“Suryoday Small Finance Bank Limited

Q3 FY'24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Suryoday Small Finance Bank Limited Q3 FY '24 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Baskar Babu Ramachandran, MD and CEO, Suryoday Small Finance Bank Limited. Thank you, and over to you, sir.

Baskar Babu: Thank you very much. Good afternoon, everybody. On behalf of Suryoday Small Finance Bank, I extend a warm welcome to our Q3 and 9-Month FY '24 Earnings Conference Call. I trust that everyone has had the opportunity to review the presentation for the quarter ending December 31, 2023, which was uploaded on the stock exchanges.

Now let me provide an overview of Suryoday's performance for Q3 and 9 months of FY '24. The gross advances of our bank witnessed a growth of 40.5% year-on-year from INR5,408 crores in 9 months FY '23 to INR7,600 crores in December 2023. On the disbursement front, the bank has recorded a growth of 34.9% from INR3,396 crores to INR4,580 crores on a year-on-year basis. The disbursement has grown across all our products with Vikas Loan growing by 165% year-on-year.

As of December 2023, customer base stood at 26.3 lakhs, a growth of 20% over the 9 months of the previous fiscal. This 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, our bank saw a significant rise in PAT compared to INR38.8 crores to INR155.1 crores for the period, 9-month period ending December 2023. The significant uptick is mainly driven by growth, improved operational efficiency and asset quality optimization.

Now let me give some data on the key operation and financial metrics as of 9 months FY '24, providing a comprehensive overview of our achievements and the factors driving our success. Coming to the business performance. Our bank gross advances is at INR7,600 crores, with growth being driven across all products.

The Vikas Loan portfolio has crossed INR2,000 crores mark. Vikas Loan is an unsecured business loan product offered to bank graduating JLG customers, which is covered under the credit guarantee scheme that is CGFMU. We have over 3.3 lakhs Vikas Loan customers as on date.

Our disbursements grew by 34.9% on a year-on-year basis to INR4,580 crores during the 9-month period. For the quarter gone by, the disbursements stood at INR1,792 crores, a growth of

41.7% year-on-year. The collection efficiency for December '23 stood at 95.6% on a one EMI adjusted basis.

On the deposits and borrowing front, we are delighted to share that as of 9 months FY '24, our CASA stood at INR1,200 crores with CASA ratio of 18.5%. The overall deposit grew by 38.1% from INR4,697 crores in December 2022 to INR6,484 crores in December 2023. We continue to focus on building a sticky and granular retail deposit book.

The retail deposits as a percentage of overall deposits currently stands at 82.5%. The sustained efforts of the bank to mobilize low-cost CASA resulted in improved deposit mix, thereby leading to cost of funds remaining stable sequentially. Our borrowings as of end December 2023 formed 23% of total liabilities, the majority of which is from refinancing institution that are long term in nature.

On distribution and reach, our bank has a network of 672 branches, of which 99 branches are liability focused, while 383 branches are asset-focused branches with the balance comprises of URC. The bank continues to invest in expanding the branch network, coupled with hiring, feet on street, and aims to make each of our specialized branches into full-fledged service branches in the coming quarters.

Our bank's GNPA has reduced to 2.9% in December 2023 from 4.2% in the corresponding period last year. And our net nonperforming assets currently stands at 1.4% during the 9-month period FY '24 from 2.7% in December 2022. The net interest income stood at INR691.5 crores as compared to INR536.5 crores, an increase of 28.9% year-on-year. Net total income stood at INR846 crores as compared to INR599.9 crores, an increase of 41% year-on-year. Our yield has improved to 20.2% in 9 months FY '24 from 18.6% during the corresponding period last year.

Our NIM has increased from 9.2% in 9-month FY '23 period to 9.7% in December 2023. Our cost of funds has increased from 6.6% to 7.3% for the 9-month period. Cost to income, excluding the expenses towards credit guarantee, that is CGFMU scheme, stood at 56.9% as compared to 60.7% in 9-month period ending FY '23. Cost to income including CGFMU expenses for 9-month period stood at 61.5%. We continue to remain well capitalized with our CRAR at 27.8%.

Finally, to summarize, we are well on track to achieve our stated guidance in terms of overall growth. Despite challenges, the microfinance sector continues to behave in a resilient manner. Our retail assets, especially CV and Micro LAP have gained momentum, which is in line with our long-term plan to have an optimum product mix between secured and unsecured book.

With most of our unsecured book being covered under the credit guarantee scheme, CGFMU, the book in a way this quarter is secured. Going forward, we shall continue to further deepen our footprint in existing geographies offering the entire bouquet of our current products to our customer base and also expanding our footprint in a few newer geographies.

Our bank continues to have a strong focus on financial inclusion and plans to further deepen the penetration by offering PMJJBY, PMSBY and other inclusion schemes in a substantially deep manner to ensure financial growth and stability of the households we serve. Thank you. And over for question-answer.

Moderator: First question is from the line of Anil Tulsiram from ContrarianValue Edge.

Anil Tulsiram: Yes. I have 3 related questions on Vikas Loan. First is, what percentage of Vikas Loan customers' household income is above INR3 lakhs? And second is, is RBI increased risk weight on unsecured loan applicable on the Vikas Loan? And the third is, what is the target mix between Vikas Loan and the group loans over the next 3 to 5 years? I'm not looking for exact breakup, but I want to understand the broad direction and the strategy as far as the unsecured microfinance loan is concerned.

Baskar Babu: Anil, so as far as the Vikas Loan is concerned at the household level, as you know, that's not the average house income for individual approximately in our segment is around INR15,000. Even if there are around 2 earning members, it hovers between INR2.5 lakhs to INR3.5 lakhs. Currently, 65% of our Vikas Loan customers have a retail match.

We are nuancing our income structuring mechanism in a way that we are able to get a clear understanding of the household income. So in the last 9 months, we are kind of do it. I think closer to 5% to 6% of our customers currently on basis of our data which we collect are above INR3 lakhs.

But the intent is that whether if it is less than INR3 lakhs, it will be a microfinance zone. If it is above INR3 lakhs, if we have the other documents like, Udyam Aadhaar, it becomes classified MSME, held it between it as a non-MFI is required even classified as a personal loan. Currently, it is just about around 5% as we capture the data, but we want to further nuance it.

As far as the mix is concerned, as of now, it is not that we have put up product mix, as a graduating the customer comes through the microfinance JLG model to become a customer of Suryoday.

On graduating, based on their eligibility, they become eligible for Vikas Loan. They choose either to stay at the JLG or they graduate it to VL customer. The ticket sizes are not substantially different. It for a second cycle, if you're giving around INR50,000 in JLG, here, it can go up to INR75,000. Most of the customers choose to take what they are comfortable with.

Currently, the ratio is around 45-55 in terms of portfolio, 45% being VL portfolio at this point of time. And maybe the number will more likely hover between 40-60 or 50-50 at best. So we have not hard coded any number that because these are all ultimately the graduating customers. What's the third one?

Anil Tulsiram: The regulations relating to the MFI to be classified for the risk weights...

Baskar Babu: No, it is not. If they've allowed it for NBFCs, our position is that it is not a consumption and it is not an individual loan. So across overall as a sector as to our understanding, is that currently, we have classifying it as a normal business or not as a person with higher weightage. However, given our capital adequacy, even if we have to kind of given a higher weightage, we still be very, very comfortable much about the regulatory CRAR requirement, much above.

Anil Tulsiram: Okay. Sir, I have 2, 3 related questions on liabilities. Earlier, we guided that you we want to maintain 30% of our funding from refinance institutions. In light of the recent informal guidance of RBI on the credit deposit ratio, is there any change in the thought process? That is the first question.

Baskar Babu: We will continue to kind of as we get -- you're right, from our plan is a 30% of that usually, when your credit deposit ratio, it's substantially higher. The gap is usually filled in the banking system through the short-term borrowing, which is through the money market borrowing. But SFBs, by and large, if they have a gap with our CD rates are higher, it is filled in by long-term refinancing options from NABARD, SIDBI, NHB.

However, as a bank, your CD ratio cannot be substantially higher than 100%. So to that extent, we will -- while we still continue to have around 20%, 25%, it may not be 30%, to make sure that our CD ratio is also comfortable and less than 100%, that will be real. And over to Kanishka.

Kanishka Chaudhary: And also, Anil, this is a little bit situational. So if you look at the rates to date prevailing in the market, IBPC makes better sense than a refinancing. So at this particular point in time, we are constantly evaluating IBPC as an option for funding rather than refinancing from NABARD or SIDBI. That's the situation likely to be for current quarter and the next quarter, and then we will evaluate again how the things change.

Anil Tulsiram: Right. And sir, 10% of our deposits -- from the deposit disclosure, 10% of deposits are from Delhi and 6% from Gujarat. So is it bulk deposit or retail? Just trying to understand the nature of the deposit because you don't have branches in these regions, right?

Kanishka Chaudhary: No, we do. Like we have indicated in our statements that around 18% of our deposits are only bulk. And that's largely the case across geography, right? So we don't have a heavy reliance on bulk deposits overall as a bank and similar is the case for any particular region.

Baskar Babu: This has been a norm in the last couple of years, right from inception, our reliance on bulk deposits were not more than 30% at any point of time, and now it's closer to sub-18%,.

Anil Tulsiram: So I think it's a great achievement that with less branches, we are able to reach 10% deposits from Delhi, I think it's excellent. And the last question, sir, you mentioned something about full-fledged branches. So are you converting liabilities into asset branches or just into asset branches or asset branches into liability branches, what exactly you meant?

Baskar Babu: So Anil, what's happening is that the most of our branches are focused on inclusive finance, which is their asset branches, while we also do small deposits from our existing customers. So go forward, we are all planning to convert that into what we call internally as composite branches, which will also provide full-fledged deposit products. So -- where most of the branches are right. There are very large branches have around 7,000 to 10,000 all of the existing [IFBO] customers.

So we are in the process of converting. We already do have closer to around 25 branches, which have converted branches -- offering all the products. So which means that there will be 2 teams who will be operating: one will be focused on deposits and one focused on improving finance segment, which also includes assets and liabilities. So as a model, it has stabilized. Now the intent is to really probably convert to closer to around 25 to 30 branches or more during the next financial year.

Moderator: Next question is from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: So just wanted to check on, we have been hearing some stress being developing across...

Moderator: Sorry to interrupt, Mr. Ankit, your voice is very low. Can you please speak a little louder and please use a handset?

Ankit Gupta: Congratulations for great set of numbers. So we've been hearing about some stress being building across microfinance sectors, especially on the rural side and on semi-urban side. So if you can share your experience. What is your view on the stress being indicated by some players in the industry? And how do you see this impacting our delinquencies as well as growth going forward?

Baskar Babu: Yes, Ankit, the numbers published by MFIN and Equifax, and other trade bureaus on microfinance, data is available. So I wouldn't really comment on an overall basis. We are not seeing any on -- as a bank into the segment, we are not seeing any specific stress areas getting created.

And as we move into the Vikas Loan evaluating, we deal with the customer one-to-one based on their capability. And we always kind of maintain that this is a 2%, 2.5% credit loss business on year-on-year. Sequentially it does not happen every year. This is the reason that even when we entered a year back, we started covering our entire portfolio in CGFMU, not in terms of an year-on-year -- one-off even do keep happening for various reasons, once in 4 years and 5 years. We wanted to make sure that we are covered under CGFMU. But in our portfolio performance, as we have given, it has always been around 95%, 96% on a one EMI adjusted basis.

Currently, our focus is can we at least understand the remaining 4%, which we are not able to collect on a month-on-month basis on a regular basis. What exactly is that? Is it because of stress? Is it because of an issue? Or is it because of lack of a structured follow-up from us when the customer is not paying on the due date? Our Vikas Loan portfolio currently continue -- collection is around close to 98%. We used to be at 99.5%, and we want to really kind of engage with the customer and take it back to 99.5%.

We are not seeing any pockets of large stress, but however, that said, any market which grows and where the funding or ticket size goes up in any pockets or in a particular geography, we have always seen stress kind of getting built up, gets repeated. I think that's part of the nature of the business, and each one will have to play their risk appetite accordingly.

Moderator: Next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, first, I just wanted to understand, you mentioned we are not seeing any specific stress, right? I mean some of the players in your industry, I mean, are talking about in Tamil Nadu, there are some problem because of which they are seeing increasing stress and Tamil Nadu, we have about 25%, 26% of our book. So any thought process on that?

Baskar Babu: We haven't really come across -- broadly the same, what it was around 2 months back. I have not also heard anything in terms of any specific pocket of stress building up in Tamil Nadu, where I heard and Punjab and some of the northern state because of some rumors getting spread on loan waivers. We haven't heard of anything in Tamil Nadu at all...

Deepak Poddar: And neither in Punjab as well?

Baskar Babu: We did not operate -- we don't -- we are not present in Punjab. So what we heard that there has been certain instances in few states, but not in any of the states we operate. We're mostly in the West and South.

Deepak Poddar: Okay. Fair enough. And sir, in the previous calls, I think we have mentioned that we are looking to end this quarter at a 2.75% kind of ROA and maybe next 18 months, 3% to 4% kind of a ROA. So how do we stand there?

Kanishka Chaudhary: For the third quarter, our ROA is around 2.5%. With the way the things are looking, we expect our ROA to be a little over 2.5% for the last quarter. We have in mind to increase our PCR. So that's something that you need to be cognizant about. So as of now, with the kind of growth momentum that we have built, we expect our fourth quarter ROA to be north of 2.5%.

Deepak Poddar: Okay. And what about 3% to 4% ROA in 18 months? I mean maybe what FY'25 end or first quarter FY'26 is where, I mean, that 18 months is what we're talking about, right?

Baskar Babu: The way we are looking at, it is that, no, I think clearly, which we articulated at some point of time and kept repeating it, I think banking is a real long-haul business. I think instead of taking calls in terms of what exactly the numbers really play out the end of the 12 months and 18 months, we're pretty clear we'll be focusing in terms of the core, which is around a good, solid 30% to 35% growth in terms of assets, a little more higher in terms of liabilities, completely stay granular and as far as liabilities are concerned and build a strong momentum and highly focused in terms of delivering a core inclusion products to our inclusive finance customers.

And that sometimes would lead to a couple of 10 basis points more, 10 basis points less. And we'll continue to cover robustly under CGFMU, even we are treating it more as an investment for that one-off event if it were to happen -- if it all ever it going to happen, and we want to stay focused on the fundamentals. So to that point, there's a larger guidance.

More than that, I'm sure we are not going to be now spending too much of that in terms of a 10 basis point down. But however, we would love to have a good cushion as a floating provision, CGFMU cover, good growth -- good quality growth, and that would be in the range of 30% to 35% for the next 1, 1.5 years.

Deepak Poddar: Okay. Fair enough. That's very helpful, sir. And just one last thing. I think in terms of our unsecured book, it's close to about 58%, 60% right now. So how do we see that mix changing over the next 2, 3 years?

Baskar Babu: As we've always said, 50-50 is our comfort. But however, again, as we've mentioned that even within this, our majority of the portfolio of inclusive finance is covered in the CGFMU, while it is not a security, it at least takes care in terms of the one-off event ever were to happen. It acts as a big comfortable cushion and enables us also to really focus on business loans to our customers in a little more meaningful manner, including the ticket sizes.

Moderator: The next question is from the line of Karan Mehra from Mehta Investments.

Karan Mehra: A couple of questions from my end. Sir, where do we see the pre-provisioning operating profit in FY'25, if you can give a number on a quarterly basis, as previously, the stated number was around INR120 crores per quarter?

Kanishka Chaudhary: Yes. So I think we will stand by that guidance as things stand now. It's likely to improve a little bit from where we are. So for example, for the month of December, we had a preoperative profits of more than INR40 crores. And by the end of the quarter, we will be able to deliver consistently about INR45 crores and thereabouts.

So on a full year basis, if you look, we will be talking more in terms of INR550 crores to INR600 crores of preoperative profit for the next full year.

Karan Mehra: Understood. And how do we see the NIMs moving going forward? And do we see any pressure on NIMs?

Kanishka Chaudhary: For the immediate future, no. We have been able to stabilize our cost of funds, as you would have noticed, last quarter the cost of funds were 7.5%. It stays 7.5% this time -- this quarter as well. So I think with the little bit of increase that can happen in cost of fund and the change in mix towards Vikas Loan, we will be able to preserve our NIMs for now.

Moderator: Next question is from the line of Mishi Shah from Shah Securities.

Mishi Shah: I have a question is that what is the yield in micro LAP? And do we also offer micro housing loan which amounts to loan below INR5 lakhs?

Kanishka Chaudhary: Yes. So we do have a micro home loan portfolio, which is around INR200 crores today. We have been working on bringing -- building that portfolio for the last 15 to 18 months. Our IRR is more in the range of around 18%. And that's what we have constantly been able to maintain in that particular portfolio.

Moderator: Next question is from line of Tanay Jain from Centrum Broking Limited.

Tanay Jain: My first question is, in Karnataka state, like what is the strategy, like we have presence nearly same as our top performing states like Tamil Nadu, but the contribution to portfolio is very low? Can you throw some light on this, Karnataka, why your portfolio is low?

Kanishka Chaudhary: So Karnataka is a growing geography for us. And Karnataka is one market where both inclusive finance as well as micro mortgage has been performing exceedingly well. So our focus will continue to be in that market, and that market will continue to grow in the given quarter.

Baskar Babu: For branches in Karnataka. Now I think it's -- I think from a percentage growth, the state which is growing the fastest at this point of time for us is Karnataka, basically because we have put up close to 30 new branches now at this point of time.

Tanay Jain: All right. All right. And my second question is in retail assets, the sequential drop in PAR 30 Plus is 50 bps, which is impressive, which portfolio is contributing and the reasons for the same?

Kanishka Chaudhary: So the PAR story has really been very good for retail assets. So if you look at CV portfolio, start of the year, our PAR was somewhere closer to 20%, and it's now come down to 10%. And even in mortgage, where our PAR used to be in mid-teens start of the year, we are closer to around 11%. So for both the key mortgage -- secured businesses, our PAR has improved, especially in the last 2 quarters.

Tanay Jain: So these both are like the major contributing factors?

Kanishka Chaudhary: Correct, yes.

Tanay Jain: All right. And also for JLG and IF exposure, like can I know the exposure in Punjab, Rajasthan and Haryana state for the JLG, IF?

Kanishka Chaudhary: We are not present in Punjab and Haryana. Rajasthan is one of the nascent growing market for us. Rajasthan exposure as a percentage of portfolio is around 2.5% to 3%.

Moderator: Next question is from the line of Kedar Shah from AK Securities.

Kedar Shah: Sir, I have a couple of questions. The first one is that on the product front, how is our micro LAP as a product performing? And can you elaborate some details on, say, in terms of average ticket size, tenor and how much is the collection efficiency in that product?

Baskar Babu: What we call is the micro mortgages, both micro home loans and micro LAP, which are funding less than INR10 lakhs at this point of time. However, as a program, we want to take it at maximum up to INR15 lakhs, but the average ticket size currently is less than around INR5 lakhs and -- the range is between around INR3.5 lakhs, INR4 lakhs to INR8 lakhs.

Pricing of which is currently, it's near 100% collection portfolio with a GNPA of probably around 0.3%. But this is a new product, we get there in the last 1.5, 2 years, building up pretty well. And we do not really want to scale it substantially at this point of time. Currently, our disbursement is around INR15 crores to INR18 crores.

The intent is to keep moving up the disbursements INR2 crores, INR2 crores every quarter. So probably are naming it around closer to INR50 crores at the end of the next financial year. The portfolio size is currently around approximately INR200 crores. And it grows by around approximately INR10 crores every month at this point of time.

Kedar Shah: Okay. Sir, that helps. Sir, my second question is regarding your expansion plan. So are we looking to enter into new geographies, like Bihar, let's say, Bihar has a lot of potential in microfinance sector. So any thoughts on that?

Baskar Babu: At this point of time, we are not planning to enter Bihar or Jharkhand. When we say we are not running to enter, it does not mean that we don't want to what it means is we're not entering into the large business. We've always put pilot branches, 1 or 2 in each of the states where we are not present, like probably Andhra Pradesh, Jharkhand and Bihar are 3 states where we put a few branches. There we check out our experiences and grow subsequently later. But no big plans of growth in any other state -- newer states at this point of time for next financial year.

Moderator: Next question is from the line of Manav Vijay from Deep Financial Consultancy Private Limited.

Manav Vijay: Yes. Sir, my first question is regarding the affordable housing loans portfolio that you have. So on a quarter-on-quarter basis, that portfolio has come down by 16%. Anything specific to read over here?

Baskar Babu: Which one you are talking of?

Manav Vijay: Affordable housing loans, you -- so this is INR635 crores portfolio, last quarter it was INR754 crores.

Kanishka Chaudhary: Manav, what we used to do, we used to club MHL into housing loan. Now we have actually separated and put it in others. Earlier, MHL portfolio, which is micro housing loan portfolio of INR130-odd crores, it was we used to put in home loan, HL. Now we have shifted to others. It did not came down.

Baskar Babu: So probably we'll have a separate category -- showing as micro mortgages. Yes.

Manav Vijay: Sure. Okay. And over there, even I believe the GNPA has moved up to 2.2%. Again, this is -- is this within, let's say, the risk parameters that you have? Or this is slightly more than that?

Kanishka Chaudhary: Yes. I mean yes, we would want to improve that number for sure, Manav. But yes, I mean, for the last 2 quarters, it has been in this particular range. Our endeavor is to get that number to under 2% in the first place, yes.

Manav Vijay: Okay. The third question is regarding the CD ratio. So we are at 110% as of now. So I understand that you also -- that explained something in the first question itself. So at least in the near term, that means for let's say, 2, 3 quarters, the probability of this number falling to 100% is low or we will try and aim for 100%?

Kanishka Chaudhary: No, no. We will achieve that 100% number. It's a regulatory commitment from our side as well. As you would aware, when we started this journey 2 years ago, we made a commitment to first reduce it to 120% by the end of last financial year, which we did. We promised under 110% by the end of this financial year, which is where we are. And by the end of the next financial year, we will -- we have committed and we will deliver 100% CD ratio.

Manav Vijay: Okay. This is fantastic. The next question is even on the JLG, our NPAs have moved up to 5.8%, I believe, compared to 3.7% that we had in quarter 1. I believe that one of the participant did ask -- asked you about some of stress that many companies have talked in their quarterly con calls. So you guys are not witnessing any stress? And if it is not the case, then why the number has moved up?

Baskar Babu: Manav, There are a couple of things. One, we have now started splitting JLG and Vikas. The way to kind of look at it is that some of the best -- good customers are kind of moving up and getting attracted to Vikas. Vikas, we'll start giving -- since Vikas is growing in the portfolio equivalent to around JLG at this point of time, we are giving the split together. The best way to read of that, include the finance segment to read together.

But however, we are also really looking at the JLG, GNPA coming down substantially. We'll have to have same focus as we have in terms of collections, in terms of the Vikas Loan. But since the graduating or a good customers are getting classified separately where you see a GNPA of 0.9 put together is what ideally would be to look at this segment as a whole.

So this, in my view, is not a reflection of any specific stress we are seeing in any pocket because in all the markets we operate JLG today, we operate also Vikas Loan. Every branch will have the ratio in terms of a 60-40 to 40-60, depending on somewhere customers with higher portfolio.

So what said that we are not seeing red flags, in any particular geography on an overall basis. JLG, I think, we'll have to know nuance a little more for better to kind of look at what -- it's not a question of collection drop alone. It just that it spills over and there's a lack of follow-up in terms of which one moves to a 1 to 30 bucket to 30 to 60.

That is acceleration is a little faster unlike in Vikas Loan where each and every customer is targeted and optimistically communicated with. And hence, we could do a collection of more than 99.5% in the current bucket. There, it is less than just about 99% in JLG, which leads to an increase in terms of the GNPA. Our focus would be on there to get it back as well.

Manav Vijay: Okay. Sir, my fourth question -- so the next question, for last 4 quarters, our JLG book is actually, I would say, segment around INR2,500 crores, whereas Vikas Loan book has moved up by almost 70%, 80% from almost INR1,200 crores to now INR2,000 crores. Now over next, let's say, 4 or 5 quarters, that's until the end of FY '25, so this JLG book growth will continue to remain subdued and Vikas Loan will continue to dominate the disbursements?

Kanishka Chaudhary: So like I said in an earlier part in the call, currently, the mix is around 45% VL and 55% JLG. Steady-state target is 50-50. So that's where we are inching towards and we will try to maintain that kind of a portfolio mix and inclusive financing.

Baskar Babu: One of the mixes also will be dependent on the new customers we're acquiring, which broadly depends on the new branches that you open. So now we have around 70 branches which are open. So even on an average basis, if they start generating around 300 to 350 customers on a month-on-month for the next 2 years, so likely that we will have around closer to INR125 crores to INR150 crores or more in terms of new customers JLG disbursements. So we'll have to balance it. So when you say 50-50, it's more likely to come out of new customers getting added in the existing branches, substantial new customers added in newer branches.

Manav Vijay: Sure. My last question is regarding, sir, so the comment that you made, making all your branches as composite branches. So we have, as of now, 672 branches, and correct me if I heard you wrong, you said that around 25 to 30 are actually composite as of now, correct?

Baskar Babu: Right.

Manav Vijay: And you intend to convert another 25 to 30 into composite?

Baskar Babu: Yes. So 91 branches when we said deposit focused, branches that are full-fledged deposit focused. However, in 35 of those branches, both these businesses operate together, which is inclusive finance business on one side and deposit focus business on other. So the intent is to convert of the 383 asset focus outlets at this point of time, close to 30 to 40 -- 30 to 50 probably in the next year as composite branches.

Manav Vijay: Okay. And does that require even hiring of fresh manpower as well?

Baskar Babu: Yes. Yes, it would, certainly. So we would operate at 1 plus 2 for every branch.

Manav Vijay: Sure. And this employee expense, which has moved up almost 50% on a Y-o-Y basis from INR64 crores to now INR93 crores, and it is growing by almost, I believe 12%, 13% quarter-on-quarter. So what kind of a run rate we should expect, let's say, in FY '25?

Baskar Babu: Run rate in terms of salary bill?

Manav Vijay: Yes, sir, employee cost on a quarterly basis maybe?

Baskar Babu: The intent is to really kind of have the growth -- the salaries to be 50% of the growth in the assets. And some of these are clear investments. You don't want to really cut the corner some of the learning experiences have been.

If we chase -- try to chase higher productivity in terms of number of customers handled per employee in the JLG business, during even times of marginal stress, it becomes extremely unmanageable. So there are certain slack you kind of build in this system for managing such eventualities and the targeted one would be the growth in salaries bills to be approximately closer to 50% of the growth in assets.

Moderator: We have our next follow-up question from the line of Anil Tulsiram from ContrarianValue Edge.

Anil Tulsiram: Sir, many of these fintechs, which are lending INR10,000 to INR50,000 are lending to some of the same customers as microfinance industry. But they are not following the RBI guidelines on MFI, and they simply take the declaration from these customers that their income is above the RBI threshold. So is it resulting in any overleverage in the industry? And do you see any risk from this trend?

Baskar Babu: Most of our customers are the woman of the household. So we are not seeing any trend lines in that as far as leverage is concerned. However, it is a man of the household likely to be -- while I don't have exactly data in terms of the percentage of customers who are men in the digital -- the small ticket loans, likely that it will be a majority of it.

So currently, we have started combining and start having a composite look in terms of including at least the co-applicant which majority of the time happens to be the spouse or the son of the lady of the household. So we are seeing, but not seeing any alarming number at this point of time based on the credit growth rate.

Anil Tulsiram: Got it. And sir, the second question is on the rural branches. So is the business breakeven here and how do we operate through direct management or through BC network? And what exactly are we doing here? So that's a question there.

Baskar Babu: By and large, a very direct model. We have one just large BC with probably around close to around INR100 crores of our entire INR4,500 crores portfolio, which less than 3% is BC. 97% of that is direct basis.

Anil Tulsiram: And do you break even here? Is this unbanked rural branches? Or is it incurring losses in these branches?

Baskar Babu: We are actually in semi-urban and also even in smaller Tier 3 towns, 5 kilometers from the center of the town, this rural belt -- semi-rural belt and rural belt. So we have not hardcore rural-rural microfinance company. We are more of a semi-urban and catering to the rural belt, in and around the Tier 3, Tier 4 towns.

Our URCs are pure, pure unbanked rural and currently, kind of we have 190 office -- close to around 90, 95 branches is where we also do other businesses and the rest of the 100 are mainly focused in terms of small-ticket liabilities, serving the rural households in those markets.

Anil Tulsiram: Got it. Sir, and the last question is again on the liabilities. So what percentage of liabilities currently we are able to acquire digitally and through partnership? And what's the target in next, say, 2, 3 years, what percentage of total liabilities we want to acquire digitally and through partnership?

Kanishka Chaudhary: No, so at this particular point in time, we are running a few use cases with some of our fintech partners, so the numbers are very small. So almost entire franchise -- I mean the deposit is coming from our own franchise. Over the period of next couple of years, yes, we will try to move that number a little bit up. But I think our focus right now is being able to build and deepen our own franchise.

Anil Tulsiram: And can you talk more on the initiatives which we are taking for getting like video KYC or any specific steps which you are taking to increase the sourcing digitally?

Kanishka Chaudhary: Yes. So I will have our colleague, Sandeep, who is our Chief Product Officer, talk to you about that.

Sandeep Arora: So at the moment what we've done is we actually strengthen our middleware and the back end in such a manner that it is now almost ready for our foray into digital partnerships, which is what Kanishka stated that we are in the verge of starting -- we are doing a few and we are at verge of expanding. We see that expanding to, I would say, the early single digits or touching a double-digit number over the next 16 -- 12 to 18 months.

That's what we see clearly because from an infrastructure point of view, digital infrastructure point of view, we reached that. And if you look at video KYC, our -- we recently done a major change in our video KYC, which brings us not only at par with the rest of the industry, but will give us an advantage over there. While we've gone live only a week back with that, we continue to see good customer demand over that site.

So digitalization in the next couple of quarters from a video KYC front also will see an increase from our side. So early stage for us. However, in the next 12 to 18 months, we will see a growth in digital partnerships as well as the digital domain within the pack itself.

Anil Tulsiram: And sir, one last question. A Couple of SFBs have started partnering with some brokers to offer 3-in-1 demat account to increase the stickiness of the customers and attract the deposits. So we've already done it or planning to do it? What's our thought process on this?

Himanshu Mishra So Himanshu, this side. So yes, we have entered into a partnership with one of our partners, and that will be launched within this month to offer complete wealth management and the 3-1 accounts to service our existing and the new clients for the bank across the spectrum.

Moderator: Next question is from the line of Prabal from Ambit Capital.

Prabal: So my first question is on write-off policy that we have in the MFI segment. After how many days do we write off them?

Kanishka Chaudhary: No, so our write-off policy is in line with IRAC. So 1 year after it turns NPA, we write it off. There is no possibility of recoverability. But what we do is that we progressively start providing in terms of asset impairments. So immediately upon it becoming an NPA, we provide 25%. And every quarter, if it is not pulled back to and regularized, then we provide 25% additional. So that's the progressive policy that we follow.

Prabal: Okay. So every quarter 25%, 25%. And by the end of first year, 100% of the book is written off?

Kanishka Chaudhary: Absolutely, yes.

Prabal: Okay. And sir, it would be our -- and how frequent are our collections across the book?

Kanishka Chaudhary: No, we have a monthly cycle, and that's what we have been doing for quite some time now.

Prabal: So historically, have you observed any trend that, let's say, a monthly cycle is better for the customer or a fortnight cycle is more stringent for the customer? Any such observations that you have made in the past?

Baskar Babu: We are one of the earliest ones to move to a monthly model where customers felt that they can't -- and usually, they have minimum or 2 loans from various companies. So if they have attend 4 times, it's 8 times and they'll have to take a break from their work where they are busy. So we kind of choose to move on a monthly basis, long, long back during -- probably in 2010, '11, continue to stay put those model.

What we kind of understand is that while the touch points of the customer have to be far more frequent than once in a month. It worked very well when there is a near 100% collection. But currently, given that it's around flow to 99% is what we are able to collect from a current bucket and just about around 96% and overall.

The rest of the 4% of the customer will have to find out a mechanism, whereas in putting all the 100% of the customers into weekly model, which means they have to kind of meet and make the repayment -- more than 70% is non-digital.

So we bring in cash and hand over the cash. so we'll continue to be on a monthly model with a little bit more in terms of reaching out to the customer through automated calls, BoTs and remainder mechanism to target the remaining 4% of the customers.

Prabal: And sir, in the Vikas Loan, are these individuals also required to come to the group meetings? And how is the collection different for these versus a JLG customer?

Baskar Babu: No, it's kind of we don't insist on meeting them on a particular date. Most of the customers deposit the money in their bank account with the average suitable day. On 7th, approximately closer to 70% of the customers payment gets cleared to the bank. And currently, we have around 30% of the customers making payment directly from their UPI handle to our bank account, not a one coming and depositing cash, even at the branch or through any BCs. The intent is to take the 30% to 50%. It's a graduating customer. So we are not -- we visit them, we meet them. We try to attempt to meet them once in a month, but it is not from a purpose of collection.

Prabal: Okay. But they are not supposed to now come to the group meetings as we have for the other JLG customers?

Baskar Babu: No, no. Not at all. I think -- the customers do not want -- in our little experience, our view of that is that customers are good to kind of be part of a group for a couple of cycles, maybe a one cycle, two cycle. Thereafter, they would like to be treated and assessed based on their capability, on their intent. And if we have a mechanism, which is strong enough to coordinate with the customer, that's why it took time to move this product, to scale the products, making sure that not meeting the customer is not going to lead to a delinquency or a default.

As you would see in the VL portfolio, where it is not meeting up for collections and once in a month on a designated time. It has fairly played out well across all geographies. Our intent is to really kind of not take it for granted and build more and more mechanisms to ensure that we are in touch with the customer, but not obligating the customer to come in on a particular time and major -- quite a bit of the customers walk into the branches at their convenience to deposit money in their account.

Prabal: Okay. And sir, do we have any mechanism of deposits with these individual customers, maybe as an escrow mechanism and because these are more like unsecured loans, so in case they default, we can utilize these deposits to cover up for them?

Baskar Babu: No, I think the thing is that the customers are graduating. I think microfinance customers are not anymore homogeneous. They are not necessarily having an income of around INR1.2 lakhs at the household level. Majority of the customers do have a household income upwards around INR2 lakhs -- probably quite a few will have more than INR3 lakhs when they start capturing it very deep.

And the intent of us is to really kind of come out with products which are panning meaningfully catered to them, and over a period of term completely digital, both in terms of delivery as well as in terms of collections.

Prabal: Sir, just one last question on employee productivity. So how is the KRA of the employee demand? Is it more towards the disbursement targets that they have to meet or is it more like the number of customers that they have to work by?

Baskar Babu: We are working on very different things. We don't really work on a high-pressure boom business at any cost or do collect at any cost, even during COVID and we'll continue to have that. So it's more in terms of a program touch based approach. So it's a mix of both. The collections in current bucket across -- the broad thing in terms of our monthly incentive is beyond 99% collection in the current bucket, so stop the leakage there and continue to it.

And business has a weightage around 50%. It's -- I would say that reasonably liberal, but not hard quoted in terms of only one of the factors.

Prabal: And the business side is more towards the disbursements? Or is it more towards the number of borrowers that the employee can get from that?

Baskar Babu: One is the number of borrowers in the IF segment. As far as the rest of it is concerned, it is the number of cases and the value, both, in the retail assets.

Moderator: Next question is from the line of Sachin Upadhyay from Klay Capital.

Sachin Upadhyay: Just a quick question, trying to understand the scenario going forward. Would the current political environment in any case, could influence collection efficiencies in the near future? And if you could kind of just indicate what would have happened in last cycle, last similar cycle?

Baskar Babu: Depends. In some of this where there has been aggressive commitments or promises made by politicians. In fact, didn't last beyond even half a day. And sometimes it kind of gets picked up and gets amplified. So it's not to be taken for granted that sometimes the small noises become magnified, like what you saw in the Nagpur region during the demonetisation. So as of now, it's not really having any impact and even some of the campaigns which started, I would say, term it illegal loan waiver campaign.

MFIN has been able to do a very good job in terms of reaching out across both the regulator and to the bureaucracy and to the governments. And I think this is a very welcome step, more proactive than waiting for instances to happen. So we're fairly confident that together as an industry we'll be able to manage this pretty well this time than we probably would have done in the previous times.

Sachin Upadhyay: So it would be fair to assume that the collection efficiencies will stay in a normalized range, except for certain exceptional behaviour, nothing that will impact collection efficiencies?

Baskar Babu: Yes. I guess so.

Moderator: Next question is from the line of Raj Gopal Ramnathan, who is an Individual Investor.

Raj Gopal Ramnathan: Just one question. Little concerned about the sharp increase in capital consumption. So two things: is it on account of the increase in risk weights on these personal loans which the RBI has introduced? My second question is, have you accounted for nine-month profits when you spell out your capital adequacy ratio?

Kanishka Chaudhary: Yes. So the recent circular of RBI on the risk weight has not impacted us by and large, right? So because the MFI portfolio continues to carry a 75% weight. And even on a quarter-on-quarter basis, sequentially, you will see that the increase in risk weight is in line with the INR600 crores increase in the book size, right?

So to that extent, I really don't think there is a higher amount of consumption of capital relative to the risk-weighted assets. On the other point of yours, whether the nine-month profits are considered or not? So from a regulatory point of view, we are only allowed to take the last audited financial -- full year financials net worth as the denominator.

So the money that I have made in the 9 months is not reckoned for the purpose of calculating the capital adequacy ratio.

Raj Gopal Ramnathan: Okay. So which means your capital adequacy ratio technically is understated?

Kanishka Chaudhary: Correct. Yes.

Raj Gopal Ramnathan: Okay. And one last question is, have you decided on any potential dividend payouts in the final quarter?

Kanishka Chaudhary: No, not really. We are very much in the growth phase, and we would like to preserve our equity and net worth for us to be able to invest and grow further.

Baskar Babu: That said, I think the decision we'll take at the end of the financial year.

Moderator: Next follow-up question is from the line of Anil Tulsiram from ContrarianValue Edge.

Anil Tulsiram: I have two, three questions again on Vikas Loan customers. So what percentage of customers have opened account with Suryoday Bank? That's the first. And second is, what percentage use it as a primary account? And last one is, what percentage have made it as primary to receive government subsidy? And do we encourage it? And does it really matter whether they make it or not as the primary account to receive subsidy?

Baskar Babu: Anil, all customers have -- savings account. -- around 20% of that is operative account meaningfully. We do not have -- many of that is not seeded for Aadhaar. So that we're educating them. We don't want them to kind of go through any inconvenience by seeding them by default. So it's very, very minimal. We started an exercise now, but we don't have much of the Aadhaar-linked, seeded accounts, which means that we are not getting any -- except for accounts which are open through the CSP channels that they choose as they would afford it and because there is an operator mechanism.

70% of the installment comes through the bank account on the due date, which is 7th and next 10th, two dates. And remaining comes through either digitally or they come and deposit money in the branches. The amount of cash collection in Vikas Loan product is less than 10% at this point of time.

Anil Tulsiram: Sir, then in the guidance statement, we say that 30% of the Vikas Loan customers make online payments. What exactly that means? Then if 30% means -- what's the 70%? You are saying only 10% pay cash. And how do you reconcile these 2 pieces?

Baskar Babu: 30% does directly from their bank account to our bank account through any mechanism directly by the customer. Quite a bit of the customers come to the branch and deposit well before the due date or go into CSP points and transfer it through the CSP point. What we talk about digital is it, coming from the UPI handle of the customer or from IMPS directly into our account.

It is not even that we're going to some CSP point and depositing into our bank account which we kind of debit on the due date or after that. And 10% cash is where the customers are not paying. We go to them to their doorstep and then we engage with them where they make the payment, that to be less than 10% in terms of cash. So it's not remaining all 90% is noncash, but that is not a cash handled at the field level by our executives.

It's either customer coming to the branch or they go to the CSP points and deposit into their account, which we debit on the due date.

Anil Tulsiram: Got it. And sir, the last question is on the weekly and the monthly. Is it fair to say that the weekly and the fortnightly collection is more relevant for the NBFCs which are operating in the rural places and we are operating more in the semi-urban and urban. So for us, monthly is right? How do we look at it?

Baskar Babu: Probably we don't operate so much as a deep rural for us to offer any comments on that. But I think more in terms of whichever with respect to organizations find it effective as a drill, it works well. What probably there are not many organizations which offer across all weekly, fortnightly, monthly. So we do offer to in certain branches through weekly, but we kind of find that it is not anything substantial.

So we continue to -- majority of our customer happen to be choosing only monthly repayment option. In cases like Vikas where they want to make weekly, they transfer the money to the bank account. And what we are also trying to kind of roll out is a daily saving product, specifically for customers who have got QR code as well they have daily transactions happening in their account.

Moderator: Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for the closing comments.

Baskar Babu: Thank you. Thank you for participating, and we look forward to your continued support. Thank you very much.

Moderator: Thank you. On behalf of Nuvama Wealth, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.