



“Suryoday Small Finance Bank Limited
Q3 & 9M FY2023 Earnings Conference Call”

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Moderator: Good morning ladies and gentlemen, welcome to Suryoday Small Finance Bank Q3 and 9M FY2023 Earnings Conference Call hosted by Centrum Broking Limited. 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. Sailesh Kanani from Centrum Broking Limited. Thank you and over to you Sir!

Sailesh Kanani: Thank you Lizzan. Good morning everyone. On behalf of Centrum Broking I welcome you all to the 3Q and nine months FY2023 earnings call of Suryoday Small Finance Bank. We have with us top management team of Suryoday represented by MD and CEO Mr. Baskar Babu Ramachandran, Chief Services Officer Mr. Narayan Rao. CFO Mr. Kanishka Chaudhary and IR Head Himadri Das. With this brief introduction I hand over the floor to the management team of Suryoday. They will start with a brief overview on the results after which we will move on to the Q&A session. Over to you Sir. Thank you.

Baskar Babu: Thank you Sailesh. Good morning everybody, on behalf of Suryoday Small Finance Bank I extend a warm welcome to Q3 and nine month FY2023 earnings conference call. I hope everyone had an opportunity to go through the presentation for the quarter and nine months ended December 31st 2022 uploaded on the stock exchanges. The global economic outlook now seems to be getting back on track in the last few months and inflation showing signs of a descent; however, with inflation still above the target in major economies coupled with the volatility in the global financial markets and the continued geopolitical hostilities there remain some uncertainties around the global economy. The Indian economy has demonstrated resilience amidst all these global volatilities. As per the union budget, the government has estimated a GDP growth of 6.5% for FY2024. The growth is attributed towards multiple growth drivers such as robust GST collections, rise in consumption level and revival of the rural economy. On the industry front, RBI has recently hiked the repo rate by 25 basis points taking it from 6.25% to 6.5%. India Central Bank has adopted a calibrated approach while raising interest rates amidst global developments.

Now coming to our operational and financial performance. We are delighted to report that the bank has delivered a steady performance during the nine month period ended December 31st 2022 as the microfinance and connected lines of business have almost recovered back to its pre COVID levels of growth. The banks gross advances stand at 5408.2 Crores as compared to 4872.3 Crores in nine month FY2022, an increase of 11% year on year and a normalized growth of 19.6% including the ERC portfolio. Disbursable for the period surged by 33% to 3395 Crores as compared to 2547 Crores in the same period last year. Along

with the growth and disbursement the bank has 21.9 lakh customers as on December 2022 an increase of 18.4% over the same period last year.

We are committed in delivering a monthly pre-provisioning profit of approximately 40 Crores from the month of March 2023 of this financial year. On the profitability side, the bank has reported a profit of 38.8 Crores against a loss of 44.9 Crores during the similar period last year. I would also like to mention about the recently concluded ARC transaction. Suryoday bank has sold stressed loan portfolio including written off loans to Edelweiss ARC for the translation amount of Rs.135.1 Crores. Now let me throw some light on our key operational and financial metrics as of nine months ended December 31st 2022. On the business performance the disbursements have grown by 33.3% during the nine month period on a year on year basis indicating strong momentum across businesses on the ground. The disbursement, particularly in the microfinance stood at 1873 Crores during the nine month period resulting in the growth of 27.2% against the previous nine month period. The bank has ramped up its disposal in the micro home loan and commercial vehicle segment, disbursement in the two wheeler business which commenced in Q2 is gaining traction and we expect to scale up the book in the next financial year. The collection efficiency has been improving steadily on the back of businesses growth and economy nearing pre COVID levels. The overall collection efficiency stood at 110.4%. On the gross advances front, we grew by 11% to 5408.2 Crores on a year on year basis excluding the net ARC portfolio of 417.8 Crores as of December 2022 and this translates into normalized growth of 19.6%. The inclusive finance comprises of 61.1% of the asset book while affordable home loans is at 9.8% and the commercial vehicle loan and secured business loans are at 6% each. As a strategy we have been increasing our non inclusive finance portfolio gradually over the last few quarters. On the deposits and borrowings front, our total deposits witnessed the growth of 48.2% to 3169 Crores year on year. Our focus would be to grow granular retail deposits along with CASA. Borrowings at the end of December from 26.5% of the total liabilities majority of which were from refinancing institutions. Suryoday has a network of 571 branches out of which 92 branches are fully liability focused branches while 364 branches were asset focused branches and the balance comprise of rural centers. On the asset quality front the GNP, NNP, and PCR stood at 4.2%, 2.7% and 79.2%. Delinquency in the portfolio has declined mainly due to the sale of loan portfolio to ARC and substantially improved collection efficiency.

From the earnings update the direct interest income stood at 536.5 Crores as compared to 438 Crores an increase of 22.5 year on year. The net total income stood at 599.9 Crores as compared to 511.6 Crores, an increase of 17.3% year on year. The net interest margin currently stands at 9.2% for Q3 FY2023. Despite rising interest rate scenario our cost of funds reduced to 6.6% compared to 7.1% in the corresponding quarter last year. Cost to income including loss on stress assets of 21.5 Crores stood at 60.7% as compared to 58.8%

during the nine month period of FY2022. During nine month FY2023 the company turned profitable and reported robust profit of 38.8 Crores as against the loss of 44.9 Crores on year on year basis. On the capital adequacy front, we continue to remain well capitalized. Capital adequacy of our bank is currently 36.4% as compared to 41.4% as on nine month ended FY2022.

Tier one comprise of 33.5% and tier 2 comprises of 2.9%. Finally to summarize, we envisaged multiple tailwinds that will enable the bank to scale up on a faster pace. We foresee five growth drivers which will act as a catalyst for growth in Q4 FY2023. On the asset front, the growth will be driven by rise in disbursement and sustained momentum in Vikas loans. The Vikas loan portfolio book currently stands at 828 Crores with the PAT of 0.9%. The bank intends to focus on product diversification and bridge the gap between inclusive finance and the non inclusive finance mix and move towards a robust ratio of 50% each. Moving on to deposit, we would also like to focus on the CASA mix and raise deposits to fuel growth going ahead. Talking about asset quality, it is our endeavor to achieve net NPA of 2% on the back of robust collections by the end of this financial year. Lastly, at Suryoday, we believe in technological progress and how it can be leveraged to achieve growth. The usage of multiple applications such as Sarathi and Jyoti app helps us in reducing not only turnaround time, but improve efficiency and effectiveness substantially across both asset and liability products. We are confident on quarter on quarter improved performance and deliver a very robust and sustainable performance in FY2024. Thank you for your continued support and over to Sailesh, thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Varun Ghia from Dimensional Securities. Please go ahead.

Varun Ghia: Good morning Sir I have two questions one is regarding the opex cost, the employee and operating expenses both have gone up. The number of employees have gone up but the addition in the branches have been more or less similar so these employees have been added in the existing area and what role are they added for and even the operating expenses has jumped quite a bit and secondly the yields has been going down consistently quarter on quarter despite the interest rate hikes and all so you could explain that too and when you see these yields increasing.

Kanishka Chaudhary: Hi good morning Varun. So first on the employee cost, you will see that we have had about a 13 Crores increase on quarter on quarter basis that is largely explained by two facts, one is you would remember that in the last quarter we had released 7 Crores of provisions which were no longer required so that is one of the reasons why the numbers were suppressed for the last quarter and in this quarter we had a concerted effort to increase our feet on street especially in the inclusive finance business. We had increased the head count there by

almost 400 people which has also resulted in an organic growth in our compensation expenses and so far as the other expenses are concerned, there are three elements to that. First is the loss on sale that we had booked on account of the ARC transaction of 21.5 Crores, there is an increase in depreciation by 3 Crores because our transformation project got completed and we capitalized it. The last is that we have had some expenses of about 1 odd Crores across stationary and others where we have had increases.

Coming to your point on the yield, our yields have dropped by about 40 bps quarter on quarter. One of the reason is that our mix is gradually shifting towards the retail assets. As things stand today about 40% of the portfolio is retail assets today. What it means is that over a period of time, while there will be a bit of a compression in the yields it will also result in the amount of loan loss provisioning that we have in a steady state so that is what we are targeting at this particular point in time. Apart from that, I think if you look at the interest volatility it has been our endeavor especially in mortgage businesses and FIG to have floating rate loan.

Varun Ghia:

So what would be the guidance on yields going forward for the full year.

Baskar Babu:

Couple of things Varun will happen one is that as we increase the portfolio of Vikas loan which is curreted graduated individual loans which currently we operate at around 28% and the capacity which has got released out of the sale of this assets which now goes purely from a servicing point of view for the collection team. The increase in portfolio which we really anticipate now in the next two months should really add to at least the compensating yield of around 40 basis points by March or April of next year, so we should be back to where we were at around closer to 18.8%.

Kanishka Chaudhary:

And the other thing to note Varun would be that now with the non paying GNPA portfolio having been taken off the balance sheet so that will also result in a bit of an increase in the yields overall.

Moderator:

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

Renish:

Sir two questions from my side, so one again on the yield. So Sir what is the cumulative rate hike we have taken on the MFI book because we have seen industry across have high grades anywhere between 150 to 200 basis point and I do remember the last quarter we have not had any rate hikes on MFI book so just wanted to know whether we have increased rate in this quarter.

Baskar Babu:

Renish we have not increased the rate but what we are kind of doing is that increasing the tilt towards the Vikas loan which is a little higher price. We deal with the customer on a one-on-one basis through the standing instruction directly debiting our savings account so

as the percentage of that portfolio goes the overall yield adjustment towards the upward side will happen otherwise we did not really anticipate any increase in the microfinance portfolio considering our cost of funds has been broadly flat, but if really required we will increase it by 50 basis points but certainly not in this quarter. We will watch and then if our cost of funds goes up then there will be a corresponding increase at least to 50 basis points on the JLG loans, on the Vikas loan we will continue to operate the same rate which is currently at 28 that will probably move it up 50 basis points or 75 basis points from the Q1 of next year, but however the natural balancing will happen as a percentage of the Vikas loan portfolio which is currently around 900 Crores, 2000 Crores as of February of the overall portfolio of around 3200 Crores probably 1200 Crores is what you are expecting by end of March.

Renish: Sir what is the yield difference between JLG and Vikas loan.

Kanishka Chaudhary: Yes 3%.

Renish: So Vikas loan is higher by 3%.

Kanishka Chaudhary: Absolutely yes.

Renish: Okay and Sir my second question is on the incremental book. In PPT we have split between post June 2021 originated book and the pre June 2020 originated book wherein you know it clearly visible that the collection efficiency or let us say the portfolio performance is much better in the new book so if you could just highlight let us say a broad 2-3 credit filters or geography changes which we have implemented post June 2021 which is leading to this kind of a portfolio performance.

Baskar Babu: Renish what we have done is that in the filters in terms of graduating loans we are more operating on a model of a second cycle higher than the first cycle, third cycle higher than the second cycle so we have introduced the Sarathi app where you want to have a full grip in terms of the household economic status so many a times the good repayment track record of 25,000 does not naturally mean that the repayment track record will be good for 35 and 55 and 65 so we have really stopped growing the book only by increasing ticket sizes any increase in ticket sizes has to be accompanied by a individual credit assessment which is possible now through the Sarathi app and we are also collecting some documents which clearly demonstrate the stability of the household in a particular geographical location, which is we either collect the document in terms of a gas connection bill which demonstrated they have moved in and then they shifted and addressed reflects that or in terms of any proof of their residence that they have so any higher ticket loan is accompanied by the assessment of the customer to handle more than 60,000 till 60,000 while you go through the normal JLG process of group assessment and AOCP as we call it

which is a quality assurance officer visiting in Sarathi app decision itself is centralized. They only capture the data and based on various tools available to it. Also the new microfinance regulations as enabled us to also collect details of the household at least of one significant earning member so Equifax also will now start giving up a composite report so we will utilize that composite report and further things in it I think that is one reason and in some of the geographies where it has been very difficult specifically in terms of the Maharashtra. We have slowed down our business and focused only in terms of customers who have passed through both COVID one and two without any delay so we are not really acquiring any new to credit customers in those difficult markets for now.

Renish: Got it Sir. This is very helpful Sir. Best of luck.

Moderator: Thank you. We will move on to the question that is from line of Anil Tulsiram from Contrarian Value Edge. Please go ahead.

Anil Tulsiram: Thank you for the opportunity. Sir the first question is both during demonetization and COVID our credit costs were higher than our peers. So what are the reasons for the same that is the first question?

Baskar Babu: Anil the thing is that overall there is a data which is available at the industry level which really talks about 90% or 14% so there could be no various methodologies in which each one will operate but clearly we see a credit loss of around closer to 20% on March 31st 2020 book and currently as everything, the debts have settled down what we are really looking at we have not kind of funded any customer who are in delinquency and to that extent sometimes non-funding of a delinquent customer will take the customer to a deep delinquency level but that is the culture code. As an organization we did not want to fund more as a motivation for them to repay the previous loan so to the extent there could be some discrepancies, but however I think the best way to compare would be to the published industry data which is available in terms of both write off as well as in terms of 90 plus and compare the performance of any institution including ours so I will leave that judgment to you but however what we are really now trying to do is that there are 5 lakh approximately delinquent customers which has flown through either write off or in deep GNB we have put a collection force of 1000 to kind of get a complete handle in terms of how much of them would really end up recovering. Our guess is around close to 35% of that by continuously pursuing and where the customers are still available we will be able to recover and that is the reason where we have sold our portfolio without any other structuring of 135 Crores and we are fairly confident we will recover more than 135 Crores of the portfolio which translates to more than 30% and currently with the learning of specifically the COVID one and two has been that individual assessment becomes paramount in terms of increase in ticket sizes beyond a particular level which for us currently we consider at 60,000. The

operating mechanism for JLG is 50,000 max 60 depending on the number of cycles post that we move to individual assessment and this is where it can likely help is that even in terms of turbulence or any other challenges far more effective to reach out to customer one-on-one because we do not get them influenced by the influence of the group by either small political disturbances or economic disturbances and that happens on the back of assessment and hopefully based on this we are fairly confident that including any other challenges that may really come up we will be able to deliver a better performance as dealing one-on-one basis on comparison I think probably we will share the industry data one-on-one.

Anil Tulsiram: Second question is what is our assessment of our strength of middle and top management and do you think we need to strengthen it or you are already happy with it.

Baskar Babu: It is an ongoing exercise Anil but however I think where we need to really, really strengthen now while good times are really returning and that is where we intend to do some slack in terms of not putting the monitoring layers so we have built up a very solid monitoring layer at the central office level which will now dedicate to the regional office level so which means even connecting up with the customer, assessment, under rating on individual basis data collected will be centralized to the extent I think we will be strengthening at least around 150 to 200 people for even the current existing number of branches under centralized monitoring specifically for inclusive finance and on the retail assets front we are expanding our team as we fairly got a good grip, especially during the last year. One of the business which we are very, very bullish is the 5 to 10 lakh segment and the micro home loan which currently operates at around close to 16 to 18% small portfolio of around 60 Crores at this point of time but zero delinquency portfolio. We intend that we should continue building on that at least to an extent of around 250 to 300 Crores end of next year and that would really require probably adding another 150 people and whether that partially will be even at the middle management level.

Anil Tulsiram: Sir and the last question is when I compare your liability strategy with your peers say like Ujjivan our strategy is totally different like we have very less liability branches and we are not even expanding the liability branches very aggressively and in one of the earlier calls you said you are happy with the double digit wholesale borrowings also so can you explain our liability strategy a little bit in more detail.

Baskar Babu: We have been wanting to focus only specifically on the retail segment to start through the FDA route and thereafter convert into CASA. Our CASA strategy is predominantly focused in terms of getting the real granular sticky midsized CASA so we have not really kind of had a strategy in terms of acquiring large values SAR accounts because we believe that specifically in terms of large values SAR account our flow through accounts almost like a cash management however we are clear that minimum of 22% is what we wanted to reach

at the end of the financial year. We are low at this point of time. We would focus on that in terms of focusing SAR in that 2 to 5 lakh segment so we are reinitiating that will be the focus area for the Q4 and obviously continues to do so. On the retail liabilities we have been pretty strong we were at 86% currently it is 77.9%. Our intent is to really increase the 3 to 15 lakh of focused retail liabilities which is in terms of fixed deposits and we had a pretty good traction during the last quarter and we intend that we will continue that even for the coming quarter and in spite of increased rate which we rolled out for a period of three weeks in the campaign, our overall cost of deposit and cost of funds remains almost flat and probably it will marginally go up now as you kind of acquire more deposits at a little higher pricing so that will continue to our strategy however we are adding another 50 branches during the next financial year of our existing asset branches converting them into liability branches so we intend to have closer to 150 branches by end of FY2024 and the rollout of that will start from Q1. Q1 probably will have 25 branches converted and thereafter gradually so we will add approximately 50 new liability branches many of them getting converted from our existing asset branches, larger size branches maybe we will have to do a shifting of those locations to a little more visible locations so that exercise will be on.

Anil Tulsiram:

Thank you Sir. I will join back in the queue.

Moderator:

Thank you. The next question is from the line of Sachin Shah from SS Securities. Please go ahead.

Sachin Shah:

Thank you for giving me an opportunity. I have a couple of questions. First is we have acquired some 1 lakh customer in this quarter and approximately 3.4 lakh customer in nine months just wanted to understand how many customer from this would be new to credit.

Baskar Babu:

I do not have an immediate data but we are defocused on new to credit substantially. JLG much lesser than even 5000 customers, max it will be around 5000 customers. We are focusing more in terms of NTB but not NTC in microfinance at this point of time.

Sachin Shah:

Okay and my next question would be on broader level question one of the largest NBFC that is Bajaj Finance in their latest release mentioned entering the MFI space if that may happen how do we see the competition landscape shipping for us as an SFP focus on inclusive finance.

Baskar Babu:

Markets are large for sure so each one will kind of carve out a space but microfinance being a business where we will have to feet on street and required infrastructure. Any new competitor entering irrespective of the size will take time, but however I think our intent has not been to kind of continue to grow our business only in the unsecured JLG business, the two larger market for instance when you do a retail footprint. There are approximately 2

lakh of our existing customers have excellent track record in micro mortgages either in terms of a small home loan when I say small it could vary anywhere between 5 lakh to 25 lakh this is purely from a JLG customer segment where we have the visibility only of the customer data. We do not have the visibility in terms of the household data so this is a very large market so the focus has been in terms of collections I am getting it back on track but starting from Q1 of next year our endeavor would be to kind of convert a pretty large percentage of our existing customer base into secured loan customers when I say large it is approximately at least 15 to 20% so the markets are large once they enter and depending on what their strategies will do it. The microfinance segment as of now has not translated itself into repaying through the bank however our Vikas loan portfolio of 80,000 customers and currently 1 lakh customers we have. The entire repayment has been insisted through our own savings account and if we are able to do that very successfully then that becomes operative account rather than only a disbursement account which will lead to various opportunities so we will to have stay focused on what we are. Currently we are at only 5500 Crores our focus will be to how to strongly grow by 30% year on year rather than be little distracted about any new entrance or any other increase to competition.

Sachin Shah: That was really helpful. Thank you so much.

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

Manav Vijay: Thank you very much Sir. Sir first of all if you can tell us so what is the loan growth that you are targeting for FY2024.

Baskar Babu: As we guided Manav we continue to be confident and we want to stay in the range of around 25 to 35% so the sweet spot for us would be around 30% strong asset growth continuing to do as we did in the new portfolio post June 2021 keep the 90 plus delinquency at less than half a percent and also start meaningful standard asset provisioning starting from FY2024 on the unsecured piece of the business so 30% would be our target and the range would be 25 to 35%.

Manav Vijay: I like the way we have ended this quarter with around 62% on the JLG side and rest on the secured assets side is there any target number that you have for FY2024 to end with.

Baskar Babu: The same ratio will be good because 62 adjustment has happened out of the sale of the year of assets of approximately 430 Crores so there will be a fill up which will happen. The target which will get for FY2025 closer to 50:50. If you go to work we continue to maintain a very strong 60:40 which will be very good.

Manav Vijay: In that case so since the secured portfolio will be growing let us say at a slightly faster pace, so what is the credit cost that you guys are looking for in FY2024.

Baskar Babu: Irrespective of the actual credit cost what we are likely to do is which we have been speaking and guiding is that to have a meaningful standard asset provision for the unsecured IF business probably closer to around 1.5% to 2% year on year. The history kind of at least shows us that 3-4 years of good growth with very minimal credit cost and then some event or the other which is absolutely unpredictable whether it is a demonetization or COVID or next risk could be anything else or it may not even happen but just that if it were to happen we would like to kind of start the standard asset provisioning and have a very robust closer to around 5 to 6% so to that extent if I have to guide including making that provision would be closer to 2%.

Manav Vijay: 2% in total.

Baskar Babu: Yes in total.

Manav Vijay: My last question to you Sir. So regarding the SR that we have received from Edelweiss of 135 Crores so what kind of provisioning you need to make on them in terms of let us say the time provisions.

Baskar Babu: We have already discounted our SR in terms of valuation. If you note that our net book value at the time of transfer was around 250 Crores and we discounted that further and then sold it at 135 which closely approximates to the collection ability that we have forecasted out of the 490 Crores of overall pool. For the time being we see ourselves being able to do the collection up to that amount so as of now no provision is foreseen.

Manav Vijay: Okay and Sir last question so in Q2 you were guiding for around 130 Crores of operation provision cost in H2 now you have done 40 Crores in this quarter are you still sticking to that number of 130 Crores.

Kanishka Chaudhary: Given how you know things have turned out we are not looking at that kind of a number. We may possibly have another 50 to 60 Crores for Q4 is what we would have in mind basically to be able to clean up whatever residual COVID impact of that remains with us.

Baskar Babu: So Manav currently our GNPA is 230 Crores of which 60 Crores is ECLGS loans so while we continue to kind of capture but the reimbursement have started so while it will take time we are fairly confident that we will cover at least 50% of the 60 Crores over the next couple of months but over a period of time that is reimbursable one guarantee and of the remaining 170 Crores we currently have a provision of around closer to 80 Crores and we have to cover even the entire balance probably as Kanishka guided another 50 to 60 Crores is the

maximum that we need to do. Around 15 to 20% of the portfolio of even GNPA customer is continuously paying customers so we do expect to recover out of the 160 at least around closer to 40 to 50 Crores.

Manav Vijay: Okay thank you and all the best actually looking forward for you guys to do 40 Crores monthly from March onwards Sir.

Moderator: Thank you. The next question is from the line of Yash Agarwal from GM Financial. Please go ahead.

Yash Agarwal: Just wanted to check is there any interest reversal there this quarter that you done.

Kanishka Chaudhary: Yes so there has been a bit of an interest reversal on account of the newly tagged NPS. At a gross level the new NPS for the quarter has remained more or less the same at around 160 odd Crores which translates to about 7 Crores of income reversal, which is what we would have had in the last quarter as well.

Yash Agarwal: Again coming back to the operating profit even if I adjust for the provisions made on the ARC the operating profit is down 8 to 10% quarter on quarter so in the context what are the drivers that you see, right now you are doing about 80 to 85 Crores quarterly and guiding for about one 110, 120 Crore quarterly from March or maybe the first quarter of next year so what are the major drivers you see taking it to that number, how realistic is this number that you put across.

Kanishka Chaudhary: That will almost entirely depend on the amount of book growth that we have so from the 5400 levels that we are here today we want to be somewhere closer to 6000 to 6200 in that particular range and like we said, we have been fairly cautious in growing our Vikas loan book so in this particular quarter we would possibly have a 50:50 mix between Vikas loan and the traditional loans so that uptick is what is going to help us increase our operating profit.

Yash Agarwal: Okay and do the cost plateau out from here about 125 Crores of operating expense despite the fact that we could grow about 8 or 10% in the fourth quarter would that plateau out here.

Kanishka Chaudhary: So we see a little bit of increase in our cost because there is some staffing still left to be done in the inclusive finance segment in terms of feet on street, but after that I mean we would be fairly there so there would be some increase on employee costs but apart from that we would be fairly stable.

Yash Agarwal: Okay alright. Best of luck. Thank you.

Moderator: Thank you. The next question is from the line of Sanjay Pandit from 1729 Capital. Please go ahead.

Sanjay Pandit: My question was sort of thinking longer term. Obviously there is still some provisions to be made. There is some dealing amidst the effects of COVID etc. If you look beyond the next four quarters into FY2025 and after what kind of sort of returns on assets and return on equity are you targeting as being sort of realistic for your business long-term.

Baskar Babu: Ideally the way in which we have build the model earlier we will kind of not want to repeat it and quite a bit of take the learnings of the COVID. We have to look back into it. I think it becomes extremely important that if the financial services are delivered at a household level meaningfully which we mean that a lot more effort and cost goes in terms of assessing them first, but if you adjust for credit loss and the opportunities in terms of growth it is pretty significant that the operating cost can remain flat as an amount and there could be a volume kicker of around approximately 25 to 30 that would translate into ROI of around 3-3.5% but more importantly it be very sustainable after making a meaningful standard as the provisioning is around 15 to 16% is what we will be targeting for FY2024 and probably thereafter a steady state anywhere between 16 to 18 on a consistent basis without any swings including such years when it happens is what will be targeting.

Sanjay Pandit: I see okay thank you.

Moderator: Thank you. The next is question from the line of Anjana Shah from Shah Investments. Please go ahead.

Anjana Shah: Thank you for this opportunity Sir. Couple of questions from my end, Sir we plan to take our Vikas loan book to Rs.1200 Crores from the current say about 828 Crores so could you throw some colour on this product and the bank strategy on this product going forward.

Baskar Babu: Vikas loan is a graduated loan given on an individual basis without any group guarantee and the repayment of that is done through the existing savings account of the customer and we do a standing instruction. Currently, the clearance rate on the due date is approximately closer to 90%. It used to be at 94, but stabilized at 90. The intent is to really take it. What it really means is that the underlying savings account becomes an operative account for us to introduce various products including meaningful savings and government insurance schemes like PMJJY and PMSVY. Based on our own assessment whenever we do our death claim processing unfortunately of the customer or of the spouse in majority of the cases around 12 to 15,000 claims we find that the penetration of even the basic insurance scheme of the government is very close to nil without any exaggeration so such things to be built upon it which really leads to the customer stickiness, it is imperative that the dealing is

not at a group level but an individual level. Considering the cost of servicing at this point of time we operate around 28% and the traction now currently is that we do around 40% of our monthly disbursement of around 350 Crores in the Vikas loan. The shortlisted customers are approximately around 6 lakh based on various parameters including their retail track records with other institutions so currently we have 1 lakh customer. The intent is to really add closer to 1 lakh customers in the Q4, make it closer to around 2 lakh customers so that is our strategy on that front and we use what we call as a Sarathi app which captures the entire household data and the decisioning is done on a centralized basis for loans which are above 65,000. Given that our run rate at this point of time is 350 to 400 Crores of the 1000 Crores that we will do we are targeting that will cover close to 400 to 450 Crores in Vikas loan for this quarter, which takes it to closer to 1200 Crore at the end of this financial year.

Anjana Shah:

Sir then is Vikas loan as a product only offered to existing MFI customers.

Baskar Babu:

As of now yes but with the combined credit bureau being released by the various credit bureau at this point of time the intent is to do Vikas loan even for new to bank customers but not NTC because it is purely based on the long track record of the customer across institutions so we are yet to introduce but we look forward to introduce it towards close of this financial year but specifically for scale up from Q1 and not even Q1 probably Q2 of the next financial year.

Anjana Shah:

Sure Sir and how do we see our marginal cost or overall cost of borrowing moving ahead going forward.

Kanishka Chaudhary:

So if you look at our funding profile you know 2/3 is deposit and about 1/3 is borrowing we expect that in this quarter we may have around 50 bps of increase in the deposit rates overall right which will mean that on an weighted average basis we will have around 30 basis points of increase in our cost of funds so that is like maximum that we are anticipating at this particular point in time.

Anjana Shah:

Sure Sir. Thank you so much that was really helpful.

Moderator:

Thank you. The next question from the line of Anil Tulsiram from Contrarian Value Edge. Please go ahead.

Anil Tulsiram:

Yes thanks once again. Sir most of our products are targeted towards informal and semi formal segments so do we have any plans to introduce the products for formal customer say credit cards, personal loan or for MSME formal segment.

Baskar Babu:

That is focus of this year and probably going forward will be to stabilize our entire portfolio. We do formal segment in terms of secured business loan on the underlying

business rather than only on the strength of the property, so that business currently clocks around close to 25 to 30 Crores. The intent is to scale that out as interest rates are hardening, banks become far and more competitive compared to NBFCs. We target anywhere between 30 lakhs to around 150 lakhs on that so intend growing that business segment which will be more on the formal basis including all returns file, GST, so other than that we do not have any immediate plan except for doing some pilots with some fintechs for the personal loans at this point of time.

Anil Tulsiram: The last question is do we have any plans to introduce risk based pricing in the microfinance segments based on geographies or the customer vintage period.

Baskar Babu: We need to. Currently we do only segmental base in terms of first cycle, second cycle, third cycle, but increasingly depending on the credit behavior of various geographies it will really be scientific to do risk based pricing based on the customer profile as well as in terms of the geographies. Currently we are not doing and we do not have any intent to do it probably in the immediate next quarter but yes we should really move on to.

Moderator: Thank you. We will move on to the next question that is from the line of Pulavarthi Sai Kiran from Pulavarthi Advisors. Please go ahead.

Pulavarthi Sai Kiran: Hi so thank you for taking my question. Good set of numbers so just quickly on the liquidity on the balance sheet it is still pretty high. I remember you guiding us saying that this liquidity will slowly inch downwards as the balance sheet grows. What is the thought process over there, thank you.

Kanishka Chaudhary: So the liquidity has been reducing over time as the funding book grows right we will be personally comfortable with having liquidity closer to around 10% of our loan book that is the kind of number that we would be wanting to drive. I think this is one number that has been consistently reducing quarter on quarter as a natural organic growth of the business so I think by Q4 we will be there.

Pulavarthi Sai Kiran: If you look at from September to December the investment book is marginally increased, but cash and balances have increased almost like 230 Crores so that surprised me from March to September it had fallen but from September to December it has been increasing probably it is also acting as a drag on the margins.

Kanishka Chaudhary: So that is a little bit temporary side to be honest because we had a deposit drive to attract retail balances for three weeks in December so there is a spurt because of that but that will get taken care of in this quarter.

Pulavarthi Sai Kiran: Got it and just a couple of questions on the data keeping side. If you can just help us to understand the movement of NPL in terms of slippages and recoveries upgrades and write offs for this quarter.

Kanishka Chaudhary: So in this quarter two things happened so one is that from the NPL levels of last quarter we had around 160 Crores of new NPL getting added and from that we have had around 70 Crores of recoveries and the rest 430 Crores moving out because of the ARC transaction.

Pulavarthi Sai Kiran: So there are no write offs this quarter.

Kanishka Chaudhary: No write offs for this quarter.

Pulavarthi Sai Kiran: Just one more thing in terms of recoveries plus upgrades again just trying to understand how this trend is progressing because you guys have put in lot of efforts in terms of investing in the people for the recoveries and upgrades, how this is progressing, how one should look at for the next couple of quarters probably.

Kanishka Chaudhary: The focus on collection continues. We had a combination of in-house and third party teams working on this based on the kind of performance that we have seen of the third party teams we will do a bit of a recheck. There are some part of the portfolio that we will pull back in, but over time I think the idea is that the entire portfolio that has been sold to the ARC and written off portfolio is something that we will be taking care of ourselves. So in one of the previous question I talked off a little bit of increase in headcount in the inclusive finance segment so that is what it will address.

Pulavarthi Sai Kiran: Got it but just trying to understand this moment of NPL when I just put into the numbers like 532 plus 160 minus 498 gets me to the closing entry of 194 Crores.

Kanishka Chaudhary: Correct so 228 is what we have right. So there have been some runoffs as well because of which we came to that number. I can separately share the quarter wise split with you.

Pulavarthi Sai Kiran: Got it and last question from my side in terms of the restructured advances I think you guys have got 65% collection efficiency do you foresee a scenario where this restructured advances how this will get run off and probably is there any scope for increase in the collection efficiency in these numbers.

Baskar Babu: Whatever we restructured coming out of the moratorium quite a bit of that flowed into NPA the current ones which we are kind of having a standard it is behaving exactly like any other good portfolio. Fairly confident that the standard restructured advances as on December 95% will continue to be standard and will close from the customers again.

Pulavarthi Sai Kiran: Sir just trying to understand how this restructured will move into the normal book that means that they are still having some principal or interest moratorium that is why they are classified as restructured.

Baskar Babu: Once restructured they continue to be classified and referred restructured but there is no moratorium and all the moratorium for us got over in the month of June so for maximum for three month if they are not paid by September or latest by October those customers became NPA so we do not have any moratorium book running at all beyond June.

Pulavarthi Sai Kiran: Got it Sir. So I think the restructured as of now does not have any moratoriums and that restructured has collection efficiency of 65%. Currently as there is no overlap between restructure and NPS majority of these or 100% of this is standard is my understanding right.

Kanishka Chaudhary: So one other thing Sai to your previous question so we have had around 300 Crores reduction in our NPS so the work of that is 160 Crores of NPA 30 Crores of recoveries and 430 Crores of assets moving out due to the ARC transaction so that gives you the 300 Crore reduction.

Pulavarthi Sai Kiran: Got it understood. Thank you very much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now have the conference over to the management for the closing comments.

Baskar Babu: Thank you very much. In the last three quarters there has been a sequential improvement. We really see a robust performance including tighter controls and monitoring systems and addition of quality manpower. We are fairly confident in terms of asset growth of ending the year with around close to 25% as Kanishka guided around closer to 6100 Crores under robust growth in terms of retail liabilities. The focus continues to be on CASA. Our intent is to really move it from 15% to closer to 17 to 20% by end of this financial year. We are targeting a peak of 40 Crores starting from March and slightly on track considering the current run rate as well as the growth in quality disbursements. So we look forward to deliver a very robust financial year in FY2024 and subsequently build on it for future. Thank you very much for your continued support.

Moderator: Thank you. Ladies and gentlemen, on behalf of Centrum Broking Limited that concludes this conference. We thank you for joining us and you may now disconnect your lines.