IPO Rs. ~400 crores plus also the cost of the excess liquidity has been reducing now because we have been able to draw down the borrowing from the refinance institution at a much lower cost than we used to do during pre-COVID levels.

Manav Vijay: Sir, you mentioned that you disburse let us say probably Rs.300 to Rs. 400 crores per month kind of a number, what would be a repayment that we collect from the customers per month?

Bhavin Damania: So, we have a principal repayment of around Rs. 230-240 crores. That is the kind of range depending upon what kind of disbursement we do in the previous month.

Manav Vijay: So, we add approximately let us say Rs. 150 crore kind of a net number every month?

Bhavin Damania: Yes.

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

Renish Bua: Sir, just a couple of questions so one is on our yields. I am referring to our slide number 40 where in our incremental disbursement yield is roughly 24%, but wherein our year end yield is lower, so have we increase our rate in Q3, Q4?

Bhavin Damania: So, it is an impact of couple of things. One is the interest reversal which we have done on the interest income which is why there is an impact. Also, we have not written off significant portfolio, and hence, the non-earning portfolio is also sitting into the denominator. So, the impact on the numerator and denominator both is picking up and hence you will see a reduction in the yield for FY21. So, we just want to try to say that we have not reduced the rates so that there is a dip in the yield, but we have been offering some kind of a product which is at a lower rate like top up loans which we used to offer earlier and Smile OD which are at lower rates. But real impact of that is not coming into the overall yield of the portfolio. So, it is majorly the impact of the interest reversal and the denominator impact of the non-earning asset.

Baskar Babu: Also, in the inclusive finance loans when we kind of gave a moratorium we did not retain the same IRR. We have given the benefit to the customer which resulted in a reduction in IRR and as in inclusive finance segment the overdue which is there from the customers, we collected approximately closer to Rs. 250 crores we did not charge any interest not even penal interest. We do not charge any interest we just collect the amount which is overdue. So, on the base of around Rs. 4,000 crores, approximately around 5% to 6% of the portfolio is technically zero earning which in normal course may be accruing interest as well.

Renish Bua: I can reconcile a lower yield for FY21, but what I am referring to is the FY20 yields is 23.3 wherein my disbursement yield is almost 100 basis point higher than last year, so I am just wondering in FY21 we have done a price hike or how is it? Is there is a mathematical thing which maybe we can discuss offline?

Bhavin Damania: So, that would be reconciliation Renish maybe I can discuss with you offline there will be multiple impacts of last year's NPA from what would have been reversed etc. and different kinds of product we were offering.

Baskar Babu: But on a net net basis, we did not increase anything substantially on the inclusive finance segment. However, there was an increase which we did in affordable home loan and secured business loan compared to FY20.

Renish Bua: And sir last question from my side to Baskar Sir. The whole concept of this JLG has been shaken up over last one and half years because of the social distancing measure and all, so I am assuming the center attendance would be at lowest level even after the moratorium end may be second half of FY21 and then again in FY22 maybe for next couple of months we will see less than 50% of the attendance. So, this concept of JLG I mean is still there or you see some dent there even though collections may improve subsequently, do you foresee a structural change the way JLG used to work or how it is done? What is your take over last one and half years?

Baskar Babu: I think we have got the first glimpse of it after demon. So, the JLG works in terms of one installment, two installment where the customer is not paying, and industry was also kind of reconciled to that model where we go to a center and we will collect 100% installment. If a particular customer were not to pay, then the rest of the members will pitch in and pay the money and you will collect 100% from the center and then there will be a reconciliation between them during that period after repayment is done. The customer who has not paid will go on and kind of give the money to the customer(s) who paid us on her behalf. In the post demon phase, we saw that kind of not really happening the way it used to happen. It came in use (a group model) primarily for efficiency in terms of disbursement and efficiency in terms of collections and social networking. Beyond that the concept in terms of customer pitching in for a customer who is not able to pay drifted out even during the demon and in COVID. it is probably more pronounced and substantial now than before. Increasingly, I think what we need to really know and understand is that customers also do graduate. They will enter to create a credit culture through the JLG model and post that as their requirement becomes diverse somebody may require a business loan of Rs. 1 lakh and may not require JLG loans anymore. The ability of the institutions to dovetail into the customer's requirements and kind of grow in the journey becomes extremely important both from an opportunity point of view as well as from a risk management point of view. There will be a need now for institutions to understand the customer more as 1 to 1 through profiling rather than purely identifying them only as a customer relationship number and their repayment measured only as a repayment of the entire group. I think that the structural change will certainly happen and whether it will happen in the next quarter or whether it will happen in the next 3 quarters is the only question, but certainly that has to happen.

Renish Bua: So, basically, I mean it is fair to assume that eventually the JLG model will shift to either individual loan or maybe a small enterprise loan category may be the collection still can happen in the group, but maybe the understanding methodology might change from JLG to individual loans?

Baskar Babu: It may happen. JLG will not kind of go off. It will still be used as a customer acquisition strategy. The incoming customer shall get used to kind of repayment for the first one cycle and second cycle, but what the thing may be is that you will not probably see customers in the JLG for 5 years and 6 years and 7 years and that trend may kind of give off.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to Renish for closing comments.

Renish Bua: Thank you Aisha. Thank you everyone on this call to attend the call. Thank you so much.

Moderator: Thank you. On behalf of Suryoday Small Finance Bank that concludes this conference. Thank you for joining us and you may now disconnect your lines.