CSL Finance Limited

CIN: L74899DL1992PLC051462

May 23, 2023

National Stock Exchange of India Limited Exchange Plaza, C-1, Block-G, Bandra Kurla Complex, Bandra (E), Mumbai - 400051 **NSE Symbol: CSLFINANCE**	**BSE Limited** Corporate Relationship Department, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400001 **BSE Scrip Code: 530067**

Dear Sir/Ma'am,

Sub: Transcript of the Conference Call held on May 18, 2023

With reference to our letter dated May 15, 2023, intimating you about the conference call for Analysts and Investors held on May 18, 2023, please find attached the transcript of the aforesaid conference call.

The above information shall be made available on the website of the Company viz. www.cslfinance.in.

We request you to kindly take the above information on your record.

Thanking you,

Yours Faithfully,
For **CSL Finance Limited**

ROHIT GUPTA
Digitally signed by ROHIT GUPTA
Date: 2023.05.23 17:52:19 +05'30'

Rohit Gupta
Managing Director
(DIN: 00045077)

Encl: a/a

CSL Finance Limited Q4 and FY23 Earnings Conference Call

May 18, 2023

MANAGEMENT: **MR. ROHIT GUPTA – MANAGING DIRECTOR**
MR. AMIT RANJAN – CHIEF OPERATING OFFICER
MR. NARESH CHANDRA VARSHNEY – CHIEF FINANCIAL OFFICER
MR. CHANDAN KUMAR – CREDIT HEAD
MS. RACHITA GUPTA – WHOLE-TIME DIRECTOR

IR ADVISOR: **MR. SAYAM POKHARNA – TIL ADVISORS**

Moderator: Ladies and gentlemen, Good day and welcome to the CSL Finance Limited Q4 FY23 Earnings Conference Call hosted by TIL Advisors Private Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference to Mr. Sayam Pokharna from TIL Advisors Private Limited. Thank you and over to you sir.

Sayam Pokharna: Thank you Darwin. Hello everyone, good afternoon and thank you for joining the Q4 and FY23 Earnings Conference Call of CSL Finance Limited.

The Results and Investor Presentation have been updated on the stock exchange and on the company website in case someone does not have a copy please feel free to reach out to us or to be added to the mailing list.

To take us through today's results and update us on the business we have with us Mr. Rohit Gupta – Managing Director, Mr. Amit Ranjan – Chief Operating Officer, Mr. Naresh Chandra Varshney – Chief Financial Officer, Mr. Chandan Kumar – Credit Head and Ms. Rachita Gupta – Whole Time Director. We will be starting with a brief overview of the quarter gone by and of the whole financial year from Rohit Sir followed by a Q&A session.

I would like to remind you all that anything and everything that is said on this call that represents any outlook for the future which can be construed as a forward-looking statement must be viewed in conjunction with the risk and uncertainties that we face. These risks have been mentioned in our annual report. Over to you, Rohit Sir.

Rohit Gupta: Thank you Sayam. Good evening everybody. I welcome you all to the Quarter 4 and the Financial Year 23 Earning Call of CSL Finance Limited. Thank you all for taking the time out to attend this call. It is a pleasure to address you all today and walk you through our performance for the quarter and the full financial year.

So, first of all, I will start with an update on our balance sheet. So, our loan book stands at highest ever at 732 crore as of Financial Year '23 and increase of 41% year-on-year and an increase of 8% quarter-on-quarter compared to Quarter 3 Financial Year '23.

More importantly the mix of AUM stands at 60% wholesale portfolio, 40% SME retail portfolio the highest ever in favor of SME retail. As many of you are already aware we have been trying to grow our SME retail book faster and the results of which have been visible in the previous year performance. The total disbursement for this quarter stood at 147 crore which is lower both on year-on-year and quarter-on-quarter. The main reason for this has been intentionally lower disbursement on wholesale side, as we have explained earlier also the wholesale is a little lumpy both in terms of disbursement and collection sometime in a particular quarter we do much higher disbursements and correspondingly the collections are also higher.

So, it is a factor of collections also and sometimes certain proposals culminate more in a particular quarter that is why it is better to see wholesale business from yearly perspective than on quarterly whereas the disbursement on the SME retail front have been good in Quarter 4 same as Quarter 3. So, collection efficiency as a whole for the companies is 99% a trend consistent for entire financial year where our wholesale book has been with zero DPD and it is around 98.5% on the SME side. So, you will notice we are carrying some higher liquidity as on 31st March 2023 which was primarily on account of some scheduled NCD repayments in April 2023 which we have paid amounting to 40 crores. We have enough sanctions in hand from the newly on boarded lenders as well as from existing lenders for the coming quarters.

On the leverage front we have leveraged our book to 1.13 as of Financial Year '23 compared to 0.64 as of Financial Year '22 and 0.98 for the Quarter 3 Financial Year '23. We are maintaining a healthy capital adequacy ratio of 50% and comfortable headroom to growth on the leverage side especially now that we have a higher mix of SME retail in our loan book. The latest 4 lenders to be added to our portfolio of 15 lenders are Muthoot Capital Services, Utkarsh SFB, Fincare SFB and STCI Finance. We also received new sanction from existing lenders lending partners like HDFC Bank and Tata Capital.

I would also like to bring to attention our continuously improving asset quality where we have been seeing a consistent decrease in our GNPA and net NPA for the last 8 quarters. As of financial day 23, GNPA stands at 0.61% and NPA stands at 0.35%. These have been more than provided for our provision coverage ratio stands more than 200%. In this year we have also recovered bad debts amounting to Rs. 2.33 crores in Financial Year '23. We continue to show good traction on the recovery side in the coming year also.

So, now coming to the profit and loss side. Our total income stands at 118 crores an increase of 57% over Financial Year '22 primarily on account of growing loan book. Our net interest income stood at 88 crores and increase of 43% over Financial Year '22. As you may have noticed that net interest income growth has been lesser in financial 23 because of increased borrowing costs linked to MCLR and repo rates. These higher borrowing costs have especially kicked off in during Quarter 3 and Quarter 4 and that is why the NIM have little dropped in those quarters.

Going forward in the coming few quarters these costs will be passed on our customers which will help us to improve our net interest margin. Further, as a strategic move we are getting more active on transitioning our wholesale book towards floating rates, which will insulate us from certain moves and interest rates going forward. You will see effects of this in the coming three quarters. Subsequently, our PAT for the year stood at 146 crores as an increase of 36% over the previous year. We maintain an ROE of 12.56% and ROA 6.94% for this financial year.

Now coming to the operational update part operationally we have been pushing out a lot of improvements on the tech side the customer onboarding, loan underwriting platform has witnessed a lot of improvements over the last year and many have been laid out in the road map given in our investor presentation for the coming year. Compared to a year ago we are now much more confident of our technology capabilities and processes team on the SME retail front. A lot of focus is on improving employee and branch level efficiency with the extensive training and migration programs already undertaken in Financial Year '23 and also planned for financial year 24.

We are focusing on metrics like AUM per branch, AUM per employee and all efforts are going towards improving this metrics so we see a better cost-to-income ratio. Going forward, looking at response on our SME retail side and with more confidence in our abilities in this vision we will be moving forward with the rolling out 6 to 10 new branches in the coming financial year. We may also take shutdown of some underperforming one or two branches. So, the net branch addition will be of the tune of 8 to 10 branches in this financial year.

On the team side, employee addition will happen on the branch level with new branches, but at the current level we are well placed to cater to a larger set of operations. We will go for a credit rating review in the current financial year. Coming to our AUM mix we see a transition from our current 60-40 mix to 50-50 mix by the end of the next financial year. We are optimistic about the outlook for financial year 24 as the company possesses the required team, technology, processes, and capital for the coming year.

Now this was a brief update on all parameters. Now I put our team and myself to questions from your side.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Vishal Prasad from VP Capital. Please go ahead.

Vishal Prasad: SME loans we have started a few years back and we have been ramping very aggressively so now it is 40-60 we plan to make a 50-50 next year probably. So, if you could talk about where do we see SME versus wholesale in next three years, four years and since we are slightly new in SME segments, so what kind of risk do we see that we may face going forward and how we are trying to mitigate it?

Management: The next year we have planned ourselves that we try to achieve a 50-50 mix and we are very hopeful that we will be able to do that based on the team addition and the kind of effort which has gone during last financial year both in terms of processes, technology, training and the business which we have done and now the team is fully motivated and geared up for the target which we have set for those zones and branches. As a broader level, we see that focus will be more on the SME side, but depending on the dynamics of the market and we see that 50-50 to 60-40 may be an optimum level in next two to three years, but certain things are little dynamic and if we see more space and become more confident as going forward the SME will be our focus area. And thirdly about I think Amit will also add on the risk side as a company we have always thought of gradual expansion on the SME side just because we want to see that what kind of risk are coming and those risk are taken care of through our processes and enhancement in the credit policy and the parameters which we keep and through are the digital platform which we have kept which start giving us information and start doing data analysis. So, the core purpose of shifting to this platform where a lot of efforts has been done by the company in last financial year last 18 months and going forward still it is an ongoing process and in next six months we hope to see that the first level to larger extent the platform will be fully ready and so I think Amit will add more on the risk side as you have talked.

Amit Ranjan: Basically, in SME the main question you asked was what are the challenges we are going to face in the coming financial year. First of all, the challenges were earlier also and challenges will be there in future and present. So, we need to be very careful in identifying our clients and we are not going very aggressively in terms of doing business. We want to have a very organic growth and cluster wise approach is required wherever we are present we are expanding within those areas only, we are not getting into new geographies because that is going to be a new area after one and half years and in terms of underwriting we are trying to make most of the things from subjectivity to objectivity by putting certain 10 to 11 parameters on which these clients are analyzed for their eligibility. So, most of the things will be based on the platform derived and a lot of algorithm is going to be made in coming six months based on the specific industries whatever we have done in past 18 months we have enough data on which our analytical team is working on and we are trying to get most of the inferences from the past business and we try to rebuild on that information from this financial year and like I said earlier we are not aggressive we do not want to open most of the branches and then there will be issue in justifying the cost also. So, we will be very cautious in opening branches, we will be very cautious in again identifying the right kind of client mostly since it is direct marketing team which we are doing and direct sourcing from the market. So, most of the client will be new to the company and they will be new to credit. So, it will be easier for us to make them understand, educate also that paying EMI's on time is good for them so that they can come under main banking mainstream. So, that is the idea we carry for SME for this coming financial year and we intend to do at least a new book of 200 or 210-220 crores in this financial year.

Vishal Prasad: So, what is the current breakeven AUM for a branch?

Management: So, currently in branch if we open up it takes around 6 and half to 7 crores to have a breakeven and then starts making profitability. So, at least 7 crore of a business is required for a branch which comprises of a branch manager, credit manager and three to four RM and an RO and it also depends on the rentals because we are present in Tier-2, Tier-3 cities the rentals and the cost of manpower also differs. So, ideally on an average it requires 7 crores of an AUM by which only we can go for a breakeven.

Vishal Prasad: So, based on I mean this 7 crores and what figures I got in the previous call, so you have mentioned that the branch becomes breakeven at 7 crore become decently profitable at 10 crore and at 20 crore the branches is doing reasonably good, so out of 26 branches how many of our branches are doing more than 20 crore and between 10 to 20?

Management: So, in our 26 branches few branches we have shifted from one location to different location and there is addition of around four to five branches, but since we have started doing business from July 21 onwards prior to that it was COVID the business has not happened and it was in a lull period. So, from July 21 till now there are at least 50% of the branches which has got 10 crores. In 20 crores range there is not any branches why because the ticket size we are maintaining at an average of around 10 to 12 lakh. So, reaching 20 crores this financial year I hope that at least 50% of my branches will cross 20 crores of an AUM.

Vishal Prasad: Sir generally our AUM per branch is 7.92 crore and we are breaking at 7 and I understand most of our branches are new probably they are barely profitable. So, if we today decide that we are not going to open any more branches and we operate with these 26 that we have, so over a period of two, three years when the new branches become more established what kind of change do we see in terms of profitability of the SME segment?

Management: So, in terms of profitability like I said earlier, we are not aggressive in opening branches, but we will definitely add on few branches in this financial year. So, in terms of profitability we see at least 2.5 x in terms of per branch because 7 and half to 8 crores we have already achieved at least 82%, 85% of the branches. So, moving from here will be all because we are not adding any additional manpower in any of the branch. It will be only a replacement cost which will be there. So, we intend to do at least 2.5x profitability in coming two to three years.

Vishal Prasad: For a new branch how much is the CAPEX and OPEX that we are doing in the first year?

Management: So, CAPEX is generally is not beyond for a year it is if we fixed salaries and assets and the rental part it does not go beyond 15 to 20 lakh. So, we take at least 3 and a half lakhs to 4 lakh a month. So, at least 45 lakh a year is the OPEX, and the CAPEX is not beyond 4 to 5 lakhs.

Vishal Prasad: And out of 8 SME branches which are more than three years old, so what is the total AUM under these 8 branches?

Management: That figure I will have to update you, but generally it is around 80 to 90 crores of that total branch which is more than three years. So, 80 to 90 crores of the AUM we are maintaining because practically if you see most of the business has happened in the past year and July 21 onwards only when we were rebuilding the SME after the COVID period, and we have increased little bit on the penetration in the urban areas of the of the cities. So, the ticket size also increased from 4 to 5 lakh, average ticket size also increases from 4 and 5 lakh to 12 lakh, 13 lakh. So, currently most of the branches which is more than three years we will be managing at least 80 to 90 crores of the AUM.

Management: And pre COVID portfolio is less than 30 crores as of now. We have seen lot of foreclosures in last financial year. So, that was also one reason that our portfolio has run down and so now most of the portfolio is post COVID. So, it is less than 30 crores around 12%, 13% the portfolio is pre COVID portfolio.

Moderator: Thank you. The next question is from the line of Ajay Sharma from Cycas Investments. Please go ahead.

Ajay Sharma: So, I had a few questions. The first is what is the company cost of funds?

Management: The cost of funds, which were less than 10% at the start of the financial year it is around 11.25 as of now.

Ajay Sharma: And do you see this going up or coming down over the next year?

Management: 11.1 and it has basically risen in last one or two quarters and so Quarter 3 and Quarter 4. So, 11.1 is the weighted average cost of borrowing.

Ajay Sharma: And you see this going up or down in the next one year?

Management: Now that pressure we have not seen in the last one and half months which was there, I would say till March. Now, whatever we are speaking to a lot of new lenders for this quarter, and we are not seeing that. Now, we are seeing a little ease, now we have a little more bargaining power in telling them that to reduce the cost of borrowing as what was in March.

Ajay Sharma: And I read on the presentation that the company is looking at launching an unsecured product, can you tell us a little bit about this and also how you plan to manage risk with this product, is it for existing customers or is it for new customers?

Management: No, we plan to do that in the last quarter, but because of the platform we built a different platform for that and where we want to do it on the same day. So, we are targeting a particular segment, it is a particular segment where we are having data from a very big company which is providing that source to us and with the little bit of, I would say deterrent built for the borrowers. So, that is the helping point for us and so the ticket size will be around 2 to 3 lakhs to start with. So, we can better talk when we do a few accounts on that and probably at the end of this quarter few of the accounts will be on boarded, but rest because most of those segments we are targeting it is a niche segment where order based raw material requirement for those people is required and where I would say repayment will also happen within 60 to 90 days. So, they are short tenure loans which will be consistent. If one pay he will take again because they have a continuous flow of orders. So, we do not see too much risk and we have built certain credit parameters to do those loans. So, as of now I cannot say too much, but they are far better as compared to giving PL loans of 50,000-1,00,000 to public at large then targeting a particular segment based on that where they have been doing business for last three to five years at least and have a reasonable turnover. Sometimes the biggest risk from this segment comes and you do not have credible data, but that will be a little advantage to us, and we will be having a credible data in terms of whatever they have been doing business in terms of business.

Ajay Sharma: And along the same line can you just talk a little bit about the client profile of your SME retail borrowers like are they already in debt, what is their interest coverage, it is the first time that they have access to formal lines of credit, can you just give us a bit of information about them?

Management: First we have to understand the target audience of our SME division because SME is a very wide word from 5 lakh to 5 crore people categorized as SME. Our target audience is Tier-2, Tier-3 cities very small entrepreneurs like Kirana merchants like small workshops maybe cattle field, having multiple small sources of income within their family, running family shops, garment shops. So, these small trading people in different segments are our primary customers in Tier-2, Tier-3 cities. So, to assess their interest coverage ratio you will not get any audited or credible financial information in a collated format from them, and they do most of them or some of them are not new to us, they are already having some personal loans or maybe have well housing loan. So, simple and their credit history is one important parameter for us apart from what kind of turnovers and incomes they are generating based on their businesses. Vintage is very, very important because these families are mostly families we are at least 4 to 6 people are living, sometimes joint brother with that we take them as co-applicants and merge their collective income into that and secondly this is where a huge under penetration is there where 50% to 60% of India still lies and where it has become very difficult for banks to penetrate these segments and to do collections from this segment. As a company we focus that we have to build some knowledge around particular few segments, and we are able to do that so then our presence and a little edge we will have as compared to targeting a very matured SME manufacturer either they will be relying on bill discounting mode maybe CC mode from bank. So, that is not the segment where we can build a niche, or our competitiveness will come, and this segment is neither can be fully breached through the Fintech mode also primarily being totally secured. Our 92% customers will take their self-occupied residential property and we are doing a complete 13-year change, not the imperfect kind of a mortgage. So, these are fully collateralized, and LTVs are less 50% and there it is under little lower habitation we are taking not going more than 35%. So, first they are fully collateralized. Secondly, they are still not fully penetrated. Thirdly, they cannot be penetrated by larger banks and the way they need to be assessed and they need to be serviced and that is why more and more banks are looking for co-lending with the NBFCs which are focusing in this area and most of them are falling under MSME Udyam registration. So, these are priority sector loans this comes into that. So, your question that you can make a reasonable assessment on the interest coverage ratio and all those ratios based on some audited or unaudited financial parameters that is not there. As Amit has told various algos and how to make the subjective and objective based on their what kind of network they have, what kind of assets they have created, what kind of stock they are keeping, what kind of margins they may be enjoying, what kind of living standard they have, what kind of children, which kind of schools they are studying. So, based on how they have grown in last 10 years when you pull it all those parameters and put into a proper format and run algos and build the knowledge around that. I think reasonably you can do it definitely there can be a 2% to 3% of NPA those are not NPA because we are able to from our track record of recovery in last 18 months. Prior to that there was an embargo of classifying as an NPA because they are fully collateralized, we are able to recover and the recovery is from SARFAESI is faster which is 20 lakh plus and in other even multiple ways of execution arbitration and 138 one also works good. So, sometimes few cases get added up, some few cases we are getting a resolution. So, having a large NPA which cannot be recovered seems not that probability is little lesser.

Ajay Sharma: I have been an investor with the company almost since 2015 and I have been very impressed with how the wholesale lending book is grown and how it withstood COVID, so my question is why go through the effort and the difficulty of building an SME retail book and building a sales force when you can focus more on the wholesale book and for the same effort there and you would expand much more?

Management: You are absolutely right, but I think sometimes having a combination of both retail where we want to build a knowledge the same way we have built in the wholesale. So, wholesale there are two, three limitations because of ticket size there is lot of riders from the banks and the rating agencies that exposure for customer it is too much sometimes because of the lumpiness in certain time, lot of accounts get taken over and thirdly it gives us the SME is a very regular granular business where disbursements are very, very happening regularly at the given rate per month and collections are very, very predictable vis-a-vis wholesale where all those they do make the repayment before the repayment schedules. So, we want it gives a very good mix of both and we are able to utilize our capital to the max and may help us to bring more lenders into our profile and help us to bring visibility of a company as a whole also. So, we think it was required and that was why we have added it otherwise as a company why would have we added if we are able to think that the single wholesale business was fine, so that was our thought behind that.

Ajay Sharma: And my final question is revenue over guidance over the loan book?

Management: I am not able to understand.

Ajay Sharma: You have these forward guidance about the loan book any targets?

Management: We have till date avoided giving the guidance, but we have given a guidance on the product mix. Definitely now we are on the growth path from four lenders which we were there for three, four years during COVID and post ILFS. Now we have focused lot of building our liability side now we have 15 lenders, and we hope that much more lenders will come this year and the focus is on growth both the division they are now stabilized team has been stabilized, cooperating the platform and the policies. So, the focus will definitely be on the growth side and last two year has been reasonably good for the company. So, putting numbers definitely we have a lot of scope to leverage ourselves we are only 1.13 through the debt route and at opportune time and by any other instrument. So, yes, we have made all those efforts in the last 18 months the focus will be on the growth and definitely be achieving good numbers will be our focus.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: So, my first question is I think if I look at the disbursement and loan book number I think last year we disbursed around 760 crores and our loan book has grown by 216 crores, so can you give some flavor as to what are the typical repayment in the loan book that we are having and going forward as the SME proportion increases is that going to change and a question tied to that is that in terms of tenure for SME loans, are we looking at longer tenure SME loans and each term what is the current proportion and how do we see that going forward?

Management: There are two questions one on the wholesale and one on the retail. I think Chandan will tell us about the wholesale on the tenures and the repayments and all this on this and then Amit will say the second part.

Chandan Kumar: For wholesale loan generally, the general tenure is ranging between 36 to 48 months in which is proposed from our side as a sanction terms, but being as Rohit has told you earlier that the cash flows are very lumpy. So, the cash flow from the project start coming within the first year itself once the project gets launched. So, as per our experience in the last five years we see that for general tenure of 48 months loan, it gets closed within 24 to 36 months within that period itself for larger ticket size loans and for small builder loan that is wholesale small that average tenure is around 24 to 36 months where we can see a cash flow start coming after 12 months when the part of the flow or part of the project get sold and within 24 months the most of the account get closed. So, here you can see the collection wholesale is very lumpy and we used to collect much more in advance then the scheduled repayment time that is why the disbursement number and the loan book increase is on MSME side. Apart from that you can see that in wholesale we do various kind of opportunity with business versus the tenure the loan get itself closed within a particular year itself. So, that turns into the disbursement as well as the collection part also, but it does not impact our loan book that is the going incremental value to the loan book. So, that is the very kind of opportunity-based business once we enter into a particular financial year and get our result into particular financial year itself.

Management: But we are focused on one segment only we are not going into too many areas because as a company we strongly believe that we should only focus where we built knowledge. What Chandan said I just like to add there are certain accounts which we board at the much higher IRR, but at those cash flows becomes much more stronger and certain times those get taken over by much lower rates by larger bank. So, that is we at the time of boarding also understand this account will be for 6 to 9 months to 12 months and Chandan has categorized these account as opportunity based, but they are from the real segment only, but at the time of boarding we sometimes able to perceive that the customer will not be there with us for a very long period and sometimes when we get it is a very attractive rate it becomes very difficult to retain him, but those customers have been very repetitive with us because the kind of understanding they feel that we have about this segment and what is going around within the authorities and practically what is happening as of now and what kind of decisions required to be taken at opportune time and with the speed. So, they do come back to us.

Management: On the retail side we have a various product ranging from four years to seven years maximum and we do not intend to increase the tenure in the coming financial year also. So, it is almost like in the wholesale also the on boarding of the client happens here in SME and we also see that the balance transfer happening within 24 to 36 months and average tenure currently in our complete portfolio is around 56 to 60. So, we do not have any issues in maintaining the same tenure in the coming financial year also. There are cases which is around 5% to 4% where we think of giving a little bit higher tenure like 8 years, but there are only exceptional days primarily 95% to 97% of my book is less 60 months on an average.

Management: I mean in those cases where they run down after two or three years are either demanding a top up or they get taken over by other institution.

Dhwanil Desai: So, is it a fair understanding that as the SME proportion increases and the disbursement to loan book ratio will improve further because SME will have high tenure?

Management: That will increase on the SME for wholesale because this is very granule last year we did around 145 crores, 150 crores on the retail and MSME side is around 85 crores and that is our SME, but definitely when their mix will improve our disbursement on the wholesale will come down little bit definitely.

Dhwanil Desai: And second question is on disbursement price you are looking at this number even if you know considering that Q4 was an anomaly because we wanted to conserve liquidity, but still in that 190 crore, 200 crore kind of a range and we have intention of scaling up SME per branch AUM, so next year do we see more than 200 crore quarterly run rate going forward how do you look at that one?

Management: Quarterly run rate of the total disbursement.

Dhwanil Desia: Yes.

Management: Hopefully sure definitely it should come. The SME is more granule and wholesale is more bigger and some lumpy. So, on year-on-year I think we should be able to do that.

Dhwanil Desai: And last question from what was earlier discussed at 7 crore number generally our branches become breakeven on an average so currently we are at 7.92, so essentially is it safe to say that at a portfolio level SME is almost close to breakeven or slightly better than break even and as we scale up the incremental profitability will flow to the bottom line that is the right way to look at it?

Management: We are profitable even right now. I do not know how industries do that when we assess our profitability internally even our own equity we put the cost to that. So, there we think now the profitability has to come from the fact that our weighted cost of borrowing is the cost of borrowing for our equity part also. So, if you do not put that cost to that for our internal profitability metrics then even our retail is also profitable.

Dhwanil Desai: So, what I am getting is you said that the next year or the year after that?

Management: As Amit has already explained our OPEX will not increase too much in proportion to the business which will be doing it. So, definitely now the additional business will give us more margins as compared to as we have told last quarter also now most of the manpower to grow at 1,000 crore we do not see too much addition except from the opening of the new branches or adding few more people to the existing branches.

Management: And moreover the platform is already ready. We have worked very hard for the last 18 months and now it is time to scale up from those branches only. So, like I said earlier also that we do not have to put more cost into building a branch or hiring a manpower or building on a technology front also we need only have to go more into the market, making the branches average productivity move from 70 lakh to 1.25 crores similarly then only we will have profitability at all branches in much, much better way in coming financial year because with the platform which is set right now it is only what we have to do is to pump in business from the same set of branches, adding few and I do not see any reason why we cannot be profitable in all branches in coming financial year.

Dhwanil Desai: And last question on provision tax so I think we are doing far more provision than what is statutorily required and our provision coverage ratio also is pretty high, so are we likely to continue or are we kind of trying to build the buffer for the rainy day that is the thought process?

Management: We have kept the benchmark that for stage 1 and stage 2 assets we will be having 1% provision coverage ratio minimum as compared to 0.4% which is the statutory limit and for the secured one we are doing between 0.4% to 0.5%. So, when we take cumulatively last year our provision growth was higher. So, our provision for standard asset was much higher. So, around 60% has gone for standard asset provisioning. So, that is why the provisioning coverage ratio has increased and I think these are yes we are a little more conservative and so we tend to carry this policy because we have made a policy now we do not intend to change it and we like to maintain the same policy going forward.

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

Nikhil: My question is basically on slide 33 where we have given a break up of SME retail. On the active accounts if I have to ask at the beginning of the year we had around 1,450 accounts which are around 2,076 today. So, of this accounts which we started with how many would we have been able to retain and how many would be completely new to the system?

Management: We do not have an upfront, but the number of accounts that we boarded was much higher. We have seen a lot of foreclosure in last financial year, but those numbers what was the foreclosure and so I think we will start putting even that in future, but upfront as of now we need some time to give the data, but right now we will not be able to give the exact numbers in terms of number of accounts, 1,140 accounts we have boarded in last financial year. So, the rest opening plus 1,140 minus have been closed either being foreclosed by the borrower or may have been taken over by the other bank.

Nikhil: So, where I am coming from is if I look at the average ticket size which was 7 lakh has moved to 10 lakh and if I also look at the average LTV which was around 27% there we see a jump of 34% so the newer accounts which have come up it seems that the average ticket size is also larger and also the LTV ratios are much larger?

Management: I will explain that and Amit will also add they have been a little strategy on that side because in COVID period we have seen that prior to COVID we were focusing more on the 5 lakh to 10 lakh kind of ticket size what happened those are purely rural one would say and secondly those accounts they were marginal borrowers. Whenever anything goes wrong in their family in terms of medical, health, education or any dynamic in terms of businesses. So, we found that they were coming little bit under stress and the quality of the properties. When we started moving into Tier-2, Tier-3 cities mostly within the municipal limits or on the borders of municipal limits we are the quality of the property is far better the vintage of the businesses and multiple business source we start getting. So, the LTVs will definitely going to as you told we have low agitation area rural areas, we limit ourselves between 30 to 35, but as you move to more semi urban or little urban areas there LTV we have to go at least 45% to 50% sometimes. So, that is the two reason and thirdly we have also found that SARFAESI helps us a lot and there was a structural strategic decision also that a certain portion of our segment we will start focusing those small borrowers maybe 20 lakh to 30 lakh kind of a ticket and making that 25%, 30% of our portfolio. So, it is not because of SARFAESI, but in terms of we are able to diversify ourselves. Thirdly, the quality of collateral is far better the vintage of the business and multiple source of businesses are much more there and we have found also those people have in terms when we have started taking their networks and multiple properties also and that helps when sometimes in stress they are able to dispose-off surplus property which when you are targeting a very marginal borrower of 5 lakh, 7 lakh. So, the presence of those multiple properties are not there.

Amit Ranjan: And to add to this on the strategy front also we never wanted to go into the rural areas because of the quality of the property. These clients were basically very marginal and we wanted to operate on a much more liquid market wherein if you know something happens within the dynamism of the market these people are able to have such kind of cash flows that at least 3 to 4 EMI's are at their disposal. So, we wanted those type of client on our portfolio so that it becomes little bit moderate in terms of cash flows also in the quality of the property which has to be in the market or urban area for the salability and easy accessibility of those property. So, it is a much better way to operate in SME segment by this way by protecting your interest as well as looking after client interest as well and these kind of clients are basically small or medium type of businessman who keeps on having multiple of business, multiple of properties. So, it is easier to operate and communicate with them. They are a little bit much better educated also from a credit point of view.

Management: Last year in COVID time when we were doing this less than 10 lakh, 5 lakh cases. So, we came across that sometimes if the dynamics in COVID the dynamics changed very fast certain businesses were closed they were not able to come back. So, being on the marginal side sometimes to come back or recover from a little difficult stress period becomes difficult for those customers targeting 5 lakh, 7 lakh doing imperfect collateral taking large sale deal, things are faster.

Dhwanil Desai: Able to assess their eligibility also.

Management: Strategically we thought and because lot of introspection went in the COVID period when we analyze each and every account. So, that was the one reason because of which I would say LTV's have gone up so far better collateral we are getting and in terms of the tickets size.

Dhwanil Desai: Second question now if we consider and one of the key parameters you said is the ability to match that customers cash flows which is ability to repay and if I attach it to the unsecured loan part which you mentioned in the presentation what gives you the edge that if we go into the unsecured loan product for MSME in Tier-2, Tier-3 cities how much of our current learning can we replicate it and when we are going into unsecured versus secured if in secured this cash flow was 100 and we were giving him a loan of 20 in unsecured what would that matrix be which we would like to maintain?

Management: First of all we are targeting a particular segment. It is mostly they are catering order based. So, when we are funding them they are taking raw material based on some order. We will be only funding, we will be discounting there, receive no bill the purchases. So, we are not giving just personal loans or business we will be just discounting their purchases which they will be making from the particular set of retailer. So, it is I would say the discounting of their purchases and secondly those are mostly order based material which they purchased and every period for that segment is 60 days to 90 days secondly whatever we have learned for the secured part definitely we are putting into that. We built a separate platform Amit.

Amit Ranjan: How we are going to coexist together is we are not going out of any of the geographies we are present there, our team is present there, we are not making any special team out of it, we are having a data which is the data where we want to go it is a weighted data in terms of these clients are already there and the bills are getting funded from us for 50,000 to 2.5 lakhs. It is a completely digital platform that is the reason we are taking a little bit of time. We are just adding more credit analysis into that and that the underwriting part is also there earlier we wanted to fund them and you wanted to take at least two to three days, but now we have an idea and we are targeting that we should give them a loan within 24 hours with the details which we have, the team is there the credit underwriting which is a centralized credit underwriting team which will be based out of HO. The sourcing will happen from the same branches where we are operating from the SME. Yes, the ticket size will be a lower side and it will be a mix of to start with 10% of the portfolio in the coming financial year, 10% to 15% of unsecured and remaining will be 85% to 90% will be a secured one.

Dhwanil Desai: And last question the yield on these loans would be accretive to the average yield for the company and secondly on the credit cost side if we have to consider the credit cost and because we have both wholesale and SME book would the credit cost or the provision which we are carrying for the SME book be higher than the wholesale book?

Management: Yeah definitely because there is not a single account into DPD on the wholesale. So, you can say yes definitely, but if you see in last 18 months our gross NPA in spite of our book increasing by 200 crores in last 18 months I have come down from 10 crores to 4 crores even if on the amount which we have written off we have recovered roughly 5 and a half crores in last 18 months post January 22 I would say. So, on the granular level on the SME side also it was during COVID when our gross NPA have crossed 2.92 crores and mostly coming out of the SME. So, from that situation where are at that time 290 accounts in schools were out of that 65% to 70% have become NPA which most of them we have made them regular or we have resolved barring 15, 20 accounts which were less than 5 lakh mostly on the unsecured which we started in that period which we have totally closed in last three years. So, in terms of the credit cost which has come and it was more of the COVID period and in the last 18 months we have reduced to very large extent.

Dhwanil Desai: And the yields would be accretive for the unsecured to the total company average yield as of today?

Management: Unsecured we will definitely target a little higher yield 20 plus times, but we are saying again and again we do not know the dynamics we have to see the dynamics and somewhat if we find that segment is extremely fine and where our operating cost and repetitive customers and the credit cost is seen as a much lower percentage we may reduce it. So, the dynamics of the business will ultimately determine the IRR, but we will try the 20% plus to start with.

Moderator: Thank you. The next question is from the line of Rupesh Tatiya from IntelSense Capital. Please go ahead.

Rupesh Tatiya: I have three or four questions first questions on the SME side, can you give me 1 to 30, 30 to 60, 60 to 90 and 90 plus DPD?

Management: It is already in their balance sheet. I think it will be uploaded in a day or two. So, where notes to accounts have a complete details of that 0, 30, 30, 60, 60, 90, but I will like to add a little point on that in our segment sometimes bouncing percentage is between 12% to 14% where out of that 80%, 84%, 85% gets collected directly when we go through a NACH at the time of presentation in the first week of the month and 98% to 99% get collected and certain people if they fail in a particular month they pay two EMIs next month they become regular. So, certain new customers come because sometimes certain businesses are seasonal. When you are targeting a Tier-2, Tier-3 city and small businesses all businesses are not at the same velocity every month and because of some seasonality some encountering any health issue, some go having any marriage and all those certain sometimes one can see a customer missing one or at max two EMIs which is getting regularized and sometimes the new customer comes and because of that there are few customers you will find in 0-30, 30-60, but if we see that track record they are coming back some new may be adding so it is because a certain peculiarity of this segment where we are.

Rupesh Tatiya: The reason I am asking this question in SME our collection efficiency is 98% for most of the quarters in Q3. I think it was 99% gross NPA number is because of you?

Management: When we say this collection efficiency 0 to 90. So, if a customer slips in a particular month the other customer is being substituted by that which has slipped. So, the efficiency for that they remain between that 98% to 99%.

Amit Ranjan: The percentage which we have seen 98% what rightly said by Rohit sir in this kind of segments sometimes the customer slips from 0 to 30, 30-60 DPD because of unprecedented reason maybe medical, maybe some kind of unforeseen expenses are there. So, he slips from one bucket to different buckets, but in the next month he gives all the EMIs when the situation is better. So, that is the reason sometimes it overlaps the payment made by one payment and if he misses then he pays in the next month few of the clients misses in that particular month and then he fails. So, it is a cycle which keeps on going from month-on-month, but we have a target of doing collection efficiency of 100%, but we end up doing 98% to 99%. So, that is the reason it has been given 98% nevertheless the collection which you are saying if you see on an average it is almost 0 to 90 we cover all the cases by the month end.

Management: Few of the branches do 100% some branches do 94%, 95% so the average comes out to 98.

Rupesh Tatiya: My next question sir is can you give me what is the mid-size LAP book SME LAP book as of March 23?

Management: So, you are asking SME LAP book or the overall book?

Rupesh Tatiya: I am asking SME LAP book?

Management: SME LAP book around 85 crores these are small I would say small-to-mid sized borrowers and more in the NCR far better collateral and where LTVs are lesser than 40%, 45% and mostly they are in the NCR region as of now they are far better and the predictability of cash flows are far better and little lower we will just compare to that. They are being averagely done at 16.5 and as compared to that.

Rupesh Tatiya: And what is finalized growth outlook on this book for let us say FY24 would it be higher than company AUM growth average will it be lower?

Management: I would say maximum in terms of percentage going forward year-on-year you will see the growth on the SME side followed by little bit depends on the dynamics between the two SME LAP and the wholesale, but yes definitely going forward year-on-year growth will be higher on the SME side.

Rupesh Tatiya: Next question sir is you said credit rating review will happen on FY24 can you maybe list two or three major requirement for credit rating update that you have?

Management: Sometimes you say 1,000 crore is a benchmark we have always said that, but I do not know whether it is an unofficial guideline or no other mostly what we account and counter is the top 20 customer and geographical presentation of our wholesale. So, that is two basic things in spite of that we are telling them we have been doing for the last 11 years. So, our track record and all those, but whatever that is the bare minimum I think exposure we could have by taking the complete control over the projects and the cash flows and vis-a-vis our company returns they do a much higher ticket size, but still that has been two major concern and we see we are a small company going to newer areas without much more I would say front does not make sense to do small businesses in newer pockets especially on the wholesale I am talking only about the wholesale. So, as and when we are growing we will expand to other areas we targeted Chandigarh Sabha which is a kind of mini-NCR across Panchkula, Mohali, Dera Bassi, Zirakpur, but we found that still market is not matured the way we want to look at things. Though, there is lot of boom in the real estate in that area the kind of developers of small time builders which are there, they were not to the our parameters which we have laid out, doing certain things which are not properly getting wetted from the authorities and all those. So, we do not want to go beyond our parameters and in spite of keeping reasonable team they are meeting lot of potential borrowers. We found that still market maturity is not there at this time and we will wait out for another 6 months to one year to see it again and now we want to look at some part of to Uttaranchal because it is coming up in a big way especially Dehradun, Rishikesh and Haridwar side and little bit maybe on the Lucknow, but these are only on the radars and we do extensive 6 to 9 months research by keeping a full-fledged team and meeting potential borrowers and then taking up plans.

Rupesh Tatiya: Next question sir is we have 19% yield on the SME book. I saw in your presentation that you know 99% of the collection happens digitally. Based on experience in some of the other segments I mean at this kind of yield you know 19% yield and that smaller ticket size this kind of business is a human touch heavy business is what my understanding is I mean how often your loan officer or whoever collection person need the actual customer, how do you balance that?

Management: Basically, you are absolutely right that the human touch is required in SME and to update you it is a 110% human touch which we are doing. You will not believe that when the customer is on boarded I will start from on boarding. So, right from the RM to branch manager to credit manager up to regional credit manager then journal credit manager and if anybody in the leadership team is also travelling also meets the client irrespective of the loan amount. So, the human touch is there right on the on boarding pertaining to that post disbursal also we have an exclusive audit team which visit the client before check handover also in most of the cases just to check whether the customer has been informed about the company's policies, parameters or not and whether the businesses which has been seen by credit team is at par with the audit team also or not. This is on-boarding and post dispersal process. Coming onto the collection we are 99% digitally we are collecting all the payments either through NACH or through our MCollect app and that's the reason we have written 99% digital because instantly we give receipt to a customer when once he pays the cash and the cash is deposited immediately into the branch.

Management: When we put a NACH 85% collection come through the NACH digital mode and mam I will give her more granular data. In Rajasthan, we are for the collection side we are collecting 80% through digital, 20% to cash mode and in Punjab, Haryana and Rajasthan and Gujarat and Uttaranchal it is 50-50. So, if we take that more than I would say 90% to 93% is through digital mode, 7% what Amit is saying we are doing 100%. Our collection team is on a digital platform. They are not giving any physical receipt the moment he gives the cash in certain cases, the receipt, email, WhatsApp simultaneously get triggered. So, that that is the journey otherwise through app only. Only a 93% to 94% is coming from the digital way maybe through Nash, UPI and other way of payments and 7% is overall cash collection which is happening digitally.

Rupesh Tatiya: This is clear SME side how do you see risk of balanced transfer and the reason I am saying this is that your cost of fund is high it will remain high compared to let us say bank and small finance banks and all of other guys. The cost of funds will continue to remain high and you are kind of creating a digital trail for your customer and I heard you say that a lot of your customers are new to credit customers, but after one year or two year they will have a pretty decent digital record and then what is the risk of balance transfer?

Management: So, the risk of balance transfer like you said that this particular clients are new to bank or new to us. Average what we have seen and what I have seen in the past 18 months that we only have around 10 loan which has been balance transfer from us to different financial institution and the major reason was their requirement of the top up amount which is beyond our ticket size. Generally this kind of customer try to keep with us the idea because we give fixed rate of interest to them till the entire tenure and average they remain with us for around like I said earlier 24 to 36 months. So, I do not see in the coming year that there will be much of a balance transfer happening from us.

Management: That balance transfers is happening in every industry everywhere larger, even one going for a corporate going for lesser the new bank 4.5%, so those things will always be there. The focus is that we work within our domain knowledge, our target audience and keep on doing business and still I would say again and again this is the only segment which is under penetrated. The other ones more was the metros and all those have been penetrated where I would say sometimes service or your pricing plays a larger role or the amount which you can give and more of that of late especially the PSU banks have realized that it is better to work with the NBFCs on co-lending formats the segment which we are.

Moderator: Thank you. The next question is from the line of Vishal Prasad from VP Capital. Please go ahead.

Vishal Prasad: Rohit sir I have one request if you could we do resume at the end of the cycle probably between 26th to 30th of September and past few years we are very open with our communication, so is it possible for you to take a look and schedule the AGM a bit earlier because last week there is a lot of realization we keep on missing lot of AGM?

Management: Yeah we will take your valuable insight and try to do that. What happened we always target these annual reports and fine tuning it and sometimes all those. So, yes we will pull they give earlier deadline and all those and we will not bunch up during last 10 days and we will try that from this year onwards. It is being secondly the second reason sometimes was when it used to happen physically lot of those people which have no interest especially in North India they come in such a huge number 300 to 500 people will come and create such a huge nuisance. You have to call the police and there is only these two small money and all those things. So, the main purpose to speak to any answers or want to listen it the whole purpose get defeated even those small number of people who come for that purpose they are also not able to participate. The genuine people were coming and I do not know in Mumbai there is no such trend. In the North there is special teams which are doing this way.

Vishal Prasad: So, two more questions usually if a branch does good, how much time it takes to breakeven and to reach 10 crore of AUM?

Management: Vishal it depends on the market also and we have categorized our branches into A, B and C also that so suppose the branch in Jaipur will definitely reach to a 10 crore even faster than the branch which is built out of smaller place maybe like you know Rajsamand or Sikar, but ideally if you average out 10 crore reaching a 10 crore will be after a year at least 13 months, 14 months is required because the first 3 months if branch is new it takes their own sweet time to come up to the market challenges and everything, but we have kept an average target of around 80 to 90 lakh per branch. So, looking into that by the end of this one financial year we target to do at least 10 crores per branch in this financial year also at least it takes 12 to 13 months to reach 10 crores with this pace particularly.

Vishal Prasad: And in our wholesale lending we have mentioned that we usually not usually, but sometimes we partner with some of the co-lenders, but we have not mentioned the names earlier, so is it possible for you to name our co-lenders?

Management: Primarily we were working with one co-lender NBFC and so now from this year onwards we have started doing down selling. We have done one transaction with Kotak, one with TFCI. Now the focus this year will not be reducing our business, but we are doing the same or much higher amount of business then bringing them through co-lending mode and assigning down selling them, assigning them. So, that will add to our gross IRR and still our presence in the market will be there that nobody will be able to say that we are not doing lesser business at the same time on our book the percentage rise will not be that much. So, that has been the core target for next year to do higher business, but still remain within the limits on our books which we have thought and to name an NBFC I have no issues Rajasthan Global Securities which is around 1,500 to 1,800 crore kind of an NBFC and which have been doing it for last four years. We only board where we see that our ticket size is going beyond 15 crores to 20 crores, but we need the total control. We are complete onboarding and assessment and monitoring on daily basis is done by us.

Moderator: Due to paucity of time that would be our last question for today. Thank you. I would now like to hand the conference over to Mr. Rohit Gupta for his closing comments. Over to you, sir.

Rohit Gupta: Thank you very much I think we had a reasonable discussions otherwise to people who were not able to participate, but from the question that we have already taken you must have got a reasonable overview and most of them question must have been resolved and still you can speak to our IRR team or to our secretarial team if somebody has any specific questions and so again thank you everyone for participating in the call. Your questions are important to us and we strive to be transparent in our investor communication. So, thank you very much again.

Moderator: Thank you. On behalf of TIL Advisors Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.