"Suryoday Small Finance Bank Limited

Q4 FY '23 Results and Future Outlook Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Suryoday Small Finance Bank Limited Q4 and FY '23 Results and Future Outlook 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 this conference, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shailesh Kanani from Centrum Broking Limited. Thank you, and over to you, sir.

Shailesh Kanani: Thank you, Nirav. Good morning, everyone. On behalf of Centrum Broking, I welcome you all to the fourth quarter and FY '23 Earnings Call of Suryoday Small Finance Bank. We have with us top management team of Suryoday, represented by MD and CEO, Mr. Baskar Babu, Chief Services Officer, Mr. Narayan Rao; CFO, Mr. Kanishka Chaudhary and IR Head, Mr. Himadri Das. With this brief introduction, I hand over the floor to the management team of Suryoday. This will start with a brief overview of the results, after which we will move on to the Q&A session. Over to you, sir. Thank you.

Baskar Babu: Thank you, Shailesh. Good morning, everybody. On behalf of Suryoday Small Finance Bank, I extend a warm welcome to our Q4 and FY '23 Earnings Conference Call. I and our management team are present here. I trust that everyone has had the opportunity to review the presentation for the quarter and the year ending March 31, 2022, which was uploaded on the stock exchanges.

Now let me provide an overview of the overall economy followed by the industry landscape and finally, Suryoday's performance for Q4 and FY '23. Despite a slowing global economy, domestic economic activity in India continues to demonstrate resilience. However, both globally and in India, inflation has remained elevated posing a significant challenge.

Monetary policy continues to prioritize the gradual alignment of inflation with a targeted rate hike. It's important to be mindful of various risks, both growth and inflation outlook, including geopolitical hostilities, volatility in global financial markets and the impact of climate shocks. On a global scale, there have been improvements in supply chain in recent months, which is a positive development.

However, it is worth noting that the banking turmoil in the United States and Europe, coupled with concerns surrounding financial stability, created substantial turbulence in the global financial markets in March. These events highlighted the interconnectedness and vulnerability of the global financial system. The banking industry has been roughly -- various challenges. However, the initiatives of the government and RBI to address some of the pressing issues provide rays of hope for the industry, indicating a commitment to strengthening the banking ecosystem and fostering an LTA financial environment.

Now turning to our operational and financial performance. We are delighted to announce that Suryoday achieved steady and remarkable business in FY '23. Our inclusive finance and related lines of business has demonstrated a remarkable recovery, nearly reaching the pre-COVID growth levels. This achievement showcases the resilience and the adaptability of our organization and navigating through challenging times.

During FY '23. The bank's gross advances reached an amount of INR6,114 crores, representing an increase of 20.7% compared to INR5,063 crores in FY '22. We've adjusted for the ARC. Gross advances for the year would have been INR6,541 crores, registering a growth of 29.2%. The disbursement increased by 44.1% to INR5,083 crores, up from INR3,528 crores during the same period last year. Alongside this growth in disbursement, our customer base has also witnessed a substantial growth. As of FY '23, Suryoday Bank proudly served approximately 23.1 lakh customers, marking an increase of 19.9% compared to the previous year.

This significant growth in our customer base signify the success of our customer-centric approach and our ability to meet their evolving financial needs. In terms of profitability, Suryoday Bank has received a turnaround. We reported a profit of INR77.7 crores in FY '23 as against a loss of INR93 crores in FY '22. This recovery reflects our concerted efforts to enhance operational efficiency, optimize our asset quality and improve overall financial performance.

Now let me shed some light on the key operational and financial metrics of FY '23, providing a comprehensive overview of our accomplishments and the factors in our success. On the business performance, our disbursements grew by 44.1% in FY '23 on a year-on-year basis, indicating strong momentum across businesses on the ground. Due to healthy ongoing demand disposing activities have regained momentum and reached the pre-COVID levels.

The bank has also witnessed a substantial increase in retail asset disbursement which grew by 72.8% at INR1,580 crores. Our collection efficiencies increased steadily in the back of business and the economy nearing pre-COVID levels. The overall collection efficiency for our bank stood at 102.2%.

On gross advances, the bank's gross advances in FY '23 crossed our INR6,000 crores mark with Vikas Loan Portfolio crossing INR1,200 crores mark. Vikas Loan, the bank flagship product in the unsecured business loan offering to offer to the existing graduating JLG customers on the back of increased government impetus for nurturing MSME growth. Consequently, the AUM of the Vikas Loan grew INR1,232 crores in FY '23 from INR213 crores as of FY '22. So the customer base for the same grew by 2.5 times to 1.19 lakh customers.

The bank gross advances stood to INR6,114 crores as compared to INR5,063 crores in FY '22, an increase of 20.7% year-on-year. On the deposits and borrowings, our total deposits stood at INR5,167 crores as compared to INR3,850 crores, registering a strong growth of 34.2% year-on-year. The bank continues to focus on granular retail deposits. Our borrowing at the end of March 2023 form 28% of our total liabilities, the majority of which is from refinancing institutions. We have currently a network of 577 branches, of which 95 branches are liability-focused while 324 branches are asset focus and the balance comprised of rural outlets.

On our asset quality, the bank achieved significant improvement and gross nonperforming assets is reduced to 3.1% in FY '23 from 11.8% in FY '22 and the net nonperforming assets decreased to 1.5% in FY '23 from 5.9% in FY '22. The bank was targeting a GNPA of less than 2% and NNPA of less than 0.5% in the coming financial year, FY '24.

On the earnings side, net interest income to INR746.6 crores as compared to INR584.5 crores, an increase of 27.7% year-on-year. Our net total income stood at INR844 crores as compared to INR678 crores, an increase of 24.5% year-on-year. The -- our yield improved to 19.3% in FY '23 from 18.2% in FY '22 while our NIM improved to 9.5% in FY '23 compared to 8.6% in FY '22.

Despite the rising interest rate scenario, our cost of funds revenues was 6.7% compared to 7% in the corresponding period last year. Our cost to income currently stands at 60% as compared to 60.9% in FY '22. We continue to be remaining well capitalized. Our capital adequacy ratio of our bank rate currently stands at 33.7%, Tier 1 comprises 30.8% and Tier 2 comprises 2.9%.

Finally, to summarize, we envisaged multiple tailwinds as we enable the bank to scale up at a faster pace. We have identified key focus areas which will act as a catalyst for growth in FY '24. The bank aims to focus on growing gross advances by 30%, approximately, deposits by 35%, achieving a return on assets of 2.2% and the return on equity of 15% in the coming financial year. Operationally, our key focus areas include product diversification, maintaining GNPA level below 2% and net NPA level below 0.5%, leveraging digital initiatives across multiple apps, taking CGFMU cover for JLG and Vikas Loan, building a very strong a Vikas loan book of INR2,000 crores and expanding our branch network.

Thank you. Over to you for questions.

Moderator: Thank you very much. The first question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Congratulations on a good quarter, few questions I have. So first is on the GNPA, we have seen very sharp reduction in GNPA during FY '23 from 12% to 3%. And now the gross GNPA have come down to INR190-odd crores, which includes some bit of ECLGS also. So if you can talk about like what is the unprovided exposure that we are left with? And also, if you can give us some sense on the performance of the ARC book, how do you see that going forward?

Kanishka Chaudhary: So thanks for the question. So on the unprovided part of the book, net of ECLGS and the provision that we are carrying, it's around INR35-odd crores. This is something that we will cover over the next 1 quarter. And so far as the ARC book is concerned, the cumulative valuation of the book on a 100% basis was INR135 crores.

And till March, we have made a collection of about INR40-odd crores, which is INR10 crores a month. This is in line with our expectation, even though the trust has been set up for a period of 5 years. That's the regulation. Our expectation is that we will be able to redeem the entire ARC portfolio by the end of the next financial year.

Nitin Aggarwal: Right. And secondly, on the profitability, we have seen sequentially earnings moving up, and we ended the year with INR38 crores profit in Q4. So can we take this exit ROA and ROE for

Q4 as a baseline then into FY '24? How do you see [inaudible 0:10:43] like ROEs, ROAs from here?

Kanishka Chaudhary: Yes, indeed, that is the base line for us to begin with. So we delivered around INR38 crores, right, for the quarter, and that's where we start. On an ROA, ROE basis, as we have guided, we would be targeting to inch up our ROA to around [inaudible 0:11:03] quarter and ROE of 15%. That's what we will be working as a bank for the next year.

Nitin Aggarwal: Okay. And lastly on the growth part. We have seen good pickup on the disbursement growth and same has come up to 33% in Q4. So what is like the level that we are targeting now in our MFI business in the next few quarters? And how do you see the mix of inclusive finance and the retail assets moving, going forward?

Kanishka Chaudhary: Okay. Do you want to -- on the growth in business?

Baskar Babu: Yes. So what we're really currently talking is around approximately around INR350 crores to INR400 crores in inclusive finance. 50% of that coming from Vikas loan. The intent is to really grow the Vikas Loan Portfolio from currently 2 lakh customers with an average outstanding of approximately around INR60,000 at this point of time. This will broadly remain the same, probably give and take, INR10,000 on the higher side. So we'd like you to end up with around 4 lakh customers of Vikas loans, which is a key focus area. And you also covered that under a paid guaranteed scheme of CGFMU, which broadly covers the substantial risk that could ever emanate from the portfolio even in the one-off circumstances.

On the retail asset growth, we are focusing in terms of mortgages which is currently tracking around INR50 crores to INR60 crores per month on an average, and the book stands currently INR1,000 crores approximately, which is likely to inch up to around approximately, INR1,700 crores, INR1,800 crores by the end of the financial year. Commercial vehicle where you're talking around INR40 crores of disbursements per month is likely to go up at an exit rate of closer to INR75 crores by end of the year, and the portfolio is likely to increase from INR400 crores to approximately around INR750 crores to INR800 crores quarters at the end of the current financial year.

We are likely to see a mix of around 55% for inclusive finance, not necessarily by slowing down the growth in inclusive finance, but by a substantially higher growth and the long-term assets in terms of the retail assets portfolio. So the mix may tilt closer to 57%, 55% at the end of the financial year in terms of non-inclusive finance assets.

Nitin Aggarwal: Sure. And just related to this, if I can ask 1 more question. Like now that we are focusing more on the retail assets are a mix of mortgages and the Vikas Loan is going up. So how do you really see the impact of all of this on your opex and the cost income ratio?

Kanishka Chaudhary: I think the idea is to be able to build an operating leverage. So this is the year when we invested. We see some more investments coming through, especially in terms of expanding our branch network and increasing the feet on street for some of our retail businesses like mortgage and CV. So I think given that we will have 2 engines, so to speak, one is the Vikas Loan, which has a premium attached to it in terms of pricing. That will be marginally offset with the kind of growth we expect in retail assets. So overall, for the next year, we will hold on to the kind of margins that we are having today. The idea is that whatever compression in margins that we may have overall will be more than offset by the reduction in the credit costs in the portfolio.

Moderator: Thank you. The next question is from Peeyoosh Chadda from Serendib Trading. Please go ahead.

Peeyoosh Chadda: Just wanted to do some housekeeping around the numbers. So for March, we said we had a INR37.5 crores PPOP. Would it be reasonable to expect that the run rate of PPOP would be slightly better than this in the coming year, leading to a PPOP of around INR500 crores for the year?

Kanishka Chaudhary: Yes. I mean, on a full year basis, that's what we are targeting. Our first toll gate will be Q1 where we expect to hit a little over 100 and then pick up from there. But on a full year basis, we are looking at a INR500 crores number.

Peeyoosh Chadda: Sure. And in terms of credit costs, what would be our normalized credit cost? Would it be around 1% to 1.5% per year?

Kanishka Chaudhary: Yes. I mean, now that we have been able to clean up the book and all, we would expect to be closer to 1% in credit costs, not taking into account the previous end of the year.

Peeyoosh Chadda: Sure. And in terms of the current NPA book, would you still need another INR30 crores, INR40 crores of provisioning before we are -- before we are at a normalized run rate for NPAs? Would that be accurate?

Kanishka Chaudhary: No, there is some uncovered, unprovided book of INR35-odd crores, like we mentioned in response to the first query. So we would want to get that covered by end of Q1. But at the same time, we are also looking at a recovery target from NPA and the write-off pool. So I think we're going to be able to offset the 2.

Peeyoosh Chadda: This is wonderful. Just 1 last query around your deposit activity. We typically see the small finance bank that try and use their asset branches for deposit gathering don't meet with the great success. I mean the markets for asset growth and deposit taking tend to be different. How are you planning to solve this problem because otherwise, it becomes a huge cost issue?

Kanishka Chaudhary: Yes. No. Yes. So this was a year of reset for us, but now that we are looking at expansion for this year, especially we intend to have a branch expansion of around 80 to 90 of which half of it will come from conversion of the asset branches into multiproduct branches, selling both assets and deposits.

Baskar Babu: And Piyush, while to -- the fact that the asset branches probably has not been as successful. What we worked on, which has worked out pretty good is in terms of making composite branches which means there is a team which is focused on deposits, operating out of the same branch and focusing only on liabilities, and there is a set team which focuses only on the assets. So to that extent, we don't really target exactly only the asset customer, but operate out of the locations which are more asset-focused.

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

Dhruv Shah: Congratulations on a really strong set of numbers. I have two questions. One is on the collection front. So how is that collection shaping up? I can see your collection efficiency has gone up to 102%, but how is it now shaping up?

Baskar Babu: We have given the collection efficiency both in terms of the pre June '21 portfolio and post June '21 portfolio, we see a substantial number inching closer to 98% in the IF book and close to around 97-odd percent in the non-IF book. We still have focusing in terms of whatever there is pre June '21. Quite a bit of that has shown obviously into GNPA, which therefore they want to really recover back. But the residual left is very, very marginal at this point of time. We see that overall on the basis of the overall portfolio moving to closer to 98% to 99%, starting from Q2.

Dhruv Shah: Okay. Understood. And sir, the other question I have, is there any room for the NIM's expansion? I understand that, sir, before I alluded that you will maintain your margins, but is there any room to improve on NIMs, we have seen quarter-on-quarter improvement to 10.5%. But is there further room to improvement?

Kanishka Chaudhary: So one thing to note is that for the full financial year, we haven't really raised our rates in fixed income products, especially into the finance, right? But given that the rates have been going up and our deposit rates have also gone up in the last 2 quarters, is that something that we would want to review, end of Q1. Our target is that we are able to maintain a 10% margin NIM on an overall portfolio basis.

Dhruv Shah: Yes. Understood. And sir, just a last question on your portfolio diversification. Are we planning to expand in any other state because if I can see quarter-on-quarter, the Maharashtra percentage is still around 40%. Do we intend to bring it down to some closer to 30%? Or are we comfortable Maharashtra being 40% of our total advances?

Baskar Babu: We don't have any specific plan in terms of reducing the portfolio in Maharashtra, it is stabilized and improvising, but the entry in to other few states as well as acceleration in terms of branches in states like Karnataka, Gujarat and Madhya Pradesh will reduce necessarily this percentage from 40% to closer to 30% over the next 12 to 18 months. Specifically, the inclusive finance portfolio.

Moderator: The next question is from the line of Amit Garg. Please go ahead.

Amit Garg: First of all, congrats for the wonderful quarterly performance. Though some of the questions have already been answered, I just wanted to understand which are the regions that are expected to drive our retail AUM growth, any specific focus regions that you are intending to?

Baskar Babu: So as things stand today, there are a few states we would like to expand to, especially in CV. So CV, for example, we want to focus on the Southern states and going into Andhra. For mortgage, we will continue our focus in North where we started our businesses about a year back in Delhi and the surrounding regions. But at the same time, we have seen good prospects from Maharashtra, MP as well as Gujarat and these are the states that we would want to continue growing on. As far as South is concerned, two states that we would like to have of presence is essentially Andhra and Kerala.

Moderator: The next question is from the line of Rajagopal Ramanathan, an Individual Investor. Please go ahead.

Rajagopal Ramanathan: So great delivery of numbers and as we spoke roughly 3 quarters back I think that your entire team has been able to execute your strategy quite well. So kudos on that. A couple of questions here. What is -- the first question is, do you have aspirations to become a full-fledged universal bank over the next 3, 5 years or so? Or maybe longer? And if you are thinking about that, is there any specific road map that you have? That's the first question.

Second is actually linked to your distribution, particularly the branches and the cost of goods. So what is your longer-term aspiration in terms of the cost of growth over maybe the next 5, 7 years? Are you sort of expecting to clock at least a 25% CAGR over the next 5, 7 years?

And the last question that I had is linked to an observation that you made on the Vikas Loan, could you explain the guarantee mechanism that is there for the Vikas Loan products that you have?

Baskar Babu: So Mr. Rajagopal, on the universal bank, we are clearly now focused in terms of building a very, very strong small finance bank platform. Currently, do we have an immediate plan? The answer is no. Will it evolve? Yes, I think it will be a logical progression for any small finance bank to become a new universal bank at a point of time. It will certainly not in the next 2 years. The next 2 years, our intent is really being a very strong financial inclusion player.

So technically a small finance bank can do all that a universal bank can do except for 2 conditions predominantly, which is, one, 50% of our portfolio has to be for INR2,500,000 and below, which we are -- will be in this range a year, the year after next and even probably 2 years from now on. The other one is that 70% of our book has to be PSL, which we are very comfortable. In fact, we are surplus at all points of time that we sell PSL too.

So on the forex side, we -- small finance banks have been allowed to become AD-I bank. So to the extent there is not a big constraint in terms of being a small finance bank and universal bank. But our explanation would be that, but these are in the next 1, 2 years, we are solidly focused in terms of building a very strong confidence platform at this point of time.

And in terms of our deposit growth, given our base is low, our focus always has been in terms of going aggressive in the retail segment, fully retail granular deposits. We've been fairly successful under it. At one point, it went to as low as 80% retail. Currently, we hold it at around 70%, 75%. The intent is to go back to 80%, and we do -- with an expansion in branches and through some of the digital acquisition, we are fairly confident that we'll be able to clock 35% growth for FY '24.

And thereafter, we -- obviously at the end of FY '24, we look at it 25% looks to be pretty comfortable. The challenge though has been in terms of acquiring the real retail CASA deposit. We did really miss that in the last year. In this coming year, the intent is really to get closer to 22% of CASA and especially within the CASA, more than 80% to 90% will be granular deposits, which will be broadly the deposits, which create a float through the flow. So we are focusing on that.

On the other question in terms of Vikas Loan. Vikas Loan is specialized focused product in terms of graduating JLG customers only for the purpose of business. They need to have a visible clear business on which they want to really expand and loan sizes vary between INR60,000 to up to INR125,000 though broadly the range has been INR75,000. The same we covered. Covered a little complicated one to really explain while these cover 75% of the credit losses after an account has become NPA, up to around 15% coming in from the fund and 5% in a technical sense, at the maximum of around 20% of the portfolio becoming NPA, we will get 75% profitability scenarios 70% from the agency and 5% will be our contribution.

This is not being taken for cover on an ongoing year-on-year basis. As you would know, based on our limited experience, every 4 - 5 years there is a risk of which M&A makes the portfolio losses higher than 3% or 4%. This is to make sure that we have solid predictability in terms of covering our CGFMU. There is a cost attached to it. We are looking at the cost of an investment as well as cost more as an insurance and it will relatively useful in one-off events whenever it had to happen. That gives us a focus on the stability and almost a safety net in terms of looking at the segment far more -- not say aggressively, but far more intensely than otherwise.

Rajagopal Ramanathan: And as far as the distribution aspirations are concerned, how would that likely to play out over the next 5 years? So you are currently at -- about the branch presence liability branches were around 300 numbers, right?

Kanishka Chaudhary: No. So liability focused branches are a little over 90. We want to double that number this year. But in terms of overall liability -- deposit trajectory, and this is something that we have talked about and guided in the past as well. Our ambition is to have a CV rate of 100% by 2025. So which would mean that from 2025 onwards, our deposits will match the loan book. In addition to that, given the kind of investment that we are making in leadership as well as the franchise, we would really want to come closer to our peers in terms of the CASA ratio. It's today 17%, we would target somewhere around 20%, 22% for next year and then creeping up to 25%.

Moderator: Next question is from the line of Renish from ICICI Securities. Please go ahead.

Renish: Congrats on the good set of number. Sir, just 3 things from my side, one on the clarification. So in our press release, we have mentioned that our 1 EMI collection efficiency is 96.5%. So this is the entering gross NPA pool or this is excluding the gross NPA pool?

Management: No, it includes the NPA pool as well as the book that got built up to June 2021. If you look at the book which we did after June 2021, our collection efficiency, 1 EMI adjusted is 98%.

Renish: Okay. Okay. Got it. So, in nutshell, I think collection is any which way is close 100%. I mean given our gross NPA is close to 3%.

Management: Yes, yes.

Renish: Got it. Secondly, in terms of the ROE guidance of 2.2% versus the Q4 ROA at 1.8%. So fair to assume that the exit ROA Q4 next year will be higher than 2.2%? Because the guidance which you have given is for the full year. So...

Kanishka Chaudhary: Yes. Correct. No, clearly, yes, we would want to be in the range of anywhere between 2% to 2.72%, 3%. Our long-time objective is that we are able to have a steady state ROE of around 4% and thereabout, which will take us anywhere between 18 months to 24 months to accomplish.

Renish: Got it. Got it. So Q4 will be, let's say, would be definitely more than 2.2%, giver we are assuming...

Kanishka Chaudhary: It will be 2.6% to -- between 2.6% and 3%.

Renish: Got it. And just the last question on the yield side. So what are the lending rate hikes we have took in MFI book since the new guidelines?

Kanishka Chaudhary: No. So we haven't actually had any rate provisions in our MFI book, even though, like I said that for the last 2 quarters, we have seen a hike in deposit rates. I believe we would want to review our pricing on the MFI book after Q1 in terms of any revisions that may be required.

Renish: So what are our lending rates as of now in MFI?

Kanishka Chaudhary: We do around 24% to 25% for the JLG book, it's 3% more for Vikas Loan.

Renish: Okay. So in the Vikas Loan, it is close to 27%, 28%.

Kanishka Chaudhary: Correct.

Moderator: Next question is from the line of Nikhil Vaishnav from Haitong Securities. Please go ahead.

Nikhil Vaishnav: Yes. So I have just two data keeping questions. So what is our slippages recoveries and upgrades and write-offs for this quarter?

Kanishka Chaudhary: So if you look on a gross basis, we had around INR55 crores of slippages, and we had around INR45 crores of pullbacks. So after the first 3 quarters, I mean, this is 1 quarter where on a net basis, we have hardly -- barely had any kind of NPA -- non-NPA basis. And we expect the same trend to continue. As a matter of fact, we want to see that by Q2, our recoveries are more than the flow forwards if any.

Nikhil Vaishnav: Okay. And what is our restructuring book for this quarter, like by FY '23?

Kanishka Chaudhary: No. So I mean there is a book of around INR100-odd crores that remains on the restructured book. As you would be aware that we did a set of restructuring in December 2021 and after that, all the moratorium got over in June '22. So the entire book is back to being a build book and the residual book, like I said, is around INR80 crores to INR100 crores.

Nikhil Vaishnav: Okay. And just one last question. In cost of fund, how much rate we have passed on to the customer and how much we are expecting in FY '24?

Kanishka Chaudhary: No. So I think, we expect around -- if you look at how we are building our estimates for the next year, we expect 7.5% to be the cost of fund on an overall basis from where we are today, we have baked in at least two rate hikes of 25 basis points each.

Nikhil Vaishnav: Okay. That's helpful. Thanks.

Moderator: Thank you. Next question is from the line of Ankur Kumar from Alpha Capital Advisors. Please go ahead.

Ankur Kumar: Hello, sir. Congrats on very good set of numbers. Sir, most of my questions have been answered. Just wanted to check on cost-to-income ratio. So it has come down quite well in this quarter. What kind of trend do you expect for the coming year?

Kanishka Chaudhary: So thanks for that. On a full year basis, we expect our cost-to-income ratio, one that we are working on to be around 57% and thereabouts. Our medium-term objective is that we are able to reach a 55% number. And we would also like to highlight that the 57% CTI that we are talking about includes a 1% premium that we pay for CGFMU insurance, which we expect to be around INR40 crores to INR45 crores. So that's what we are targeting for the next 12 months. Medium term, we would want to have a CTI of around 55%.

Ankur Kumar: Got it, sir. And sir, on NNPA and GNPA. So guidance is less than 2% and less than 0.5%. So that will mean that then we will need to increase our PCR in the coming years. So you are saying that in Q1, you will see an increase in PCR and then we'll expect steady state is how should we look at it?

Kanishka Chaudhary: Yes, we will definitely see an increase in PCR in NPA Q1 and Q2, then a PCR of somewhere around 90% plus.

Ankur Kumar: 90%?

Kanishka Chaudhary: Yes.

Ankur Kumar: Got it, sir. And sir, on advanced growth. So we are expecting 30% growth. So can you bifurcate as in which segments will do? And how is the MFI situation are the things going on the ground?

Kanishka Chaudhary: So I would say that in terms of headline numbers, we would want our inclusive finance portfolio to be around INR5,000 crores, right? And in so far as retail asset is concerned, we would want to be able to grow up this by around 35% to 40%, growing a little over INR3,000 crores for the retail asset portfolio overall.

Ankur Kumar: And how is the situation on the ground in except for like COVID, etcetera, worries, things are looking good?

Kanishka Chaudhary: I think we have some work still to do in Maharashtra, where we have been careful in doing new business. But in so far as the other states are concerned, we have seen a turnaround and things more or less back to normal.

Ankur Kumar: Got it, sir. Thank you and all the best.

Moderator: Thank you. Next question is from the line of Twinkle Katudia from Centrum Capital Limited. Please go ahead.

Twinkle Katudia: Hello, good morning, sir. Congratulations on the wonderful results. My question is, what is the growth drivers for MFI AUM that could be expecting for FY '24?

Baskar Babu: Yes. So we currently have a customer base of around approximately around good -- very good customer base of 14 lakh customers. So there is approximately another 10 lakh customers who have been with us, very good in the market, based on the data scrubs that we have who have exited as probably they need a loan or during COVID period. So the base which we're targeting for Vikas Loan at this point in time, approximately 5 lakh to 6 lakh customers. The overall targeted to the existing and the customers we exited recently in the last 1 year is approximately 20 lakhs.

So the drivers would be in terms of on the back of customer either who are with us at this point of time and very good, both through the COVID-I and COVID-II, or customers who are very good in the market, who have not borrowed from us or not borrowed from anybody yet and there is another 10 lakh customer. So that's the pool, as well as we're also putting up around closer to 80 new branches, predominantly in the states, we are already present but not deep in our presence like Karnataka, Gujarat, Rajasthan and some of the states. So this combination of this existing customer probably will contribute to the growth of 21% indicated by EKC, 80% will come from existing customers and 20% will be coming from new two bank customers from new to -- from the new branches.

Moderator: Next question is from the line of Pratik Kumar, Individual Investor.

Pratik Kumar: Congratulations on a great set of results. I have 2 questions. Just to clarify, you're talking about a INR35 crores overall uncovered exposure on an AUM base of north of INR6,000 crores that roughly around 50 basis points of AUM, if you could just confirm that. And secondly, just wanted to understand how are the corrections trending on our post-COVID book in the inclusive finance and in the retail assets base?

Kanishka Chaudhary: Yes. So yes, you are right in your understanding. So adjusted for the provision we are carrying in the ECLGS book, it's around 0.5% of uncovered back book that we are talking about. And so far as collections was concerned, it's around 98% plus. We have some amount of work to do in the retail assets and being able to put back some of the NPAs that we have seen in the second half of the year and that's what we are focusing on for this quarter. But on an overall basis, like I said, 98% fee is what we are having today.

Moderator: Next question is from Jatin Goradia, Individual Investor.

Jatin Goradia: Sir, I have 2 questions. The first one is, what percent of our bulk deposits are noncallable? And second is we had a negative impact of around INR11 crores on treasury in this quarter. So what's the outlook in the next year and the quarter side?

Kanishka Chaudhary: Thanks for that. So almost all of our entire book on the bulk deposit is noncallable. That's what we primarily do, right? 99% plus is the number. In so far as mark-to-market is concerned, yes, we have seen -- we expect the rates to rise at least in the near term. And for that reason, what we have done is that in our investment book the G-Sec are something that we have restricted to the hold-to-maturity part of the portfolio. And in so far as the AFS portfolio is concerned, we are essentially holding only treasury bills to ensure that the mark-to-market depending is minimized, and that will continue to be our strategy for this year as well.

Moderator: The next question is from Pranav Singh, individual Investor.

Pranav Singh: Congratulations for the great set of numbers. My question is regarding Vikas Loans. On these loans, people on such loans, there are people who are charging even much higher than 30% interest rates. So these loans can give us more profit during good times. But during bad time, it is possible that the defaults are higher also? So credit screening becomes very important. If you could share -- give us some insights on how you do it, that will be great.

Baskar Babu: Pranav, what we do is around graduating customers who are with us for a minimum period of at least 1.5 years to the clear visible business and done both through physical verification, which we use an app called Sarathi App where we capture the details of the customer and their household, not just the customer and also capture the photograph of customer's house or from outside as well as the business location and around closer to 60% operate business as from between there as just outside the residence and around 40% to 48% have about a clear separate business lines.

The very fact that the rightly alluded too, is that there is always risk in the segment because -- but however, these customers have been with us have a demonstrated business line, which generates income and most of the Vikas Loan customers at this point of time, have a minimum 2 incomes in the household, which is the spouse or the lady of the household who is the borrower or son or a daughter. So given that while we also were majority to higher loans, we can invest in terms of the funding or to customers are about a permanent residence that has been there for a very long time or and in many cases, they own the place.

The very reason that we have not really want to increase the pricing in that if we want to rather cover ourselves with CGFMU cover, which I explained earlier, covers up to around 20% of the credit losses, god forbid, if ever it is to happen and we get 70% of that. The intent is to really -- can we build a strong base of this customer, not just for unsecured business loan for a period of time for small ticket LAP as we are introducing and also for micro home loans or proper home loan, which could be in the range of around INR15 lakhs, INR20 lakhs.

These are aspirational, low income house loans. In the past, we really become a lower model class or middle-middle class. So we are very focused, we don't just do it as a distribution business. We understand the customer, we underwrite them [inaudible 0:43:28]. So we need them before and the intent is really can -- really create a line where the customer can have access to loans and we find a working in terms of 27%, for interest lower or very good customer in the second cycle of the customer and third cycle.

Pranav Singh: Just a follow-up question. So when I look at FY '22 and FY '23, it means that group loans have gone down from about INR3,100 crores to INR2,500 crores, and Vikas Loans have really scaled up. Could you share your views on how you want to grow group loan versus Vikas Loans in the future, your thoughts about that?

Baskar Babu: The way we are looking at is that customers coming through the JLG would love to graduate -- would like to graduate, they would like to be assessed for what they are capable of repayment as well as their own aspiration and requirements. And the experiment we need while it has scaled up from INR2,000 crores to INR2,200 crores is actually a 4-year product for us. We tested it small. We didn't really wanted to rush in before we understood. And then finally, kind of one of the mechanisms we came out with, since all the customers have banking account with us, they enter repayment is through debiting through the standing instruction more SI mode.

And since we know what the balances are in the account, we mention to kind of put in the balance even before we hit the standing instruction on the due date. And our coverage has been around close to 90% of the customers do transfer the money well before the due date and hence, now 90% of the EMI get collected on the first day of outstanding instructions being debited in their accounts. And the remaining 9% is when we reach out to them, quite a few of them transfer it to their account and a very probably less 2% to 3% we go and collect on our own just like JLG loan.

So it's a graduating product to extend the foot in the door, for a new customer relate JLG and the low income household, once they kind of established a track record, we have been nudging them and motivating them to move to Vikas Loan. They find it comfortable. We find it very comfortable because we are able to access the customer on into her or his household capability economic status, and the requirements of loans that's why vary somewhere between INR16,000 at the lower end to as high as around INR1.25 lakhs.

We have quite a bit of things to do. It's kind of just about two years of scale, and we are very, very conscious of the fact that these are all not businesses like based on one or two years of our own experience, we can scale it. So we'll grow probably around 30%, 35%, but mostly it is the customer with an established tracker card with no default to anybody, not even just us to anybody in the market. So which means that they are well seasoned and well-disciplined in terms of credit, and we can have to take a call on them.

Pranav Singh: Okay. The last question, do you have in mind a proportion of growth loans versus the Vikas loans in your portfolio or you would like to grow them both at like at the same rate?

Baskar Babu: We haven't really put a number to that at this point of time. But the intent is that the customer coming to us is new to bank would be through the JLG when customers wanting to graduate or motivate them to graduate up to 1.5 years and two years with us would be through Vikas loan. So we need both. We need group loans to acquire more and more new customers. They are quite closer to around 30,000, 35,000 new customers every month, which comes through Vikas and graduate, they go to Vikas loan.

However, we are also contemplating introducing new to bank Vikas loan customers at a very small scale in the Q2, which would be people who have demonstrated track record for more than three years with others, but not necessarily with us, they are new to bank. But with an established credit track record, we will experiment in terms of very small scale in terms of new to bank as well in Q2.

Pranav Singh: Thank you so much. All my questions have been answered. Best of luck.

Baskar Babu: Thank you.

Moderator: Thank you. Next follow-up question is from Jatin, Individual Investor. Please go ahead.

Jatin: Hi. Thanks for the follow-up opportunity again. I had a question on -- around the Vikas loan. So the presentation mentioned that around 69% of our Vikas loans are covered under the credit insurance policy. So is that because of the size of the loans that only 69% are covered? That's my first question. And second question is that, as you mentioned, the 75% of the amount under Vikas loans is covered. So how would be the provisions accounted going forward when Vikas loans bad? Thank you.

Kanishka Chaudhary: Sure. So the amount of portfolio that we cover under the credit guarantee scheme, it depends on a few factors, including the residual tenure, right? So something that has less than six months tenure and have been consistently paying, we may choose not to ensure the same. On the other side, if you look at the provisioning part of it, as things stand today, we do standard provisioning for all our unsecured loans in accordance with the guidelines of RBI. But as a management, what we would ideally want to be doing is to make countercyclical provisions for our unsecured book over a period of time. Have done about 0.5% of the unsecured book as countercyclical provision this quarter, and we would want to take that number gradually up on a quarter-on-quarter basis.

Jatin: Understand. Sir, going forward, apart from the standard asset provision, for Vikas loan since the coverage is 75%, as I understand from one of the previous answers, would that mean that we would have to provide to the rest 25% of the loan amount when it turns GNPA or we would have to cover more of it?

Baskar Babu: No. So IRAC circular require us to make a 25% provision when an unsecured loan account turns NPA, what we will have to do as well. But I think as a management strategy, what we would want is that we would want to build up a contingency or a floating provision with the book that we carry. So what I said was that we made about 0.5% of provision this time around to start with, and we will gradually be making that countercyclical on a quarter-on-quarter basis going forward. We would want to ideally have somewhere between 3% to 5% of countercyclical provisions with us at any point in time over and above the CGFMU insurance cover.

Moderator: Next question is from the line of Jegadees Sharma, Individual Investor. Please go ahead.

Jegadees Sharma: Good morning, sir. Congrats on the great set of numbers. So for the INR65 crores provision, so INR65 crores provision for ECLGS, when can we expect the money will be back at [inaudible 0:50:33]?

Baskar Babu: ECLGS has started getting reimbursement. As of now, approximately around INR14 crores of portfolio has been clear. There is a capacity issue holding it. So INR14 crores, 50% has been paid upfront as we speak, INR27.5crores is what we have recovered. So the flow has been very smooth as we lowered to get 50% of it and 50% at a certain point of time. So, I would say that probably by September end, we should have uploaded all the data and technical meaning we should have got around closer to INR25 crores to INR30 crores and the remaining INR30 crores would come in with a gap of around six months or one year.

Moderator: Thank you. As there are no further questions, I will now hand the conference over to Mr. Shailesh Kanani for closing comments.

Shailesh Kanani: Thanks a lot, Suryoday management. Mr. Baskar, would you like to have any closing comments for the quarter?

Baskar Babu: Yes, sure. Yes. Thanks, Shailesh. So thank you for all your continued support, and we look forward to be delivering very consistent performance quarter-on-quarter. The last two years have been very challenging, lots of valuable learning. What we look forward is to really maintain consistency across and for which we would do what that would be required, both in terms of how the counter cyclical provisions being very prudent and how focusing -- continue to focus on our inclusive finance customer segment, while diversifying into retail assets for a period of time. We look forward to delivering this on a consistent basis, and we have started giving the guidance of FY '24. I'm very confident that we will reach it in a very predictable and consistent manner. Thank you very much for participating. Thank you. Good day.

Moderator: Thank you very much. On behalf of Centrum Broking Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.