Ref: SSFL/Stock Exchange/2022-23/148

Date: February 07, 2023

To
BSE Limited,
Department of Corporate Services
P. J. Towers, 25th Floor,
Dalal Street,
Mumbai – 400001
Scrip Code: 542759

To
National Stock Exchange of India Limited,
Listing Department
Exchange Plaza, C-1, Block G
BandraKurla Complex, Bandra (E)
Mumbai – 400051
Symbol: SPANDANA

Dear Sir,

Subject: Transcript of conference call held on Tuesday, January 31, 2023

Ref: Letter No.: Ref: SSFL/Stock Exchange/2022-23/137 dated January 24, 2023

In furtherance to our above-mentioned letter, please find enclosed the transcript of conference call held on Tuesday, January 31, 2023 to discuss the financial and operational performance of the Company for Q3 FY23.

The aforesaid information shall also be made available on the website of the Company at www.spandanasphoorty.com.

Kindly take the above on record.

Thanking you.

Yours Sincerely,
For Spandana Sphoorty Financial Limited
Ramesh Periasamy
Digitally signed by Ramesh Periasamy
Date: 2023.02.07 18:43:00 +05'30'
Ramesh Periasamy
Company Secretary and Compliance Officer

Encl: as above

"Spandana Sphoorty Financial Limited Q3 FY '23 Earnings Conference Call"

January 31, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 31st January 2023 will prevail.

MANAGEMENT: **MR. SHALABH SAXENA–MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SPANDANA SPHOORTY FINANCIAL LIMITED**

MR. ASHISH DAMANI – CFO & THE ENTIRE MANAGEMENT TEAM

Moderator: Ladies and gentlemen, good day, and welcome to the Spandana Sphoorty Financial Limited Q3 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements and other guarantees of future performance and involves risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shalabh Saxena, Managing Director and CEO of Spandana Sphoorty Financial Limited. Thank you, and over to you, sir.

Shalabh Saxena: Thank you very much. Good evening to all of you. Thank you for taking time out to join Spandana's quarter 3 earnings call today. We are thankful for your interest in our company. On behalf of the management team and Board of Directors of Spandana, I wish you all a very happy and a prosperous new year.

As we have been communicating thus far, the initial period of the current financial year was a period of consolidation. Our focus was on getting right talent and refining the systems and processes. Q3 was when we started our definitive growth march towards our Vision '25 as laid out earlier in the year.

In the statement when we had presented the paper, we had laid down our top five priorities. Just repeating the priorities, the first and the foremost was reinforce the middle and the senior management; number two, strengthen governance, risk management and control with added focus on refining processes; number three, customer acquisition-led growth, while retaining existing customers with our new range of products; number four, scale up of technology to deliver end-to-end paperless processes; and number five, customer focused initiatives with emphasis on products and service.

Happy to report on behalf of the entire management team that there has been good progress on all these priorities. We are pleased to share that almost all the identified senior and middle management roles have been filled, and we expect the balance a couple to be closed by the end of the quarter.

Quite a few other initiatives have either been rolled out or we are in the process of rolling them out, which focus on technology-led processes and the JLG model that we've been highlighting over the time. These initiatives include geotagging of customer houses. This is something that the industry has been kind of dealing with, and we feel that while we continue to operate the JLG model, and we strongly believe that it is a great model to pursue, it's important that there is some technology intervention, while identifying the customer houses apart from their regular communication address.

So we have geotag starting the 1st of October, it's been a quarter now. We've been geotagging every customer house for all the new loans that we give. Things in the JLG like center meeting locations, implementation of BCP for the enterprise, completion of information technology and information security audit, and a number of steps on the control side, including institutionalizing enterprise-wide risk management framework. All of these have been taken up in the initiatives. To ensure a smooth and quick scale up. The management has spent considerable time and efforts over the past few months refining and working on each of these processes and adopting the right tools and technologies.

We are attempting to get to do all the right things instead of doing things right, and that has been our attempt ever since we have taken over. We are now pivoting our business from consolidation to growth. We had an original plan. We have pulled forward our expansion plans in light of the progress made so far and the encouraging support received from all our stakeholders, including our employees. Plans are afoot to open roughly 100 new branches in identified geographies during the current quarter, which will be in the states of Rajasthan, UP, Bihar and a little bit of West Bengal.

We intend to complete most of our branch network expansion in the next financial year. These were the number of branches. If you recollect, we have said that we are going to open about 1,500 branches from our current network, of about 1,100. We need a clear runway of about 4 to 6 quarters. So in all likelihood, we'll complete all the branch expansion plans in -- by quarter 2 or quarter 3 of next financial year.

Our focus will also be on driving efficiencies and optimization. More on that in the later calls. But for now, what we have started doing is anything and everything which has to do with improving our efficiencies across our distribution network by investing in processes and technology is what we are driving. We continue to believe that the growth story will be a customer acquisition-led growth story, while still fulfilling the credit needs of all our existing customers.

All of you are aware microfinance business is all about managing risk. The focus of our management team will completely be on putting in place controls to ensure this goal is met. Quality growth is what we believe in, and that is what we are pursuing, and we will continue pursuing.

Joint Liability Group (JLG) is the mainstay of our model, and we are taking steps to ensure that we drive the execution of the model operationally in an effective manner. Our focus will be on the JLG implementation, which includes group just to give you a few examples, group formation, center meetings, group underwriting, center discipline and other such elements.

With the senior management team largely in place now, we would be soft launching our non-microfinance business, which includes MSME and LAP loans during quarter 1 of next year. The opportunity for growth that microfinance provides has us quite optimistic about the future of our company. Our endeavor is to be a technology-led micro financier, delivering loans that fulfill the aspiration of an emerging rural India. Q3 or third quarter marked the beginning of this pivot and there is more to follow.

Now coming back to the results of quarter 3, while we've uploaded the presentation, it's there out in public, but I'll just give you a few highlights. Let me start with the customer addition and the disbursements. Quarter 3 was a quarter where we saw an overall improvement in business.

When I say overall, it is always the quality that we speak about and not just the numeric disbursement or the collection efficiency and overall health of the portfolio. Disbursement for the quarter was up 70% sequentially to INR 2,361 crores as compared to INR 1,391 crores in quarter 2, which was the previous quarter.

Customer acquisition-led growth story is what we are focusing on, and we continue to witness traction.

During the quarter, we added 2.19 lakh new borrowers, which is a 77% growth over the previous quarter. It's important to know, and I go back to the previous 2 earnings calls, we've been saying that we need to refine and churn the portfolio also a bit, so as to acquire new customers in. So in line with that, about 46% of the loans on count during the quarter were to new borrowers.

So while we are taking care of our existing customers and who've been with us through the past. It's important that we kind of refresh our portfolio, and that's what we are doing, and hence, almost 46% of the loans were given to new customers through Spandana. Our belief in rural India remains and hence, 87% of our business was generated there.

On the AUM side, Spandana's AUM grew by 19% sequentially to end the quarter at INR 6,852 crores against INR 5,782 crores reported end of quarter 2, which is the previous quarter. If you remember, there was a pre-April '21 book when last we presented our results, it was about 18% that book is now down to 7.7%. This was the pre-COVID during the COVID acquired book, which currently is at 7.7%. By end of this quarter, I think it should be down to sub-5%. So that will give us an indication in terms of the quality growth at an enterprise level.

On the portfolio quality, we are paying close attention to the quality of our book and are taking steps to ensure consistency. That is the mainstay of our growth model. Our on-field efforts during the quarter has resulted in our current book, which is a non-arrear book, improving to 92.1% of the AUM, which if you remember, when we had declared our March '22 results was 68%. So from 68, the journey to 92.1, it took us 3 quarters, but then we have been slowly inching this to the 98% and then the 99%.

The 1 to 90 book has also improved the cumulative book between, which is the arrear book and the non-GNPA. It has improved to 2.6% of the AUM from the 14.4% in March. The GNPA book is now 5.3%, which was 7.4% end of September. The net NPA has moved to 2.5%. On the collection efficiency front, overall collection efficiency, which includes the gross collection efficiency or including arrears, for the quarter has been stable at around 102.1%.

This, as you know, as your current books increases, this will slowly inch towards the 100 mark, and that is what -- that is exactly how it is playing out. With the post April '21 book showing a collection efficiency, if I were to separate the pre-'21 April and the post April '21, post April '21, the gross collection efficiency is 103.3%.

On the net collection efficiencies for the period, it is 94.5% of the book. The standard book net collection efficiency is 98%, and the gross collection efficiency is 105.7%. So overall, thematically, the books are performing in the direction and the trajectory that we would have wanted to. Obviously, a lot of effort has gone into it, but then the numbers are stacking out to what we had narrated and what we had laid out when we began the year.

On the provision provisioning, we have adequate provisions on the balance sheet at INR 272 crores, which is 4% of the AUM. Our provision coverage ratio, we follow the ECL method. So it now stands at 52.5% as against 47.9% end of the previous quarter. So we've increased our provisioning by about 5%, and we'll keep doing these initiatives and keep taking these initiatives, so that our balance sheet remains healthy.

On the net worth side, net worth at the end of the quarter improved to INR 2,961 crores from INR 2,867 crores end of September. We continue to remain conservative and maintain sufficient liquidity. End of December '22, we had cash and bank balances of INR 1,025 crores. A very key element of any NBFC lending and more specifically, microfinance is the role that our lenders play. So, we continue to see strong support from both our existing lenders and the new lenders, who've kind of started our relationships this quarter.

Our borrowings during the quarter increased by 98% to INR 2,138 crores. From the INR 1,080 crores we had borrowed in the previous quarter. We onboarded eight new vendors are in active -- and are in active dialogue with a few large banks and NBFCs, including PSBs.

We have started a new relationship with a large PSB, but obviously, that comes in this quarter and more information on it probably in the next quarter. But thematically, we are reaching out to the lenders who we desire and who are like-minded partners, we are getting good support. And we've taken our steps to ensure that we strengthen the relationship with our existing ones as well. Given the recent increase in interest rates, our marginal cost of borrowing during the quarter increased to 12.66% versus 12.64% in the previous quarter, so an increase of about 0.02%. Our banks and capital market mix was 55:45.

On the financial performance, our yield improved by 200 bps to 21.5%, while the NIM improved by 80 bps to 13.8%. Total income for the quarter increased 21% to INR 375 crores. Net interest income was up 16% to INR 254 crores. PPOP of 141, which is INR 141 crores, which grew by about 28% and the PAT has increased by 29% to INR 71 crores.

So to summarize, and then we'll take the questions, we are thankful to all the employees of Spandana for the hard work they continue to put. We are equally thankful to our lenders for giving us the strong support. We are also thankful to our investors and shareholders for their continued trust in us. We've been interacting with many of you and are thankful for some very valuable solutions that you all have been giving. Please keep them coming. We continue to diligently execute our plans to deliver what we had set out to in the beginning of the year.

Thank you very much for your patient hearing. I have the entire room full with the senior management team. We are ready to take questions. Operator, you can open the line for questions.

Moderator: The first question is from the line of Shreepal Doshi from Equirus Securities.

Shreepal Doshi: Congratulations on a relatively good quarter. Sir, the first question was with respect to the liability side. So while we've done a decent addition and diversification of lenders, how do you see the marginal cost / overall cost of borrowing moving because now we are hearing that some of the largest NBFCs also entering this landscape.

So pricing competition is something that will play out here in this landscape as well. Your thoughts on this will also be beneficial. So how do you see the cost moving? And how do you see the landscape sort of changing now? Because we've heard some of the largest NBFCs also aspiring to ramp up their penetration in this MFI segment?

Ashish Damani: Shreepal good evening. This is Ashish this side. I'll address the funding part, and then we'll also ask Shalabh to kind of give his views. The way you have to look at Spandana in two folds. One, we have come out of the difficult times in the previous quarters. So we did have some premium on the funding that we were paying. That has started coming down. It may take another couple of quarters for it to come in line with largely the industry pricing. Having said that, the overall pricing in the system has been going up. Repo rates have been increased quarter-after-quarter, by the RBI, which also is casting a shadow in terms of increasing interest rate trends.

Nevertheless, we would like to draw your attention to the increase in the NIMs that have happened for us, 80 basis points is what Shalabh explained from 13% to 13.8%. I think our endeavor would be to ensure that the NIMs are protected and 13.5%, I mean, we will try to keep it north of 13.5%. That's what we have explained earlier as well. So I think with that, that is how we will deal with this entire situation. On the lending side, Shalabh, you want to add.

Shalabh Saxena: So Shreepal, let me give a slightly longish answer to the question on what is the impact of the borrower. If we understood your question right, with many people, you mentioned one. There are already 206 players in the industry. Does it impact the borrowers -- does it impact the borrower, if you are slightly more or higher? I think that is what you were trying to say, right?

Shreepal Doshi: Right. Because we are at 25% now, so.

Shalabh Saxena: Right. So microfinance is a business which has there are two, three things that one has to remember. One is, how well are you able to execute the model from an enterprise point of view, if you believe in the JLG, which every single person in this company believes in, then how do you execute, implement and then operationalize and then control the model is extremely critical, just having money back does not really take you beyond. So that's very, very critical, number one.

This business, I said it in my commentary, this business is all about managing risk. It is less of asset, more about how are you going to manage the risk. So that is having native knowledge is very important how to execute, again, very important. Where do you, which levers do you push is, again, very important. So just you want to play if someone, and if this is the scope in which one plays, it will be a successful company. And obviously, there is also a difference between which markets you enter, whether it is an urban market or a rural market. Rural market obviously has its entry barriers, and it takes a while because it's very widely spread.

Having said so, from a customer point of view, it has less because ultimately, if your ticket sizes or your average indebtedness is about 32,000, 33,000, the installments between 24 to 25 to 23 to 26 to 27 and when you look at pricing, my request is that we should look at both the pricing plus the cost increase because the different companies charge differently, somebody charges 2%, somebody charges, 1%, somebody charge the 1.5%.

Overall, it is how will you service the customer, number one; how transparent and ethical you are with the customer in terms of the execution, number two; number three, are you shortchanging the customer from a transaction and a behavior point of view is another very important thing.

And number four, are you there when the customer wants the loan. These are the four things. I don't want to say that it is the affordability, which counts not just the interest rate. So from a customer point of view, if you think that -- well I can pay INR 610 also, I can pay INR 630 also or INR 620 also, as long as I trust the INR 620 guy more, she will opt for that. That's been our experience having run various models.

Our belief is that all competition is welcome. We will continue to focus on what we had set out to achieve, and we are taking all the right steps and the results are also kind of -- sort of in alignment to our expectations.

Shreepal Doshi: Sir just on this customer acquisition front. So this quarter, you acquired new customers like in a very active manner. So what percentage of the customers acquired will be new to credit?

Shalabh Saxena: So new to credit. So these are new to Spandana is 46 and roughly about 40% of this will be new to credit, anywhere between 35% to 40%, I'm just not giving just 1 quarter answer. I'm giving you over the last 3, 3.5, 4 years that we've been experiencing, anywhere, it will be about and new to credit also is a nuance, I'll just explain. About 30% to 40% will be new to credit, which is a factor of the geographies that you enter. There are customers who would have taken a loan maybe 3 years, 4 years back, but there is a fatigue factor in the microfinance industry. So a customer would tend to exit and then they reenter after a couple of years. So it's a mix of both.

In our case, customers with just to kind of split while you've not asked this question, but for the benefit of you and everyone, if I split Spandana's portfolio, we are at about 33% of our book is a single lender relationship. About 36% to 37% is 1 plus 1, which is apart from Spandana. There is one more. And then there is a pre-lender because there's a book that we are carrying, and then onwards. So our personal ambition is to take the one lender plus the one plus one, which is two lenders, which is currently at about 67%, 68% to about 80%, which will take about two quarters, 2.5 quarters, but then that is where it will be.

So new to credit, there is once again, a new to credit or one lender credit, one lender credit, one lender relationship, two lender relationship, three lender relationships. There are visible signs of differentiation in terms of the quality in distress, in regular times, everybody is fine.

Shreepal Doshi: Sir, just last question. Now we've stopped giving a split of the loan book in terms of geography. So which are the largest, say, five states for us currently?

Shalabh Saxena: So Madhya Pradesh, Odisha, Karnataka, Maharashtra and Andhra.

Shreepal Doshi: Sir, what would be the tentative spilt, if you give...

Moderator: Sorry to interrupt Mr. Doshi. Sir, we request that you return to the question queue, there are participants waiting for their turn.

Shreepal Doshi: Sure. Sure.

Shalabh Saxena: Shreepal, we'll send it across to you, separately.

Shreepal Doshi: Sure, sir. And good luck for the next quarter.

Moderator: The next is question is from the line of Renish from ICICI.

Renish: Congrats on a great set of numbers. Sir, just two questions. One on the ARC sale. So if you can just explain the transaction in detail, and how this INR 90 crores we are taking through the provisioning? I mean, if it is under 15.85, why not we are taking only 15%?

Ashish Damani: Basically, the way the transaction was structured is this is a receipt of the sale, INR 95 crores. Again, the total value that was sold out was INR 323 crores. It so happens that we have done this through the SR structure, where 15% came from the ARC, 85% comes from the company as an investment.

But the sale proceeds are all INR 95 crores. And since under Ind AS, this entity is independent to structure the collections the way they like. It doesn't get consolidated. That's how the accounting works under Ind AS. Now giving you further details in terms of how the entire ARC transaction work, INR 122 crores out of INR 323 was taken from the GNPA pool, and INR 201 crores was taken from the written-off pool, which was written-off earlier, basically.

That's how INR 323 crores. Of the INR 323 crores, on the pool, which was in the NPA, we were carrying 50% as provision. The other 50% was charged to the impairment line as a cost. And we have also taken the charge in terms of the interest that was sitting on the books as accrued for the same portfolio, right, which was about INR 9.79 crores. All of this was written off and INR 95 crores was the proceeds of sale. So overall, on a PBT basis, would have got INR 29 crores as the income. And the post-tax impact would be probably INR 21.82 crores.

What is also needs to be observed is other than this ARC, will the intent has been to improve upon the overall provisioning coverage ratio. Standalone basis, Spandana, which was at 50%, we have moved it to 55%, which kind of required us to take a debit of INR 24 crores additionally in the P&L. So the way we look at it is we'll continue to remain conservative and keep improving upon the health of the balance sheet like Shalabh was explaining earlier.

Renish Bhuva: Sir, just a clarification. So on this ARC sale, of course, we're going to pay the management fees to ARC, but are we also entitled to get the service fees from the ARC company, or no? Because I'm assuming collection will be done by us.

Ashish Damani: That's right. So given the kind of geographies where we are in the microfinance portfolio, typically, it's best for the originating entity to become the servicer. We will be servicing and there will be a service fee component. After making payments of the fees and all, the collections will be distributed among the security holders.

Renish Bhuva: And sir, secondly, on the restructured pool, if you can just tell us what is the outstanding standard restructured pool on the entire AUM?

Ashish Damani: So to start with all the restructured book and everything anyway, is part of the GNPA, which has been steadily coming down. But I'll give you the numbers in any case. The current outstanding in the restructured book is INR 169 crores. This is after considering the upgrades. We've had INR 70 crores upgrade last quarter. This quarter, we had upgrade of about INR 25 crores roughly, and the balance book has been collected, right? 169 is the current outstanding of that 169, 151 is already in GNPA forms part of the GNPA. The rest of the book is standard bucket, right?

Renish Bhuva: And just sir, just last clarification. In the presentation, we have written that we have write-off INR 700 crores during the quarter. So from which pool, we have written off this INR 700 crores? So what I mean is...

Ashish Damani: INR 700 crores was written off in Q1. That's what the reference is right?

Renish Bhuva: Yes. Correct. So not in this quarter?

Ashish Damani: No, no, we have not done anything this quarter. The write-off was done only in quarter 1 of the INR 701 crores. I think you would have -- you can go back and check the asterisk. It was pertaining to the reversal of interest, which we have highlighted on the income page, I think.

Renish Bhuva: So no write-off during this quarter?

Ashish Damani: Yes, yes. There has not been any one-off transaction. There is only some very old transaction in the subsidiary, where we were carrying 100% provision, which we have kind of written off.

Moderator: The next question is from the line of Jignesh Shial from InCred Capital.

Jignesh Shial: Congratulations on a very great set of numbers. So just quickly, this time we did roughly around 23 billion, 24 billion kind of a disbursement, and we were talking about roughly 35 billion for 4Q. Are we still holding up to it? Or how do you see it?

And how the momentum you are looking for because you talked about setting up all the branches by first half or Q3 next year. So what -- any clarity you will be able to give it on FY '24 numbers, and just it about how the things should plan out? If you can give some clarity on it, that would be helpful. That is first question.

Ashish Damani: Jignesh, see, while we have given visibility for FY '25 under our Vision document, that we would like to get to 15,000 crores in the microfinance book over the next 2 years, we have not given any inputs on how the '24 numbers will shape up. So I'll refrain from that. But in overall idea or the approach towards the business is, the growth will be driven by customer acquisition.

Our stated mandate is to take the customer base to 4 million over the next 2 years by adding people and branches. And like Shalabh was explaining, in the immediate future, we are looking at 100 branches. And mostly would like to prepone the other branch rollout plan also into the next financial year, we should be done with all of the branch openings. That's the strategy of course. We will keep revisiting and relooking at it as and when required.

Shalabh Saxena: Jignesh, let me supplement the answer. The fact that we are advancing our plans means we are seeing some initial green shoots in terms of whatever we set out to achieve. That's number one. Number two, we firmly believe that the JLG model is here. It's what we will kind of build on. And that is why we've kind of, over the past quarters, we've been building the fundamental blocks to get to the next level, and that is what we are doing, of which the first constituent was people. We have both in the senior management and middle management.

We have the people as we speak right now. So that is a box that we've ticked. This is a people-driven business, and hence, very important that you have the right set of people with the right skills. So that is the second box that we've ticked. The third box, which is very, very important is, and I go back to my commentary, this is a business where we should know how to manage risk.

This is less of asset, more of risk management business. Once if you have the right levers in place, if you have the people to control and supervise well, this business is in safe hands. This is a good 4% to 5% ROA business over a period of time. One has to just ensure that you keep your balanced head and keep your heads down and keep on doing the right things. And that's very critical, number three.

Number four is our focus will always, always remain a customer acquisition led. We are taking all incremental steps to ensure that we get more and more customers. We don't personally believe in playing the ticket size game. And that is the reason why you will see the 46% is a testimony of the statement that I have just made. We continue to progress in that direction. So any number upwards of 40, 46 is slightly elevated, but 40 is good enough. A 40% contribution which in a normal big organization would anywhere be about 27%, 28%. So that we are progressing in the right direction.

And now starting the quarter 1, we are just waiting for the year to play out. While we've already started taking the baby steps, but the big steps will come from April, where we'll start completely driving the efficiencies and optimization. And separately, we can have a call on what are the initiatives that should be taken. But overall, I think we are in the right direction, and we will kind of just keep chugging along.

Jignesh Shial: I mean, one more question. Now if I see the adequacy out here, definitely, the growth has now started coming into play. But adequacy is right now. Obviously, there is a peak of roughly around 51% in Q4 because the capital increase and everything happened. But right now, we have been exhausting it pretty fast. Right now, I guess it's somewhere around 39.1, what I can see?

So with this, obviously, the momentum should remain pretty healthy for you guys going forward as well. When you see that this action will be good enough for at least, say, next 4 to 5 quarters, how do you see that particular thing up? Or do you think there will be some infusion required in that case?

Ashish Damani: Definitely no further capital will be required for the 5 quarters that you talked about. Mid-FY '25 or late FY '25 is when probably we will have to evaluate. But till then, from a comfort perspective, we will be in that comfort zone only.

Jignesh Shial: And just last one question I'll squeeze in. We are seeing there is a consistent improvement on the yield side, obviously, cost. I understand cost of funds should see a momentum because the things are improving on your borrowing part. But there is a significant improvement. We are seeing yield side as well. Do we see further improvement from here on here this quarter, we are at somewhere around 21.5? Do you see further improvement from here on a yield is possible? Or do you think more or less now the NIM should be more of a cost of fund advantage? How do you see that thing? That's the last question.

Ashish Damani: Yes. There will definitely be an improvement of another 50 to 75 basis points from here. Given that our loans are now priced at around 25%. But the book will have to be kind of completely churned out and new books should get created. But I think if we have to look at over a period of next 4 quarters, 5 quarters, then it should definitely give us an improvement of anywhere between 50 to 75 basis points.

Moderator: The next question is from the line of Karan Asli from Maximal Capital.

Karan Asli: I had a question regarding the credit cost for this quarter, which are somewhat elevated at around INR 44 crores trending at closer to about 2.5% of AUM. So any comments on what exactly led to this? And what would be your expectations for this going forward? Let's say, the exit run rate of this year.

Ashish Damani: So Karan, thanks for joining in and for the question. The way to look at this is that the credit cost is built on two fronts. Yes, there have been some flows, which have happened during the quarter, and which contributed to the cost. But the INR 44 crores is -- there is a big portion of this because of the increase in the coverage ratio that we have done from the 47.5% to 52%. INR 24 crores was the impact from there. Plus we have kind of given you the breakup in the presentation in the ECL page. I can just run through that last table for you.

There has been an increase in the flow, which has contributed about INR 41 crores. But at the same time, there has been a benefit on the collections and efficiency side, which is even though there was a good growth in the standard book, but the impact was only around INR 10 crores. So the right way to look at it is, I think the flows have been curtailed. 1 to 90 book is down to 2.6%. Of that 2.6%, 1.2% is in 1 to 30. So it's only about 1.4% of book, which is in that stage 2, so to say, and poses a risk, but that book is now very small and limited, right? I think with this, 1 quarter maybe at best 2 quarters, we will be in a BAU situation where all your credit costs and numbers should look like in the steady state what they should be.

Karan Asli: I see, sir. And just to reiterate BAU would mean less than 2%, around 2% credit cost?

Shalabh Saxena: Absolutely, absolutely. Yes. So let me just elaborate on it. We've built 2% in our growth until FY '25. Our anticipation is it will be lower than that for sure. Our guess and this is minus any eventuality like a COVID type of a endemic or pandemic happening, but otherwise, from a quality perspective, for whatever we've projected, I think we are in line. We are seeing and watching the trends of the book that we've been acquiring over the past, I mean, the post April '21 book. The customers, the type of customers, the geographies, etcetera. So we are good on the numbers that we had highlighted beginning of the year.

Moderator: The next question is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: Just one thing on data keeping answer, which is what would be the split of our customers with respect to vintage? So say 0 to 1-year vintage, 1 to 3-year vintage and more than 3 years of vintage?

Shalabh Saxena: So Shreepal, we'll have it sent across separately, right now, often of, obviously, we don't have it. But the way we track it is cycle 1, cycle 2, 3, 4, 5, 6, 7, 8 onwards. Immediately, we don't have it. We'll have it sent across separately.

Shreepal Doshi: Sure. And then the other question was with respect to your technology-related initiatives. So what is the capex that you are working with all the initiatives and the newer branches that we are adding the 100 new branches. So is there a different approach with respect to the setup of the branch with respect to technology. So is there a differentiated approach for the newer branches that we are adding?

Shalabh Saxena: So multiple answers to your question. The first thing is let me start from the loan officer. The loan officer, he has been demarcated areas that he will -- geographies, which he will operate, number one. Number two, as I said, I'm repeating what I said. We've geotagged every single center, of the 3.5 lakh centers. We geotagged every single center. This is just to drive quality, no other reason. That is number two.

Number three, I go back to the JLG commentary that I made. There are about 9 or 10 items. And separately, obviously, this is not the right forum, but separately, we can have a chat. There are 9 or 10 items in JLG, which need to be driven. And all the 9 and 10 items will be through technology because that is the only way we are going to drive, that is only way to control and supervise. We are past the paper pen world and era. So this is what we are going to do. That's number three.

Number four is, we as an institution and an organization, we've crossed the 10,000-employee mark just about 3, 4 days back. This is our investment into the growth story. While I did mention about the 100-odd branches that we are preponing. We are adding resources also, if you remember, the last quarter in our earnings call, we had said that we are going to hire 1,000 people. We've gone ahead and we have invested more in people. As an institution, by end of this year, we should be close to about 11,000 employees.

All of these, how do you control, how do you supervise, it is all technology. The entire audit process, we are at various stages to digitize the entire process of audit, so that we get our day end update on/or any early warning sign that we would have, number two. Number three is the sheer implementation of the JLG in terms of things like center meeting attendance, the group site, center site so on and so forth.

All of this, Shreepal, requires intense monitoring, and we believe that microfinance is a command and control from the head office. We will send inputs to the field, saying these are the levers which are not really green, they are probably bordering on amber or red or whatever. So the early warning signals will be picked up through technology passed on to the field digitally. We will be applying nothing, but [technology] at every stage of the process. We are trying to eliminate paper, and I think we are very near to it.

So most importantly, the entire risk framework and the control and supervision will be completely digital, centrally monitored. When I say central does not mean HO, it means the regional offices also so that these are all preprogrammed applications, where we will give input to the people on the field on areas to look out for or watch out for.

Shreepal Doshi: And what would be the like cost associated to this for building this all in infrastructure?

Shalabh Saxena: We had when we came out with our Vision '25, we had laid out that paper. All of this was already baked into when we had made those projections. These are items which, from a benefit point;

one, they are not very expensive, let me start from there. Two, is the advantage is far, far higher than any of these capex, opex that we are talking about. You are talking of one good customer hired and a good customer runs through the vintage of the loan and delivers and takes another loan.

So doing the right things in our mind is very much the investment that we should be looking at. We treat IT as an investment, not as a cost, so once we do that, then the scalability is never a problem. We've scaled up in the last 4 months, we've scaled up almost about -- we added about 2,000 - 2,500-odd people. Next year, obviously, it will be a much higher number. All of that, this is the only way in our understanding. And once again, at the cost of repetition, the control and supervision completely digital is what we are wanting to do.

Moderator: The next question is from the line of Rahil Shah an Individual Investor.

Rahil Shah: Just in general for -- as do you have a number in mind with respect to growth in ROA and AUM for financial year '24 and the related strategies? I know you mentioned a few, so you can skip those or any other views you have for the next year?

Shalabh Saxena: Rahil, I think Ashish answered this question. I'll repeat it, we are not really playing a T20. We've come out with our Vision '25. We've given our March '25 figure. We are taking all the steps to ensure that we meet the numbers. The larger point is that we want to build a strong organization, a strong and a robust organization. which will deliver quality growth. Similarly, we'll have fourth quarter of FY '24. What as a management team, we are fairly confident is we will deliver the FY '25 plan that we've kind of laid out.

So you will have a few quarters here and there. You don't know, one doesn't know how you going to play out. There are a lot of events that will happen from now until we are still about 8.5 quarters away. I think it is more the quality of business and the quality of customer that we believe in, which will hold the organization good in the long run.

Moderator: The next question is from the line of Amit Thawani, an Individual Investor.

Amit Thawani: Am I audible?

Moderator: Ladies and gentlemen, we have lost the line for the management team. Please stay connected while we try to reach in their connection. Mr. Tawani, you may please proceed with your question.

Amit Thawani: Sure. Am I audible?

Shalabh Saxena: Yes.

Amit Thawani: I have just a quick question. Some of our competitors have a cost of borrowing, which is sub 10%. Is it reasonable? Or is it -- why is this different, is it because of certain legacy issues? Or -- and is it reasonable to expect that our cost of borrowing will go meaningfully down from here?

Ashish Damani: Yes. I don't know which entity, and it is not fair to comment on 1 entity per se. What you have to look at is how are the entities, which have similar rating to us kind of playing out. And in that context, yes, there is some scope for improvement for us as an entity. And like I mentioned, Amit, we would take maybe 2 more quarters to get that refinement in terms of our cost of borrowings.

Amit Thawani: So can we go like meaningfully down from here for us as well?

Shalabh Saxena: That's very subjective. All we can say is that, look, we have been taking incremental steps to ensure we move in the right direction, which includes not just the asset side, but on the borrowing side as well. I mentioned in my commentary that our contribution from the banks was 55% of the overall borrowing. This in our aspiration and our wisdom, any number around 75 is a good number. So one can take a guess as to from a 55 to 75, how much will it impact? How much will it go south from an interest rate point of view. But yes, we are seized of the matter. For everything, there is a time that is required, and I think we are progressing on that.

Moderator: The next question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Congrats on a good set of numbers. So my question is on opex. So opex has fallen this quarter sequentially, despite substantially higher disbursements, as well as growth in employee base. So what is the reason behind this? And how should we look at opex in terms of absolute growth?

Ashish Damani: So the current fall in opex is primarily driven by the growth in the portfolio. While if you look at it in absolute terms, the overall cost is flat. The way to look at it is in a steady state, we should be sub 6% or around that 6% in terms of operating cost ratio. So we do have scope for improvement from here, Rajiv. But when do we hit that steady state is a deliberation or a math that one has to do given that we will have to go through our investment cycle, like Shalabh was explaining earlier, whether it has to roll out new branches or to add people is more of investment.

Given our business is people intensive that is the cost which drives the entire operating cost ratio. So initially, we may have the percentage kind of holding up. But when it drops, it drops sharply, as the people kind of optimize in terms of their productivity levels.

Shalabh Saxena: So, Rajiv, let me just supplement what Ashish said. Ashish mentioned a number of 6% anywhere plus/minus 20 basis points, both sides should be a comfortable number in a steady state. Right now, we are in a growth phase, so the right time to start looking at the cost to income or even on opex is anywhere, say, 2 quarters onwards from the next financial year. But from our philosophy point of view, our cost to income anywhere between 36%, 37% to 38%, 39% is a good number.

And I think that is what we are targeting. Anything more than 40%, we would be cautious. Anything less than 35% would be a tough one. So that's a number, which is why the same answer on a 6% plus/minus 15.1%, 15.2% is what will stabilize that. What we believe is that right now, we are investing in people, in branches, etcetera. We have ambitions to open between this quarter and the next quarter, we should have opened roughly about 250, 300-odd branches, 200 - 250 branches. So we will be in the growth phase. So you will see a bit of a spike, but it will stabilize quarter 3 onwards of next year.

Ashish Damani: And just to correct, Rajiv, the number on the operating cost was INR 114 crores compared to INR 119 crores in the last quarter. So it's slightly up. But on a percentage basis, obviously, the growth has been much sharper. And that's what has brought down the operating cost ratio.

Shalabh Saxena: While the cost month-on-month has been almost flattish, we've kind of been optimizing, trying to cushion the investments that we are making on people. So we continue to juggle that piece. I think that is 1 piece that is very much on our radar and nothing to worry as of now.

Rajiv Mehta: And Ashish, you've been giving this roll forward, a number 2.8% this quarter, and I think it was 6% previous quarter. Can you also give the -- I mean the roll back, what percentage of the portfolio rolled back in the quarter?

Shalabh Saxena: I will give you slightly different. I think we have put that of 2.6%, 2.8%. So let me give you an AUM-ish answer. In our entire 3 months, 2.8% of the AUM rolled forward, rest everything we were able to hold or move backwards. So that is how it was. This number, if you go back to the previous quarter percentage was 6%. So as I said, so the numbers in the slide where, which has 4 quadrants and the 4 1 to 9 the SMA 0,1,2, it is coming down reasonably well.

Obviously, a lot of midnight oil being burned by the business teams and by the teams in the head office to ensure that we kind of get to that number. But nevertheless, it is kind of seeing the numbers. we could see a bit of a spike here and there, but largely, I think we are in control.

Rajiv Mehta: So how should we look at the buckets from now on? Does the buckets have come down significantly between 1 to 90 all the buckets are down? And when I look at 31-60, 61-90, it is 0.8%, 0.9% each. So clearly indicating that the roll forwards will be much lesser in Q4. But any chances of these accounts even rolling back, or they should ideally completely normalize as a loan tenor completes or they -- I mean -- so how should we look at the buckets moving from here on?

Shalabh Saxena: So you will see, like in a microfinance, see, one of the things that I think I did not mention, but separately, when we've spoken to most of the people who asked the question today, is that all the new branches that we are opening will be weekly model. So we do see merit in the weekly model. So the new branches will operate the weekly model. To answer your question, in a microfinance, you will see flows.

So it is not that the flow at any even point in time will be zero. There is -- even right now, you are just focused on the SMA 0,1,2. There is a lot of repayment which comes from the GNPA book as well every month because the customer purely a microfinance customer and if you source the customer right, they are the ones from an intent point of view will never be a question mark. It's always the capability and the ability of the customer to pay at the time when your view, when the payment is due. So those challenges will always be there.

But largely, from a vector point of view, a loss rate south of 2% for sure, number one. Number two, any number upwards of 98% on the standard bucket is a decent number to operate at. Rest customers will keep on sort of oscillating in the SMA book, which we'll have to deal with them on a case-to-case basis.

Moderator: Ladies and gentlemen, that's the last question. I now hand the conference over to Mr. Shalabh Saxena for his closing comments.

Shalabh Saxena: Thank you very much to all of you for joining us. We've got a lot of support from all our stakeholders, and I'll repeat what I said in my opening commentary. You -- all of you being in the market, you gave a lot of valued advice, when it comes to business that we run. Please continue supporting us, please keep giving us those calls of wisdom. From a management point of view, we are completely focused on the delivery that we have, and the next few quarters is a time when we'll kind of start churning the growth engine apart from managing the quality agenda as well.

Thank you very much for your time. Thank you very much.

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