"Suryoday Small Finance Bank Limited
Q1 FY '24 Earnings Conference Call"
August 11, 2023

MANAGEMENT: **MR. BASKAR BABU – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SURYODAY SMALL FINANCE BANK LIMITED**
MR. NARAYAN RAO – CHIEF SERVICES OFFICER – SURYODAY SMALL FINANCE BANK LIMITED
MR. KANISHKA CHAUDHARY – CHIEF FINANCIAL OFFICER – SURYODAY SMALL FINANCE BANK LIMITED
MR. HIMADRI DAS – INVESTOR RELATIONS, HEAD – SURYODAY SMALL FINANCE BANK LIMITED

MODERATOR: **MR. MANJITH NAIR – SYSTEMATIX INSTITUTIONAL EQUITIES**

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Moderator: Ladies and gentlemen, good day and welcome to Suryoday Small Finance Bank Limited Q1 FY '24 Earnings Conference Call, hosted by Systematix institutional equities. As a reminder, all participants' 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 call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Manjith Nair from Systematix Institutional Equities. Thank you, and over to you, sir.

Manjith Nair: Thanks, Carol. Good morning, everyone. On behalf of Systematix Institutional Equities, I would like to welcome you all to the First Quarter FY '24 Earnings Call of Suryoday Small Finance Bank.

We have with us the senior management team of Suryoday, represented by the Managing Director and CEO, Mr. Baskar Babu; Chief Financial Officer, Mr. Kanishka Chaudhary; Chief Services Officer, Mr. Narayan Rao; and the IR head, Mr. Himadri Das.

With this introduction, I would like to hand over the call to the senior management team of Suryoday. We will start with a small introduction or an overview of results, after which, we will move on to the Q&A.

Over to you, sir. Thank you.

Baskar Ramachandran: Thank you, Carol and Manjith. Good morning, ladies and gentlemen. On behalf of Suryoday Small Finance Bank, I extend a warm welcome to our Q1 FY '24 Earnings Conference Call. I trust that everyone has had the opportunity to review the presentation for the quarter ending June 30th, 2023, which was uploaded on the stock exchanges.

Now let me provide an overview of the economy, followed by industry landscape and finally Suryoday's performance for Q1 FY '24.

The global economy has witnessed multiple challenges, such as geopolitical tensions, rapid monetary policy tightening, recent banking turmoil, etc. Despite these heightened uncertainties, the Indian economy has made a solid recovery and is amongst the fastest-growing large economies in the world.

The Indian economy has demonstrated resilience, supported by strong macroeconomic fundamentals. The ongoing fiscal consolidation and robust financial system are setting the economy on a path of sustained growth. India's GDP grew by 7.2% in FY '23 on the back of solid momentum and the broad-based recovery from manufacturing, mining, construction, home sector and services.

Now going to the banking sector. RBI has maintained the status quo by retaining a repo rate of 6.5%. RBI has also mandated scheduled banks to maintain an incremental cash reserve ratio on a temporary basis of 10% on the increase of their net demand and time liabilities between May 19, 2023, and July 28, 2023, as a temporary measure to absorb the surplus liquidity within the system.

Healthy balance sheets of banks and corporates are enablers for the new credit and investment cycle. Banks and NonBank financial intermediaries have been posting strong earnings and robust credit growth. The capital-to-risk weighted assets ratio, commonly on a CRAR, of scheduled commercial banks rose a historical high of 17.1% in March 2023. The GNPA continued its downward trend and came to a 10-year low of 3.9% in March 2023. And the net -- NNPAs ratio declined to 1.0%.

Now turning to our operational and financial performance. We're delighted to announce that Suryoday continues to deliver steady results in Q1 FY '24. The gross advances of the bank witnessed a growth of 24.2% from INR5,132 crores in Q1 FY '23 to INR6,372 crores in Q1 FY '24. On the disbursements front, the bank has recorded a disbursement growth of 17.5% from INR1,012 crores to INR1,190 crores on a year-on-year basis. As of Q1 FY '24, the customer base of our bank stood at 24.3 lakh, a growth of 21%. This growth in our customer base signifies the success of our customer-centric approach and the ability to meet their evolving financial needs.

In terms of profitability, it has been an increase in the quarter, with PAT growing more than 5x year-on-year and 22% quarter-on-quarter to INR48 crores in Q1 FY '24. The uptick is mainly driven by growth, improved operational efficiencies and asset quality optimization.

Now let me shed some light on the key operational and financial metrics of Q1 FY '24, providing a comprehensive view of our performance and the factors driving our success .

On the business performance. As stated, the bank's gross advances INR6,372 crores, out of which, our Vikas loan portfolio is at INR1,283 crores. Vikas loan, the bank's flagship product in the inclusive finance segment, is an unsecured business loan offered to bank's graduating JLG customers, majority of which is covered under CGFMU credit insurance. We have over 2.1 lakh Vikas loan customers as of now and expanding the same.

The disbursements grew by 17.5% to INR1,190 crores on a year-on-year basis in Q1 FY '24. Overall collection efficiency of our bank stood at 100.4%, which included overdue collections.

On the deposits and borrowings. Our total deposits of our bank stood at INR5,722 crores, as compared to INR4,020 crores, registering a strong growth of 42.3% year-on-year. The bank's focus has always been on growing its granular retail deposits, which has enabled the bank to contain its cost of deposits despite a rising interest rate scenario. Our borrowings at the end of June formed 25% of our total liabilities, the majority of which is from refinancing institutions that are long term and noncallable in nature.

On the distribution front. We have a network of 609 branches, of which 95 branches are deposit-focused, while 325 branches are asset-focused branches. And the balance comprise of rural centers.

On the asset quality front. Our gross nonperforming assets have reduced to 3% in Q1 FY '24 from 10% in Q1 FY '23. And net nonperforming assets have decreased to 1.6% in Q1 FY '24 from 5% in Q1 FY '23.

On the earnings front. Our net interest income stood at INR224.7 crores in Q1 FY '24 compared to INR177.1 crores in Q1 FY '23, an increase of 26.9% year-on-year. The net total income for the same period stood at INR275.8 crores and INR190.2 crores, an increase of 45% year-on-year. Our yield improved to 20.5% in Q1 FY '24 from 19.1% in Q1 FY '23. Consequently, the NIM improved to 10.1% in Q1 FY '24 compared to 9.1% in Q1 FY '23.

Our cost of funds have increased from 6.4% in Q1 FY '23 to 6.9% in Q1 FY '24. Just to draw a comparison: The repo rate increased by 160 basis points during the similar period. Our cost-to-income has improved to 57.5% in Q1 FY '24 compared to 58.3% for the corresponding quarter last year. Our capital adequacy ratio continues to be strong and currently at 32.7%. Our Tier 1 comprises 30.2% and Tier 2 comprises 2.5% of our capital.

Finally, to summarize. Looking ahead to FY '24, the bank aims to focus on growing gross advances by approximately 30%, deposits by 35%, achieving a return on assets of 2.25% and a return on equity of 15%. Operationally, our key areas of focus include product diversification, maintaining a GNPA level below 2%, creating adequate contingency provisioning, leveraging digital initiatives, taking CGFMU cover for JLG and Vikas loans, building a Vikas loan portfolio of INR2,000 crores and expanding our branch networks. We look forward to building upon our performance consistently and sustainably and stay focused on creating a well-governed and respectable bank.

Thank you. Over to you, Manjith.

Moderator: The first question is from the line of Anil Kumar Tulsiram from ContrarianValue Edge.

Anil Tulsiram: Sir, the first question is, for some of the products, we hired outside agencies for collection and sourcing customers. So my question is, is it due to the scale of the business? And once we scale up the business, we want to be in house? Or putting another way: Are there any advantages of doing collection and sourcing in house rather than outsourcing it? Yeah.

Baskar Ramachandran: Anil, thank you. We are -- our collection focus, I mean, continues only through in house. We don't have any outsourced collection agencies, except for hard bucket collections in retail assets. But entirely, our major, main business, inclusive finance, is done by our own employees and not outsourced to any agency and not to any outsourced employees.

Anil Tulsiram: And what about sourcing customers? I think we do it through DSAs, right? For secured loans?

Baskar Ramachandran: Our entire inclusive finance customers is directly sourced directly by us, and a very small portion is through our business correspondent network. In terms of retail assets, it's a mix of DSAs and own subordination. The focus continues to be on expanding our network to source majority directly. By approximately now, probably around closer to 40% to 50% of our business comes through DSA in the mortgage business, and probably less than 20% in our commercial -- 20% to 25% in our commercial business.

Anil Tulsiram: Okay, sir. And the last question is on the secured loans. So for housing and small business loans, how important is it for customers to have high credit score at the time of origination? Or in other words, are we focusing on the unserved customers with good track records? Or completely underserved customers with no track record in terms of credit score.

Baskar Ramachandran: So one of the key focus of microfinance institutions or small finance banks which is focused on the current customer segment is to create actually a good track record for the customers by -- meaning, majority of them used to be new to credit. Now as the credit markets have expanded, closer to around 20% to 25% of our new customer are new to credit. So it's what -- we invariably -- obviously we will not like to -- kind of not lend to customers with continued track record of default. But however, in inclusive finance, we've seen that there has been a delayed default in the past. That is not given a very high weightage while people go through business cycles, and we are very, very cognizant of the fact.

Moderator: The next question is from the line of Shailesh Kanani from Centrum Broking.

Shailesh Kanani: Congratulations, sir, for good set of numbers. So my first question is that we have witnessed uptick in yields during the quarter, both q-on-q basis. What are the reasons for that?

And during the last earnings call, you had alluded to increasing lending rate. So if you can update the status of that.

Kanishka Chaudhary: Yes. So by and large, our product mix has not changed quarter-on-quarter, and which is the reason primarily why our pricing have held up. And if you look, 3/4 of our portfolio today is inclusive finance with fixed rates. So the rates have remained same as last quarter.

In so far as probably an increase in rates are concerned, yes, that's something that we are evaluating. And we will possibly do it this quarter itself, given that there has been rise in rates of -- all through the last 4 quarters. And in so far as the costs of raising deposits are concerned, they continue to be elevated.

Shailesh Kanani: So if you can just guide how we are planning to raise different products, like JLG we are at 24% to 25%.. And for Vikas, we are only at 27% to 28%. So what kind of quantum of jump we can expect around 50 bps in next coming quarters?

Kanishka Chaudhary: Yes. So we will primarily focus on Vikas loan customers. And we are looking to have anywhere between 25 to 50 bps of rate hike in that particular segment.

Shailesh Kanani: And so basically for this quarter, the yield jump is primarily because of some repricing on the asset side, right? That is a fair assumption?

Kanishka Chaudhary: Yes, a little bit of mix, change of mix more on the Vikas loan side and JLG. And because of which, there is a marginal improvement in rates, yes.

Shailesh Kanani: Okay. So I just want to understand: We have been able to execute and deliver on most of our factors which we envisaged few quarters back. But on liability front, I think there is some disappointment, right? So what is our strategy on that front? And how will you save this low CASA number?

Kanishka Chaudhary: No, I would not say that we -- there is a bit of a disappointment. It's just that our focus continues to be granular, as we have advised investors in the market throughout the last past 1 year. And so it's a bit of a slow cooking, right? Our -- this quarter, if you notice, we have increased our liabilities by almost INR500 crores. And all of it is granular, largely by the deposit drive that we have undertaken across the country through our branch banking network.

What we, hopefully, want to be able to show to you from Q2 onwards is an improvement in our overall CASA numbers as well as the CASA percentages. As we had advised and guided, that we would be targeting to have a CASA well over 21% by the end of the financial year. Hopefully, all things going well, we will be more closer to 25% than the 21% that we had talked about.

Shailesh Kanani: So in light of that, how do we see the KPI for the year? Are we expecting a increase in that?

Kanishka Chaudhary: So given that we have gone down the path of expanding our branch network; and like we had guided previously, that we will be looking to expand on both the inclusive finance business segment as well as branch banking. We plan to have anywhere between 150 to 160 branch -- number of branches being expanded. That being the case, our first goal will be to have some amount of offset from the operating leverage and be able to target a 55% cost-income ratio for the financial year.

Shailesh Kanani: Okay, sir. And sir, just last question from my side, on cost of funds. How much of repricing on liability fund is still pending? And where do you see the peak of cost of funds for us, and in which quarter?

Kanishka Chaudhary: My sense is that the cost of funds will peak for us in Q2. The deposit drives and the mobilization that we had in May and June will have its effect for the full quarter of Q2 going forward. And as we had advised before, we have, anyway, baked in 2 rate hikes of 25 bps each into our planning, so we would see somewhere around 25 to 30 basis points of rate hike in Q2 going forward.

Moderator: The next question is from the line of Ankur Kumar from Alpha Capital.

Ankur Kumar: Sir, congrats for a good set of numbers. So my first question is on the other income. There is a good jump in this quarter. Can you please comment on that part?

Kanishka Chaudhary: So the growth in other income primarily is on account of there being a market for our PSL certificates. As you may be aware, the rates had tanked completely in Q4. But insofar as Q1 was concerned, for the last 6 weeks of the quarter, there was a market available for the FMS segment. We sold a little over INR1,200 crores worth of PSL certificates. That's about 2% on an average and which is the reason for the increase in the other income.

Ankur Kumar: So sir, going forward, how should we assume this number to go in the future?

Kanishka Chaudhary: Well, this market has tanked once again. Rates currently prevailing are 10 paise and less. As management, we don't foresee significant income coming from this particular stream for the next 3 quarters. At least, it's difficult for us to predict at this particular point in time.

Baskar Ramachandran: So, in fact, the first quarter is when we'll have PSLC income; historically, even last quarter. So it usually tapers off onto Q2 and 3Q. Currently, we'll be more opportunistic.

Ankur Kumar: So this full INR50 crores other income is PSL income? Or is it like some part of it?

Kanishka Chaudhary: No, no. Around INR26-odd crores will be PSL income. Rest of it will be generally from the processing fee that we charge at the time of every loan being disbursed. It will also include incomes that we get for -- from selling third-party products.

Ankur Kumar: Got it, sir. And sir, on this ARC-related INR41 crores provision, you are saying that it will be reversed and will need to use as a floating provision. Can you please comment this, please?

Kanishka Chaudhary: Yes. So the provision of INR41 crores that we made in this quarter was obligation by the new regulatory requirements starting December 2022. It basically said that we have to carry as much of provision as if the book, bad book, was never sold to an ARC, right? And that's the reason on our outstanding security receipts of around INR65 crores. We are carrying INR41 crores of provisioning, which is around 67%.

However, when we look at our overall security receipts pool, we started with INR135 crores 6 months ago. We have done collections of around INR64 crores in the first 6 months, so we are fairly confident that we will be able to continue on this trajectory and have all the security receipts redeemed by the end of the year.

So this basically means that, as we continue collecting from this point on, there will be a reduction in the value of SRs, resulting in the release of this INR41 crores. However, as a prudent measure, as we have indicated, we would want to see that, whatever release we have from this INR41 crores number, we continue to build up our floating provisions like we did in Q4 of last year.

Ankur Kumar: Got it, sir. And last question is on the industry side, with elections – lot of elections coming this year. Any worry signs? Or are all the things good?

Baskar Ramachandran: This is what we're all used to. It keeps happening, it's nothing new. But yes, during election time, occasionally, some of the things go through a little bit of a stretch, specifically in some buckets. As of now, there are no indications across any of the geographies that we are operating.

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

Karan Mehra: Congratulations for a good set of numbers. Sir, a couple of questions from my end. So one of your peers have indicated that they would like to become a universal bank. So where are we on the path towards becoming a universal bank? In case we can put some light here?

Baskar Ramachandran: As we already stated, we have -- kind of have no plans at this point of time, for next 2 years. And given our size and then the focus back in terms of sustaining the performance, our key focus will continue to be building a very strong franchise.

Except for the PSLC -- PSL requirement of 75%, we do not see any significant a difference between a small finance bank and a universal bank for the segment that we are currently operating. So we'll continue to focus being a small finance bank, at least for a period of, as we see now, 2 years; and decide at that point of time in terms converting. By which time, some of our peers would have probably applied and will have become universal bank also. So it gives road path in terms of an orderly transition.

Karan Mehra: Got it. And sir, how do you see our cost of funds panning out for the rest of this financial year?

Kanishka Chaudhary: So like I alluded a while ago, there will be a rise in cost of funds, beginning Q2, largely because of the fact that, if you look at the FD rates among our peers for 1 year and above, they have -- they continue to be elevated. We see our cost of funds increasing by around 25 to 30 bps, beginning Q2. But the bulk of the rate hike that we needed to absorb, we have already considered it. So I don't think, beyond Q2, we will have significant rate hikes, assuming that there are no further rate hikes by the central bank.

Moderator: The next question is from the line of Dhruv Shah from Ambika Finance.

Dhruv Shah: Congratulations on a good set of numbers. Sir, if you can just walk me through your CGFMU expense and how is it calculated once.

Kanishka Chaudhary: So typically, the premium works out to be around 1% of the total insured interest, right? So on a full year basis, we see ourselves insuring about INR4,000 crores worth of our portfolio, which will translate to about INR40 crores of CGFMU insurance premium on a full year basis. In Q1, we have taken about 10 crores of it. And we -- on a full year basis, we will see around IRN 40 crores to INR42 crores of insurance expense on account of CGFMU.

Dhruv Shah: So this INR10 crores is now a recurring expense for you guys.

Kanishka Chaudhary: That's correct, yes.

Dhruv Shah: Yes. Sir, second question is your NPAs. You have guided for less than 0.5%, so will it be more driven by the denominator going up, or will it be through the collections? And the second part of the same question is how much write-off pool are we sitting on right now on our P&L?

Kanishka Chaudhary: Write-off pool in our P&L, can you clarify your question, please?

Dhruv Shah: How much write-off loans do we have right now which we have not sold to ARC?

Kanishka Chaudhary: It will be around INR500 crores-odd of cumulative write-offs occasioned by the pandemic. To your question on how do we see our gross and net NPAs coming down quarter on quarter from here on, yes, we have taken an internal target to be able to recover from the bad book of the COVID period. But at the same time, like we have indicated, we will continue to make provisioning in our books so that, over time, we see ourselves having built floating provisions in course over the next 3 quarters, which will help to bring our net NPAs number further down.

Dhruv Shah: So will it be fair to understand, out of this INR500 crores, even if you are able to recover 10%, that will be used for floating provision?

Management: We have a target to recover around 10% of this INR500 crores, but we will make floating provisions over and above that.

Moderator: The next question is from the line of Rohit Mehta from SK Securities.

Rohit Mehta: Congratulations on the numbers. So my first question is how do you see the collections on ground, especially in the JLG segment?

Baskar Ramachandran: I think there has been a substantial improvement. Positively surprising is that customers who have not paid for even a -- quite a few months, maybe 300 days; not pay almost 2 to 3 years coming and even pre-closing. So I wouldn't say there's a large trend, but certainly, around closer to 5% of the customers as was asked last time. People are coming back to -- back in the credit market to kind of make sure that their track records are intact, so we will -- other than that, on a regular basis, we see marginal slippages recovering back, far, far better, where I will say that's business as usual as it was pre-pandemic.

Our intent is to really build a one-to-one relationship that will stay focused on the customer. We have not increased the ticket sizes substantially. We still work on the range of INR60,000 to around INR1 lakh max and INR1.25 lakh occasionally for customers who have been with us for long and who have got an impeccable track record across all of the lenders they borrowed from, including retail assets.

So the intent of the customer is to really not become -- create a one-to-one relationship beyond lending. You have basic insurance, like PMJJBY, PMSBY, transacting underlying bank accounts. Today, the bank accounts are used at least for making a repayment, the money flows through a savings account. We want to activate that and make it a direct relationship, in which would -- and also covered by CGFMU, but continuously even we do not see a large credit loss this year or next year, as is always happens in a micro finance, inclusive finance business. 3, 4 years of steady, and then some unknown event. Very, very difficult to predict.

So as Kanishka has alluded to, we'll continue to make comfortable floating provisions, cover ourselves quite a bit. 90% of our portfolio inclusive runs portfolio through CGFMU, as they are mainly used for business purposes. And look at developing relationship which is beyond just a JLG relationship.

So far, it has played as well. And we are very, very cognizant that we will keep the quality under complete check and continue to focus on it. And aware that we will have closer to INR2,000 crores of portfolio by end of this financial year in Vikas loan.

Rohit Mehta: And secondly, can you elaborate more on the CGFMU, please? How does it work operationally?

Baskar Ramachandran: Yes. It's a really detailed process. Broadly I will say that around -- closer to around 74% of -- 72.75% to be precise, or 73%, net-net of the GNPA, will get reimbursed by the credit insurance. And the balance will be the hit that the lending institution will have to take on their P&L.

The CGFMU covers all business loans, credit requirement of less than INR10 lakhs per customer. And most of our customers in inclusive finance segment are much lesser than that, maybe on INR2 lakh, INR2.5 lakh on an overall basis that they borrowed from all institutions put together.

And with this, as Kanishka mentioned, is approximately 1% of the principal outstanding at the beginning of the year. And the new loans that are generated during the year, we pay 1% for Q1, 70% for -- 70% of 1% in Q2, 50% of 1% in Q3. And it tapers off towards -- on the year of origination. And then, subsequent year on the principal outstanding of whatever portfolio we want to continue to cover, we pay 1% of the principal outstanding at the beginning of that financial year.

So we are taking it as a cautious approach in terms of build it over a period of time. The best time to take is when -- well, we will get started at some point of time. And we have structured that INR40 crores as a cushioning, and that's an investment rather than as an expense.

Moderator: The next question is from the line of Ayush Jain from Gaja Capital.

Ayush Jain: Yes. So sir, if I just understand our provisions and asset quality. We're holding INR90 crores of provisions. This does not include the INR41 crores in ARCs?

Kanishka Chaudhary: That's correct.

Ayush Jain: Got it. So I mean, given that you're confident of collecting the INR41 crores against exposure after provisions of INR39 crores, net-net, you're expecting you will use the INR40 crores to cover that and be broadly covered on the GNPA portfolio. Is that a fair way of understanding that?

Kanishka Chaudhary: Yes. That's exactly the way we would look at it.

Ayush Jain: Got it. And when I look at -- sorry. The other question is just on the CGFMU piece. When I look at it, we have -- so INR40 crores of cost that is 1% of AUM. So INR4,000 crores out of the INR6,300-odd crores of AUM is what's covered under this deal. Is that a fair understanding?

Kanishka Chaudhary: By the end of the year. Yes, correct.

Moderator: The next question is from the line of Manav Vijay from Deep Financial.

Manav Vijay: I just have one question. So regarding the INR40 crores that you will provide for the CGFMU cover that I believe will form part of other expenditure. Apart from that, the provisions that you intend to make and some floating provisions as well, what kind of credit costs are you looking for FY '24?

Kanishka Chaudhary: So we will typically look for around 1%, 1.5% of credit costs for the full year given that we want to build up our floating provisions.

Manav Vijay: Okay, so anywhere from, let's say, INR100 crores to INR120 crores.

Kanishka Chaudhary: Yes. That will be a reasonable estimate at this point in time.

Management: 100 is the amount.

Manav Vijay: Okay. That's helpful. So that means, of the -- so of the INR54 crores that you have made in this quarter, next 3 quarters would be in total of summation of what you have made in this quarter.

Kanishka Chaudhary: Broadly, yes, yes. There will be recoveries that will get offset and so on and so forth. But yes, broadly on a net basis, that's the kind of movement you expect to see in the credit costs.

Moderator: The next question is from the line of Anil Kumar Tulsiram from Contrarian Value Edge.

Anil Tulsiram: Apologies for this question. I'm sure this question has been asked multiple times in the past. Sir, we had a tough period between 2020 to 2022 for various reasons. Would you largely attribute it to some of the mistakes in hiring the team? And if yes, what are the learnings from it?

Baskar Ramachandran: It's a mix. So I think of because we are better off by picking up learning. I wouldn't kind of say anything specific on the team.

One of the ethos that we continue to maintain, including in collections, specifically in the inclusive finance segment, is that we kind of do not really kind of make sure that we collect at any cost. But what we have seen and we shall continue to see is that good customers do come back.

And the sharpest learning has been in terms of, even within the inclusive finance segment, understand the customer as an individual customer than only lending as a group. So which made us look as an opportunity in terms of looking at Vikas loan, but not substantial increase in the ticket size but capturing the entire household details.

So yes, I will say that probably the learnings from the past would really kind of help us in terms of building a very strong, robust portfolio, including taking a CGFMU cover, whether we call it as an expense of INR40 crores or an investment of INR40 crores. The very fact that we are kind of wanting to cover, having majority of our IF portfolio, is learning from the past.

And I think really it kind of help us. Yes, it was, I would say, pretty volatile. I would think that, whatever the costs that we incurred both in terms of profitability and in terms of now reduced growth, would really help us in good stead in terms of looking at the future in a very, very consistent manner and, yes, in terms of growth.

Anil Tulsiram: Yes. See -- and sir, the last question is what are the steps we are taking to increase the stickiness of our inclusive customers? Say, for instance, making our account as the primary account for receiving the subsidies, seeding the Aadhaar? Are any such steps being taken?

Baskar Ramachandran: Which we do. So which, as I said, is around INR2.1 lakh per customers, now INR2.2 lakh at this point of time, transact through our bank at least in terms of making repayment to us. Our intent is that can we really -- which we introduced at some point of time, which is a small-ticket overdraft. But since the account was not operative, there has -- there was fault line in terms of execution.

Our intent is to go back for our good customers and set up a small limit as and when they want to take it, rather than a loan which they get only when they apply and when we give. And increasing the UPI penetrations, increasing even among the women of our inclusive finance households, all of them are financial digital.

In terms of the financial dealings, mostly, it is the man of the house or the son or the husband who are dealing with all the transactions. Our intent is to really -- can we really create our customers, which is the lady of the household, become transactional in terms of digital. The efforts are on, now that we have these accounts which are transacting, we would like to build on it.

Anil Tulsiram: Yes. Sir, one last question, if I can. I think during the COVID, we introduced the OD products for the inclusive finance customers, which we suspended later on and being again started. So can you give any updates? Or any progress? What are we doing with the OD product to the inclusive finance customer?

Baskar Ramachandran: We haven't start -- restarted it. Whenever -- our intent is to really introduce. At the point of introducing, we'll make sure that, wherever we kind of have slipped last time in terms of recruiting, and one of the key reasons was that the underlying accounts were not transactional.

So now we'll kind of -- once they become transactional, which as I mentioned, again, INR2.2 lakh customers, because they transact more than just repaying our loan through the bank account. We would like to reintroduce them, but not in a hurry, not in the Q2 at all.

Moderator: The next question is from the line of Shailesh Kanani from Centrum Broking.

Shailesh Kanani: Sir, just one question. In your opening remarks, you have guided now for 2.25% of ROA for the year. So I believe there's a slight upgradation in that from 2% what we had guided in the fourth quarter, so can you shed some light on that? Is my understanding right?

Baskar Ramachandran: 2.2% is what we are guiding. So I move over to KC.

Kanishka Chaudhary: No. I think, Shailesh, we should be able to keep to that number of 2.2% in terms of how things are panning out, right? And especially given how we intend to manage the rate hike that has come our way, with us being able to pass on some of that hike on to the customers, I think that 2.2% number should be achievable for us.

Shailesh Kanani: So it will be for the full year, right? So we probably will be having an exit ROA something in the range of upwards of 2.5%.

Kanishka Chaudhary: Yes, clearly. I mean we would want that number to be upwards of 3% towards the end of the year, yes.

Shailesh Kanani: Okay, great. And sir, also one bookkeeping question. What is the run rate for ECLGS recovery on monthly basis? And when do we expect the remaining INR62 crores to come in, by what time frame?

Kanishka Chaudhary: We have cumulatively done about INR10 crores till date. We do -- we are doing anywhere between INR2 crores, INR2.5 crores a month. It's actually more a function of how fast the processing of the claims are happening. We will pick up a little bit once our secured loan claims also start to get processed somewhere in Q3. So that's the update at this particular point in time.

Moderator: The next question is from the line of Rajagopal Ramanathan from Sada Khush.

Rajagopal Ramanathan: Excellent results, Baskar. And great performance by the team. Sir, one theoretical question that I had was, based on the co-lending guidelines that the RBI has issued, does that allow only non-bank finance companies to act as co-lenders in partnership with banks? Or do you have the flexibility of a small finance bank also becoming a co-lender to some other universal bank or a multinational bank or whatever? That is one.

The second question actually relates to your portfolio of customers. Now you did mention that, as a small finance bank, the idea is to get people into the formal credit channel. And therefore, even if customers may have defaulted in the past, that's not a particularly important thing, but let's assume that you have some customers who have had problems or rather who have started banking with you. They have a credit relationship. They miss payments. Subsequently, you have a situation where they become NPAs. And subsequently, they pay back. And they may not be in a position to pay you back fully. And let's assume that, that cycle ends.

In the future, will you be still open to exploring credit relationships with such borrowers? That is question number one. And question number two, whether your systems are robust enough to account for the fact that you had this experience, and therefore, your credit systems appropriately score such individuals and you are able to have relevant risk-based pricing.

Baskar Ramachandran: Thanks, Raj. On the co-lending, it's a little difficult to answer at this point of time. The guidelines which got released specifically for PSL, with is kind of now referring to NBFCs to banks. And SFBs are excluded from that for the simple reason that SFBs are constituted as a differentiated bank mainly to cater directly to the customers.

However, your question is very valid. Whether SFB can become a co-lending partner to a large universal bank or a multinational brand, yes. Indeed, whenever it comes through, there is no clear clarity at this point of time. We're all trying to find, we'll probably ask for a little more detailed guideline.

And whenever, whichever point of time when it opens up for SFB, I'll presume that we'll also be allowed to kind of have the relationship of an originator rather than only on the balance sheet side. While it's not clear, are really exploring? We keep kind of, well, thinking about it. We haven't really have any business plans that we've baked in for the year based on that business model at this point of time.

And on the credit robustness, where we kind of mentioned, we are trying. And we'll -- hopefully, we'll kind of do now today because of even the microfinance guidelines, which expects us, the lenders, to have a holistic view of the household rather than only the customer. We are building up our strengths in terms of understanding the household credit behavior and borrowings on a holistic basis.

The credit bureaus have started giving only the customer -- or full-fledged support of the customer, not yet at the household level. As it really happens, it will enable us to have a lot more data, meaningful data, in terms of the credit behavior of the customer's household as a whole. That will really help us in terms of looking at customers, even because -- as our customers generally go through cycles, and occasionally, a delay or a default even. You rightly said, they even go to GNPA. But are the customers in touch? Are they getting in touch? Do they have at least have the intent to repay at some point of time becomes very critical.

The intent is doubtful, if it is circumstantial. We are always open, and we need to be. And if it is intentional we would rather avoid those customers in terms of taking them, even if they repay fully.

Moderator: The next question is from the line of Amit Kohli from A1 Finance.

Amit Kohli: A great set of results, truly commendable. I had a couple of questions on your asset side and growth. And I'll start with the first one. What -- how are you seeing your retail asset portfolio grow? And after some of the headwinds in the earlier quarters, is the team now confident of delivering good quality retail growth?

Baskar Ramachandran: Yes. I think, if you pick through our experiences post June '21, post pandemic, we have built a pretty robust portfolio. In commercial vehicle, we have gone completely granular. We used to do around INR15 crores, INR20 crores of retail in the similar period last year. Currently we are clocking around closer to INR40 crores. Our intent is to really grow. We have grown by around 46% year-on-year.

And at the current run rate, what we do since the tenor of the loans are much higher than 1.5, 2 years that we do in inclusive finance, they stay in your books a little longer. So we presume that we will have a robust growth, not in terms of accelerating the disbursements. We will do it in a very, very programmed manner.

In our small-ticket home loan, which is sub INR7 lakh, we have built INR110 crores, INR115 crores of portfolio as we speak with near-0 delinquency. The intent is that can it scale to INR200 crores, INR300 crores with almost this kind of a credit robustness is our intent. So beyond scale, what we're looking at is building scale which will ensure that the credit -- or the credit quality of the portfolio will be impeccable. That I think it's a key, key learning that we have had from the pandemic.

Amit Kohli: And how are you -- how comfortable and confident are you with the team being set up, given that we are looking at a fairly robust growth in this sector as -- now that it's set up? Or are you in the process?

Baskar Ramachandran: We have now set up. I will say that it took some time. So in terms of the entire leadership team, both in branch banking, we have a new business head who has joined, Chief Business Officer. We have similarly for the wheels vertical. And now we have -- I mean we have also for mortgages. They have been with us, both the retail leaders, asset leaders, have been with us for more than a year. And our retail branch banking CBO has just joined us a couple of months back, 4 months back.

So I think our leadership team is fully slated. And we will kind of look forward to have -- build a much better team, even in the middle management under the field level. And we specifically took care when we did our salary division exercise, that we did not benchmark for the field staff in terms of what the competition was along. What would be the pay that would really ensure that they are very comfortable, happy to come to office, happy to go back home as a team. And we're doing -- we have increased that pretty substantially at the field level.

The intent is that we don't want to really state that the attrition of entire industry is at 40%, and hence, we are also at 40%. At the field level, what can be done to kind of move down the level lower than even 20%. And we ambitiously work to less than 15%. And long-tenured employees who can stretch without really creating stressful hindrance are so very productive. And also, it reflects on the quality of the portfolio. So back on that, which we used to do very well. I think probably off track for -- during the pandemic period. We're trying to get that back.

Amit Kohli: And one last. Based on the retail estate. if I see the chart on asset quality, is it fair to assume that the delinquencies and the credit risk and the retail assets are, from a loss perspective, improving significantly over the last 3 to 6 months' performance?

Baskar Ramachandran: Yes. I think it has been improved.

Kanishka Chaudhary: Yes, that's quite true. It has improved in the last 6 months and more so on the last 3 months. Insofar as our book built up in June 2021 is concerned, the pars are at industry trend levels. So we continue to be able to maintain and improve on this number for the rest of the year.

Amit Kohli: So given that you've already taken a credit protection for our -- the CGFMU and you've got a INR41 crores ARC provision which, by your estimates, largely will flow back. And I see in your asset quality table, your net GNPA after covering for the CGFMU protection, etcetera, is INR39 crores.

So help me to -- I mean, guide me in terms of whether it's fair to conclude that your net NPA gross insurance cover is fully protected with what you already stated in the P&L this quarter. Your future risk on MFI is largely covered with the CGFMU, for which, the INR10 crores cost is coming in the P&L. And your retail assets are continuing to perform better. So the credit risk on this business now is behind us in all possible ways. And I -- when I say credit risk, I should at least say the credit cost impact of those risks. Is that a fair assumption?

Baskar Ramachandran: It is, but it's kind of a unknown conclusion that it's all done and it's going to be all smooth. So that is why we are clearly continuing to be paranoid, one, in terms of ensuring that our credit underwriting will still be strong, sourcing is good, retain the people that's on one side in terms of origination. The CGFMU we got is only on protection, so we are not -- kind of not looking at credit losses in our inclusive finance portfolio generated post June beyond. And that we always maintain that there's a 2% credit loss business over a period of -- normalized over a period of 5 years.

So a few years, it's quiet. It's 0.2, 0.5, 0.6. And one off-year off to 8%, 10%. So in turn, that's the case you earlier alluded, is to really create a floating provision which is comfortable over a period of time, additional layer in terms of CGFMU. Is it being too extra per share? I would say probably yes. But I think it's all baked in, in terms of overall numbers. We'll continue to do that.

Moderator: The next question is from the line of Ankur Kumar from Alpha Capital.

Ankur Kumar: Sir, my question is on this cost-to-income guidance. So this quarter, we had some benefits of other income. Despite that, we are maintaining this cost-to-income guidance of 57%, so how confident are you on that front? And how should we think on that front?

Kanishka Chaudhary: So if you look at our core earnings, they have improved quarter-on-quarter. And with the kind of book expansion that we have in mind, there will be fill up to the core income from here on, which helps us to commit that we will be able to come down further on our cost-to-income ratio.

Beginning Q4, there will be an uptick in expenses largely due to the branch expansion that we are doing. So let's say, from December -- November, December -- December onwards, we will have slight increase in our costs, establishment costs, largely because of the branch network that comes to have a play. But at this particular point in time, we are fairly confident in being able to reduce our cost-income ratios over the next 3 quarters.

Ankur Kumar: So for FY '25, we'll have higher number of this number?

Kanishka Chaudhary: I would say that we would continue to be range-bound at around 55% because, for example, whole of last year was the year of investment in our Project Pragyan. So next, FY '25 would mean that the time is then right for us to have that operating leverage in terms of all that we have spent and invested on. But at the same time, there will be branch expansion continuing on a year-on-year basis. So at this particular point in time, medium term, we would be targeting to achieve and maintain a 55% cost-to-income ratio.

Ankur Kumar: Got it, sir. And any thoughts on capital adequacy and when we will need to be raising funds?

Kanishka Chaudhary: We don't need capital right now, for sure, given our adequacy is 33%, a little over than that, right? Plus, if you look at the kind of earnings that we will have, largely driven by the inclusive finance portfolio, which is almost 2/3 of our overall book, I think we will earn capital every year that we need to be able to grow, all right? So at least on the next 24 months, 30 months horizon, we don't need capital per se, even from a regulatory point of view.

Baskar Ramachandran: But however, as we all banks and financial institutions keep looking for raising capital and opportunistic business. We'll always raise capital when think we will require it, so whenever there is an opportunity coming in. We are really baking in now, immediately, no. Our capital adequacy is comfortable, including taking in sort of growth. Should an opportunity arise, depending on obviously on multiple approvals which is required, including from Board here.

Ankur Kumar: Got it, sir. Sir, on NPA guidance of 0.5%, so net NPA. So do you expect GNPA to reduce by collections? Or we will be increasing provisions much higher going in the next 3 quarters?

Baskar Ramachandran: It will be a mix of both as well, it is, but we do not see any substantial incremental GNPA building up, as I kind of alluding to in the previous question. Therefore, we are also focusing in terms of absolute amount, beyond just the ratio being played out purely by the denominator impact. However there will be business-as-usual marginal slippages. We do not see it to be very high.

But focus in terms of collecting back or the return of portfolio, which are collecting currently close to INR4 crores per month, whatever write-off portfolio, we have been collecting closer to INR6 crores to INR8 crores in terms of our ARC portfolio, as KC was earlier mentioning. We would also try to recover from the pool, which is GNPA written off. And probably, from INR4 crores, try accelerating at least to INR5 crores, INR6 crores on a month-on-month basis for next 12 months.

Moderator: The next question is from the line of Raj Joshi from ACE Securities.

Raj Joshi: So my question is how is the disbursement in the micro home loan segment? Since it's our -- it's one of our focus areas. And also adding to that, how has been our Vikas loan book shaping up? Have you seen any delinquency or concerns pertaining to that product?

Kanishka Chaudhary: So in micro home loans, micro mortgage segment, we do anywhere between INR12 crores to INR15 crores a month. The plan is that, over the next 3 quarters we are able to introduce new products that allow us to move from micro home loans to micro LAP, also look at slightly larger ticket sizes, so that this business actually grows on a quarter-on-quarter basis.

Insofar as your question about Vikas loans is concerned, I think part numbers are more or less stable and similar to what they were last quarter. So at this particular point in time, there is no sign of concern.

Moderator: It seems like we've lost the line for the current participant.

We take the next question from the line of Manav Vijay from Deep Financial.

Manav Vijay: I have 2 questions. One in regard to the other income. So this INR51 crores, almost a 50% rise on a quarter-on-quarter basis. If you can provide us slight explanation as to break up about this income and the sustainability as well of this income for this year.

Kanishka Chaudhary: So Manav, like I alluded a while ago, this quarter has been good because of the income we made by selling the PSL certificates, right? So we made an income of around INR26 crores. Largely, on a very high-level basis, we sold around INR1,200 crores worth of certificate at around 2%, right?

So this is a good gain for us for this quarter. However, in the PSL market as it stands today, the pricing have tanked to around 10 paise. And given our experience in the last year and the year before, this is going to be very opportunistic over the next 3 quarters. It will be very difficult for us to give a number as in terms of how much more income we made by selling PSL certificates over the next 3 quarters.

Baskar Ramachandran: Within Q1 is when we get PSLC income. And to your question in terms of sustainability, usually Q1, the disbursals are also reasonably tapered. And as the disbursements pick up, we'll be back to kind of also quite a bit compensating that by increased disbursement and resulting in higher processing charges, as in quantum.

Manav Vijay: Okay. So sir, in case -- so let's say, when you talk about the sustainability, so ex of the PSLC income, INR25 crores, INR26 crores is what you made in this quarter. And as disbursements will move up, this income will also move up. So for next 3 quarters, INR30 crores per quarter would be a safe assumption to work with?

Baskar Ramachandran: I would say yes.

Kanishka Chaudhary: Yes.

Baskar Ramachandran: As you will have seen, even Q4, it was around INR34 crores, so INR35 crores will be a sustainable number at where we will be back to same disbursal number as Q4.

Manav Vijay: Okay. And my last question, sir. Now you have sent one more notice to the exchange, where you are looking to increase the authorized capital from -- actually from INR118 crores to INR150 crores. Earlier, to one of the questions, you mentioned that you're not looking to raise any capital for at least next 24 to 30 months because now the business itself is generating substantive cash for you, so any thought process on as to why this move has been done?

Baskar Ramachandran: Every 4, 5 years, we increase our authorized capital adequately as well as in terms of our borrowing limits. So it's part of that exercise of once in 3, 4 years that we do it.

And to the capital raise inquiry, we can re-clarify. We have, Suryoday, always have capital adequacy much higher than the regulatory requirement, right, from our first year of operation in 2009. And we always intended to have it, as long as a substantial piece of our business continues to come in from unsecured business, which currently stands at around closer to 60% to 65%. And we intend that we'll maintain that ratio very close to 55%. At least we'll not -- we'll continue -- we are a strong player in the segment.

So whenever there is -- an opportunity arises, then we always looked at it. And since we are listed, I would not kind of want to either say that we will raise or we'll not. As and when there is an opportunity which is coming in at a kind of price which is good for the bank as well as for the shareholders, we will kind of consider it. It's neither a no nor a yes. I will say that we will be neutral.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Thank you, and over to you all.

Baskar Ramachandran: Thank you, Carol. Thank you for participating and taking the time out. We do believe that we will build up on the performance which we kind of started building consistently from the last couple of quarters. The intent is to really create a very robust, sustainable and a very respectable bank. And thank you for all your support. And we believe that we'll deliver it on a quarter-on-quarter basis.

Thank you very much.

Moderator: Thank you. On behalf of Systematix institutional equities, that concludes this conference. Thank you all for joining. You may now disconnect your lines.