SPANDANA

Ref: SSFL/Stock Exchange/2023-24/128

Date: December 18, 2023

To	**To**
BSE Limited,	**National Stock Exchange of India Limited,**
Department of Corporate Services	**Listing Department**
P. J. Towers, 25th Floor,	**Exchange Plaza, C-1, Block G**
Dalal Street,	**BandraKurla Complex, Bandra (E)**
Mumbai – 400001	**Mumbai – 400051**
Scrip Code: 542759	**Symbol: SPANDANA**

Dear Sir,

Subject: Transcript of conference call held on Monday, December 11, 2023

Ref: letter No. SSFL/Stock Exchange/2023-24/125 dated December 11, 2023

In furtherance to our above-mentioned letter, please find enclosed the transcript of the conference call held on Monday, December 11, 2023, to discuss Company's outlook, strategy and performance.

The aforesaid information is also 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: 2023.12.18 17:45:58 +05'30'

Ramesh Periasamy
Company Secretary and Chief Compliance Officer

Encl: As Above

Spandana Sphoorty Financial Limited
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"Spandana Sphoorty Financial Limited

Analyst Day Meet"

December 11, 2023

MANAGEMENT: **MR. SHALABH SAXENA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SPANDANA SPHOORTY FINANCIAL LIMITED**
MR. ASHISH DAMANI – PRESIDENT AND CHIEF FINANCIAL OFFICER – SPANDANA SPHOORTY FINANCIAL LIMITED
MR. AMIT ANAND - CHIEF RISK OFFICER - SPANDANA SPHOORTY FINANCIAL LIMITED
MR. DHARMVIR KUMAR SINGH – CHIEF INFORMATION OFFICER - SPANDANA SPHOORTY FINANCIAL LIMITED
MR. PRASHANT RAI - CHIEF PEOPLE OFFICER - SPANDANA SPHOORTY FINANCIAL LIMITED
MR. RAMESH PERIASAMY – COMPANY SECRETARY & CHIEF COMPLIANCE OFFICER - SPANDANA SPHOORTY FINANCIAL LIMITED

MR. SUNAND SAHU – CHIEF INTERNAL AUDITOR - SPANDANA SPHOORTY FINANCIAL LIMITED
MR. VISHAL SHARMA – CHIEF OPERATING OFFICER - SPANDANA SPHOORTY FINANCIAL LIMITED
MR. AJAY GANOTRA – CHIEF BUSINESS OFFICER – NORTH – SPANDANA SPHOORTY FINANCIAL LIMITED
MR. DEEPAK VARMA - CHIEF BUSINESS OFFICER – SOUTH - SPANDANA SPHOORTY FINANCIAL LIMITED
MS. SHILPA JAIN - HEAD, FINANCIAL REPORTING – SPANDANA SPHOORTY FINANCIAL LIMITED
MR. SHRIRAJ VEDSEN - CHIEF BUSINESS OFFICER – EAST - SPANDANA SPHOORTY FINANCIAL LIMITED
MR. SUBHRANGSU CHAKRAVARTY - FINANCE CONTROLLER – SPANDANA SPHOORTY FINANCIAL LIMITED
MR. SUSHANTA TRIPATHY - CHIEF BUSINESS OFFICER, SECURED LENDING - SPANDANA SPHOORTY FINANCIAL LIMITED

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on December 11, 2023 will prevail.

Emcee welcomes the guests and hands over to Mr. Shalabh Saxena, MD & CEO, Spandana Sphoorty Financial Ltd.

Shalabh Saxena: Thank you very much. Good evening. Good evening to all of you. Namaskar. Thank you for coming on a Monday. Start of the week, we have invited you here in the evening. So nice to see old friends, people who've been supporters of Spandana, the institution, the business and most importantly, the way all of you supported over the past six quarters. A big thank you to all of you. Thank you very much on behalf of the team. And to my team, Spandana, who have joined live, 12,500 people who all have joined us by webcast - a big thank you to all for joining with us. Start of the week you have given your 2-3 hours to us, I understand this is very difficult. A warm welcome to all of you.

If you look at our journey, and I have a very short presentation. It will take me 20 minutes to give you a little background. Sometimes we feel that we have been around for a long time. All said and done, we've been around for six quarters now. The Spandana 2.0, the new management has been around for six quarters. We've tried doing our best to ensure that we are able to take the institution to the next level.

Inherently, this business is a very, very strong businessas the industry is today almost a 4 lakh crores industry. This is a people-driven business. If you have the right manpower, the right set of people, be rest assured, this business will run. people inconsequential. So, that is the journey that we got on to about six quarters back.

I'll give you a little background. For those who are watching us in the country's 1,520 branches, 12,500 employees and obviously, the fantastic audience here. It is very important to give a little background. Because there is a context. Some of you have joined us in the journey. Some people have been there from the beginning. Strong supporters. And I met a few of them. The entire management team will meet after the show is over. But broadly, there was a question. The question was, your team, Has been formed. So, who are they? What do they do? And how is it that you run the business? This was a broad background. And then we thought, what better place than Mumbai to do it. We wanted to do it slightly earlier. But anyway, logistics. Some challenges. But anyway, we are here.

What were the five points? Five broad areas to be focused on when we took over six quarters back. When we wrote our agenda - What should we do as a company? In the company, we thought first of all and because this is a people-driven execution business, if you have good control over execution any business can turn around anytime you want. Obviously, the gestation will be there. You will get that time. But focus on the right things. Do the right things. And you will get there. You may be one quarter ahead or one quarter behind, it does not matter. But execution and how to do the execution - through people, obviously, is very very critical. This is a micro-finance business which is an extremely process-driven business. In this, when I say, and I mean it in all the nice way, beyond a point in time, you don't have to think much. This is a model where you move with the blinkers on, you have to tell your people, you run. So whatever you want to think, whatever you want to do from a strategy point of view, whatever you want to do from an execution point of view - do it beforehand. And once you have 12,500 people in the field. 98%-99% people are in the branch. In our head office, there are hardly 300-350 people out of 12,500. Rest all are in the field. Highly empowered set of people. You have to give them that empowerment. If there is any decision making in the head office the whole thing goes for a toss. So, finalize your strategy, let your people run for the objective, you will get the results.

There is one more learning. And the reason why I am sharing it with you - this is the first time we are getting everybody here on stage. We met you in private. But good to have all of you here and we are kind of conversing. One of the things that we have learnt over the years handling microfinance business is be it a customer or your employee, the inherent integrity is very strong. There is never a question mark in the integrity, there will never be a problem in the intent. If there is a problem in the capability, she will come and tell you, “I don't have it today”.

That is the time when you have to pace your activities and your innings. But otherwise, be it your employee or be it a customer, you have to trust them. You have to empower them. You have to do all the right things. And most importantly, communicate. You keep talking to them. We have 27 lakh customers. 27 lakh customers. 12,500 employees who you have to keep talking to day and night across the hierarchy. They should feel that there is someone sitting behind us who is watching us. The day he is convinced that there is somebody who is looking after us, bosses be rest assured, that is the time when the company will turn around. That is the time when they will say that come what may I will work for the company. I will ensure that the goal that has to be delivered from a company point of view is delivered. Same is the case with culture. What is it that drives them? But within this ecosystem of ours - be it our employees or be it our customers, multiple messaging does not work in this. One message at a time. They have instructions from our supervisory staff. They do one thing at a time. Dal - roti, simple. If you have a buffet, that is the end of it. So you have to be very savvy in terms of pacing your innings on what is the priority for you as an organization. Assume that there will be only one task at a time. If you give three tasks, nothing will happen. It will be either LIFO or FIFO. It will never be all three. So these are the learnings that we have gathered over a period of time. This is what we started the journey with.

This was a running organization with about 6,000 people about six quarters back. The company is a 25 year old organization providing microfinance and not a young upstart. You will know when you come from outside obviously you have to first get down to the ground. If you walk with them together, that also takes two - three quarters, then they understand that yes, they mean well. This is not a foreign body which has been imported. And all of us get together to align and work towards the goal of the organization.

Distribution. This is a pure, pure distribution game. Microfinance, 90% rural. With due respect, this is the distribution where even the country's Nokia and Samsung do not have a reach. The biggest FMCG company reaches there after taking a lot of time. Our team member gets up at 6.30 in the morning and goes to meet that customer at 7. Whether it is the cold of Meerut, whether it is the sun, whether it is a storm or whether it is a cyclone, he will go at the time he has to go.

This is the background. You have to get your distribution right. So there were challenges when we took over in distribution, which we will discuss in a bit. But broadly speaking, there is still some work to be done. When I say this, the challenge that we had when we came was and every distribution needs it, nothing specific to this organization, we had to repair this car. We did not have the luxury of sending it into a workshop. We had to repair the car that was running. The car has to run, it has to deliver whatever it had to deliver and yet you have to keep the mend work on. So this is what you know was the challenge. We are still not done yet. One of the things I would request with great humility is that we are not done yet on most of the things that we are going to hear today. Some work has been done 60%, some 70%, some 30%, some 80%. Some things were non-negotiable, we have done 100%. We have done six quarters and there are another six quarters where we took out Vision 25, which will end. And what is next is what I'm going to kind of cover here.

Quality of the portfolio, very, very important. We worked on it. This was the challenge that we had when we took over. All of you are aware about the circumstances. Governance and control, extremely critical. And most importantly, the last one, which was stakeholder relationships. And stakeholder includes everybody - From lenders to regulators to friends like you, everybody. So these were the challenges that we had when we took over. Apart from this, the biggest task was to make a team. There is no raw material in our business. Our raw material is people. That loan officer who gets INR12,000 per month. He gets INR5,000 to INR7,000 in incentives . He runs his house for INR17,000 - INR18,000. He survives on INR5,000 wherever he resides and sends home INR10,000 - INR12,000. This is the background. This is how we have 12,500 people. I'm telling you this because we don't give them crores or lakhs. In this situation, working day and night with them will only come when they see sincerity in you as an institution. When they see sincerity in you as a leader. When they see that these people mean good for the company. Nothing moves like an aligned team.

You converge on a goal, present it to them and say, let's go together. That is exactly what we did. So these were the challenges. Where are we on each of them? Very quickly. People, from a manpower point of view, we are sorted. When we started the journey, we sorted everyone in the first 2-3 quarters. And you will see. And that's the reason why you have so many chairs here. We thought we'll introduce you to the management team. And I'll do that in a bit. Culture is something that doesn't happen in the first 5-6 quarters. It takes time. Culture happens when the last person is convinced that this is right. We are not there yet. But it is a WIP. But WIP will continue. Next 2-3 quarters, 4 quarters. Max. I must add, however, when we started the journey, we thought it would take time. We got super support from all our people on the ground. There are so many people widely distributed. It is very difficult to meet them. You won't know their names. How many names do you know of so many people? But they gave us the benefit of doubt. When we used to meet them, we communicated a lot. We were practically on the road. We used to meet them and just ask them to give us a chance. All of you sitting here, if you remember, privately or even when we interacted, we said, you give us a chance. Whether you do or you don't do, it is inconsequential. But just please hear us out. We told our team to give us a chance.

This company has seen a maximum AUM of INR8,000 crores. Give us a chance. This is a golden opportunity for the institution to flourish. Culturally, there is still a lot of work to be done. And that is the reason why you have that shade of amber in it.

Distribution, there is a lot of work to be done. And when I say a lot of work to be done, I mean, we have also added a lot to the list of work. That we won't do it monthly, we will do it weekly. So there is a whole list of things that we have done. Believe you me, whatever we have done is, or whatever we think is the right thing to do for the organization, is what we have planned and what we are executing.

So when we say that this is a high-touch business, microfinance is a high-touch business, you need to see the customer every week, you need to ensure that the financial health of the customer, you are very close to her as an institution. And hence, we want to move from a monthly to a weekly. It's a big one. And we are doing it. Temporary inconvenience, but for a better tomorrow.

We took up all quarter one of last year. We will continue to do all of that. So that after 2-3 quarter we can say, now we are done. So the ambers here on the screen become a green. And from a green onwards, then you know, we kind of just walk through. Portfolio quality, obviously, it's a non-compromisable, non-negotiable thing.

Governance and control, absolutely zero tolerance. And the last one, relationships. It's a WIP forever. My request to all of you is, you've been a great support all along. Some mistake happens from us. It is never intentional. It could always be a slip. Please never doubt the intention. We are continuously working for the past six quarters to ensure that the relationships, wherever there were some ruptures, we kind of made them up. Or we are trying to make them up.

Vision 2025. So when we started on the 11th of July, when we came out with our quarter four results, we presented to all of you. It's a public document on BSE, NSE and on our website. We said that, you know, these are the things that we will do. This many things we will do on various counts. Be it people, be it technology, be it product, be it process, be it governance. We had put out a list of things.

So it's only fair that when I stand here and give you, you know, what is next, it's important that we give you a very, very high level of where are we on the '25 that we had said. So broadly speaking, we said till FY '25 end, and I'll not read the entire because once you put up an Excel, you know, you will kind of get a good hang of what it is. Exit '25, we will open 1,500 branches. As we speak, we have already crossed that number. We are at 1,520 as we speak. By end of December, we will be 1,590. And that's the end of it. So our branch opening saga ends here. And the reason why we did it was the first year was all about cleanup to the extent that was required from a balance sheet point of view. So we have done that.

All the distribution initiatives was this year, which was year two. Next year is all about how do you do the numbers. Because then next year there is no branch to open, no new recruitment to do, no new experimentation. And obviously, there is a clearly very well articulated approach on which state we are opening, etcetera, etcetera. You know, the seven focus states, we've kind of put it out there.

So we said exit 25, which is six quarters or slightly less than six quarters from now. We will reach 40 lakh customer base. As we speak, we are 2.7. We will end this year at about 3.1. Which means we would have sourced about 11 lakhs or upwards of 11 lakh customers in this year. 1.1 million in this year. Next year to meet the 4 million, even if we do almost the same and I do a net off, we should be upwards of the 4 million. So we are there. We are good on that. Microfinance AUM, we said 15,000. Quarter 2 result came, 9,784.

Very happy to inform all of you, 27, 28th of November, we as an institution have crossed 10,000 crores. So that part also is done. So we are on track. We will end this year at 12,000 crores. Then we have 3,000 crores to hit the 15,000 crores for the next year. Full four quarter there, we are reasonably confident, you know, we are there or we'll get to that.

The other things are already there. Be it NIM's or cost, there's no change. We are there either, you know, except for the ROE, where we are lagging a bit. I think, you know, all the numbers, we are either ahead of the plan or we are on track. So that much I wanted to kind of just put it out and, you know, kind of present it to you. When we presented plan for '25 actually time flies, 6 quarters went so fast, we ourselves don't realize, 1.5 years passed since then. 1.5 year remains for FY '25, and many people asked, what is ahead? What do you want to be?

And there are various options which kind of get articulated. We want to say this with great emphasis that our belief in this business, which is the microfinance business and the two new businesses that we have started, is immense. We believe that the company can still, for the opportunity that the country offers, there is a lot that we can do.

And hence, presenting to you ladies and gentlemen, '28 by '28, which is by FY '28, we will do a INR28,000 crores AUM by FY '28, which is approximately 20% CAGR growth, which given the fact that the industry is slated to grow about 21%-22%, I think you know, this is a decent number to target. It is not over the top. At the same time, it is not under-balling yourself. As an institution, we feel that we are comfortable doing this number. We have our own core philosophies which you will hear the team when they come here. You know, here you will see how we do business, how we think we should be doing this business. That's very important. And that's what it is.

Once again, I don't want to go line by line on the numbers, but broadly this is in line with what we have been saying. It is an extrapolation, but we think that these are doable numbers, where we will be comfortable. We will ensure and there are things that we need to do. Still, as I said, but these are the broad post, you know, and we will start working on it. We are still six quarters away, but I think another two quarters from now, we will actually, while we have a very detailed plan, but a granular plan at a ground level, we will be able to share after two quarters.

One of the things I have been speaking about is on the people and the culture. One of the things that binds all of us together is obviously, and every organization or most of the organizations have it, which is the mission and vision. This is what we just unveiled to our set of people and our CPO, Chief People Officer, Mr. Prashant Rai, when he comes here, he'll kind of get into the details, but broadly, these are the missions and vision that we think, you know, are apt for us as an organization to progress. We'll work on this. We've already started cascading it to a set of people. And this is the direction that we will take over the next four years. What are the key focus areas? I'll just repeat myself. People and culture, we'll continue to work on them. Portfolio quality, and we have to build a lot on the efficiencies. We have a lot of work to do in that. Which we have already started working. We've started working, but still there is a long way to go. It will take a lot of time. Governance and control does not change at all. We want to make this company a system and process driven company. People become incidental. And that is what, you know, we are kind of aiming to. Technology, top of the line, you will hear the team when you hear them.

What are the challenges? My last slide. Challenges like when you run a business of this scale, obviously there are challenges which are controllable challenges. Challenges which are not in your control. COVID was not in our control. A specific disruption in a state will never be in our control. What keeps us awake is the fact, the singular most which I have been stressing all along is people. We have been lucky to get the best talent in the industry. I say this with great degree of responsibility. Both here and in the field. We have to hold on to them. We have to retain them.

We have to ensure that we don't really lose them. That's the biggest challenge 1 to 10. Other challenges we'll meet. You know, you'll have some disruption here and there. We'll kind of manage all of that. This is something that all of us are aligned to ensure. There's a very often discussion which keeps happening in the board where the board members also ask. What is the biggest challenge? How will you manage your people? If you are able to manage your people you will be sorted.

I'll end here. Thank you for patiently listening slightly over time. Thank you for listening. My friends out there - Thank you very much for listening to me. 28 by 28 is what we are targeting. Thank you for your support. Thank you for patiently listening to me. Thank you very much.

Now, what I'll do is, we'll have the management team walk in. So the way we kind of structured is instead of making individual presentations in a in the next max 90 minutes. We will have all of them right now here and we'll discuss - what is the core principle of how do we do business? And business includes everything from people to how do you retain people to what is the tech stack to, what are the risks in the business, How do we think. It will give you a very high level flavor. And after that, we'll have a question and answer session post which then we'll disperse for regular dinner and cocktails.

So thank you very much. I invite now Ashish Damani on the stage. Please Ashish is the CFO. Please give a big round of applause to Ashish. So sequentially speaking Ashish, Amit Anand. Amit Anand is the Chief Risk Officer.

This is Ashish, Amit, Dharmvir -- Dharmvir is our Chief Information Officer.

Prashant Rai. He is our Chief People Officer. He just joined us, finished eight months.

Ramesh Periasamy, the oldest in the group. There he is. Chief Compliance Officer and Company Secretary.

Sunand Sahu is our Chief Internal Auditor. Please give a big round of applause to Sunand.

Vishal Sharma, the Chief Operating Officer. He heads the distribution.

Ajay Ganotra, the Chief Business Officer for North. He looks after the entire distribution of North.

Deepak Verma. Chief Business Officer for South.

Shilpa Jain. She heads the financial reporting.

Shriraj Vedsen. He is the CBO for East.

Subhrangsu Chakravarty. Financial Controller.

And Sushanta Tripathy. He heads the new business for us, which is both NANO Enterprise Loans and Loan Against Property.

All of them have been our veterans of the industry. Just to start, Subhrangsu. Subhrangsu's last organization was ASA International. Subhrangsu. Ramesh Periasamy has been around for quite some time. Ramesh's last organization was Embassy. Prashant Rai, CPO. His last organization was Arohan Financials. Sushanta Tripathy's last organization was Bharat Financial. Deepak Verma, Bharat Financial. Shilpa Jain, Bharat Financial. Vishal Sharma, Bharat Financial.

I'll just jumble up the order. Ashish, obviously, Bharat Financial. Amit Anand comes from Shinhan Bank and prior to that he was with Bank of India. Ajay Ganotra was the head of Bharat Financial for the Northern region. He joins us. Sunand joins us from Vistaar. Dharamvir's last organization was -- he was with Hero Fincorp and Home First. Shriraj comes from Bharat Financials. So here is the whole team.

Ladies and gentlemen, thank you for the patience. For patiently hearing out, I would request you to take seats. I'll request Ashish to moderate this session. We'll take you through how we do the business. And then, obviously, we'll break it up after that for questions and answers. Thank you very much.

Ashish Damani: Thank you Shalabh. Thanks for the prelude and setting up the context for the evening's discussion. To start with, thank you all of you for taking out time. We welcome you all for this discussion. Today's discussion, we would like to take you through our journey so far, with some of the aspects Shalabh has already, you know, touched upon. But also give you insights in terms of how we are going to do business in Vision 28 by 28.

We have, you know, segregated the discussion into five sections, themes or areas. For the sake of ease, I will actually put them in five Ps for my benefit. So first one, distribution. I would call it as Portfolio. Second is risk, which is Protection in my mind. Third is, you know, our Partners through whom we have been raising liabilities. Fourth being, you know, Productivity. We would like to drive the productivity through the use of technology. And last being, you know, the People's Practice.

The idea is to have the discussion on each of this and give you a flavor of what we have been doing and what is in store as we go along in next few years. So I'll jump straight away without further delay into the first P or the distribution piece. We have been very vocal as a management that we like JLG, we like weekly and we like to, you know, have our growth driven by customer acquisition.

Shalabh talked about that we would like to hit 6.2 million borrowers by FY '28. Now this is a tall order. I know we are doubling our customer base in next four years. But, you know, we have planned it really well. And we do have confidence that, you know, we'll meet these numbers with ease. So to talk more about this, I would request our captain, Mr. Sharma, not Rohit Sharma, Mr. Vishal Sharma to, you know, take us through the next four years of…

Vishal Sharma: Yes. Thanks Ashish. Thanks. So good evening everyone. Thanks for joining in today. I am Vishal Sharma, part of the business here at Spandana. You heard Shalabh talk about our Vision '25, the roadmap which was laid last year, July. And how we are executing for the last six quarters. Lots of challenges, but that's the way microfinance business is.

All I can say is that we are well poised as a business to deliver not just on the Vision '25 roadmap, but the roadmap beyond '25 to '28 as well. So what I'll do is in this theme, I have my colleagues as well. And we'll talk about what are the core philosophies we have in distribution. And what do we believe in as a management team and down to the eight layers we have at the branch level. How do we communicate with them? What are the philosophies?

And how do we manage the distribution? But before I get there, we'll start with a small video. This video is about how our loan officer or the branch manager, the branch staff essentially, which is the most critical piece in our business. How do they spend their time on a typical day? Starting from sourcing a customer, wherein they do a village survey, how do they organize center meetings and all the way to disbursements. Can we have the video please?

[Video]

Vishal Sharma: Thank you. So these are the topics we'll cover in the distribution theme including me and my colleagues. But if we talk about our core philosophy, there are four top priorities which we have. The first one being customer acquisition led growth strategy. This is what we had envisioned when our Vision '25 roadmap was charted last July which Shalabh talked about.

This as customer acquisition led growth is the fuel for growth for our business. Coming from the seven identified states, the growth states which we call them. We acquired this year first half, we acquired about 7 lakh customers taking our customer count from about 23 lakhs in March to about 27 lakhs when we ended the last quarter. Very critical. It continues to be 50% of our business gets contributed by our new customer acquisition. The balance 50% is from our pre-approved, our existing customer base.

I believe that this will continue to give us the momentum and the growth for another two years and directionally by about '26, '27 financial year. We should be looking at about 35% odd contribution from new customer addition and the balance will come from our existing base.

The second core philosophy which we have is lend short. And when I say lend short, this is about microfinance business. The maximum tenor we give is 24 months in a monthly mode. As we transition from monthly to weekly, there we give about a maximum loan of about 75 weeks which will further and as we build that weekly business, the transition is underway. And as we build our business, automatically the tenors will continue to come down. The point here is that in microfinance business, what we strongly believe is that you lend short, you lend for a shorter tenor, don't lend for a longer tenor but keep meeting the demands of the customer. So that's our philosophy.

The third is muted ticket sizes. We lend a maximum of INR80,000. So we're not in the ticket size. Let me put it this way, not in the ticket size game. What we look at it is, as I said on earlier point, if a customer needs money, needs emergency fund, we should be there. And that's how we strongly believe and one other point which kind of talks about the weekly, why we should have a weekly model, wherein we are at the top of the mind recall for our borrower. The loan officer is meeting the customer regularly. If the customer needs a top up, we can always give a top up kind of a loan, emergency kind of a loan at a shorter tenor.

The fourth point is indebtedness. So when I talk about ticket sizes, we don't look at ticket sizes because we lend a maximum of INR80,000. Indebtedness is the key. We are at about INR36,000 on an average for our 27 lakh borrowers, which is probably 85%, 90% of where the industry is. So indebtedness is the key rather than the ticket sizes.

Moving on, the scale up productivity and efficiency. We opened about 573 branches this year, of which we have today now about 400 branches which are weekly mode. So about 33% of our business is weekly. We are, as Shalabh also mentioned, we are a rural focused business. 90% of our business is rural. We continue to build on that. We had identified, I talked about the seven states. We continue to build on those seven states, acquiring customers in absolute rural focus.

The second important one is the JLG and the 5x5x5 metric. I'll explain that in the next 30 seconds. As a team, we strongly believe in microfinance business, a joint liability group model is the only way forward to make sure your risks, your control is there, and the productivity and the efficiencies on the other side are also maintained. When I talk about a 5x5x5 metric, I'm talking about there are five members in a group, five groups in a center, and five centers, typically a loan officer manages in a day.

This is the North Star for us. We're not there. There are challenges on the ground. Our center sizes today are smaller, but that's what we have to take on from here, increase the center sizes, the group sizes, and make sure the caseload per loan officer increases. That's the efficiency bit which we need to work on. That's the distribution gap which we have today, but I'm pretty sure if you look at last year, first quarter, in fact, the Q1 of FY'24, we were at about 317 caseload per loan officer, which is a very important efficiency metric.

Today, after two quarters, we are at about 343 kinds of a number, we'll be ending this year at a target of about 360 to 365. The other is growth geographies. I've already talked about it. Seven states is what we had earmarked, enough white spaces predominantly, more customer acquisition there. We already have opened our branches, which were the Vision '25 target, so that we have a clear runway for the next 12 months, for the next entire five quarters, starting January calendar year. The next five quarters, we just build on productivity and the efficiencies from here on.

So that's on the productivity, scale up, and efficiencies part. The other part is the standardizing of processes. I have my colleague Ajay, he is the CBO for North, who will talk about the standardizing of processes, which is another key component for our business.

Ajay Ganotra: Thanks, Vishal. Good evening, everyone. I would like to talk about our ongoing effort towards process standardization. As my colleague talked about the core philosophy in the distribution, which we are driving ever since we have joined, are as follows. Strong belief in the JLG model. Number two, muted ticket sizes, lend shorter tenure, and weekly repayment. Let me start with JLG.

To reinforce borrower discipline and enhance efficiency, we are focusing on JLG. JLG is a strong culture of the microfinance, as you are all aware of that. Due to COVID, few of our lenders have started individual lending platform. Why? Because COVID has disturbed the entire business. And they were moving away from the JLG platform. We are as an organization strongly believer of the JLG. The elements of JLG such as weekly center meetings, conducting center meeting on time, and as Vishal mentioned, 5x5x5 is the core of this JLG model.

Presently, we operate with two sets of branches, monthly and weekly. Since January 2023, we have successfully opened 400 branches, and all are on weekly schedule. Our plan is to move our existing branch into weekly by the end of financial year 2025. We believe in input management. We are focusing on input management. Our belief is if input management is done in a standardized manner, rest everything will be taken care of. Input management is an effective sales management tool. I will explain.

Focus on center and group size efficiency. Focus on meeting every day 80 to 100 customers Monday to Friday. This is our core JLG. Our supervisory layers, branch manager above, are actively monitoring center meetings to uphold quality and sustainable business. We conduct

LUC after every loan disbursement, means loan utilization check to ensure members utilize our loan amount for the correct purpose.

A dedicated product and organizational excellence team consistently fine-tunes our processes for optimal results. With this, I would request Sushanta Tripathi to throw some light on our two new products other than microfinance. Over to you, sir.

Sushanta Tripathy: Thank you, Ajay. Thank you very much. And good evening, everyone. Welcome to Spandana 2.0. As we speak here, microfinance is our core business. And we are progressing a lot in achieving our Vision 2025 goal in microfinance. At the same time, we are diversifying our product portfolio to meet the needs of aspirational India. Because this is again in line with our Vision 2025 that we envisaged six quarters back.

Wherein we said we will be diversifying our portfolio. So in this direction, what we have done in the last, recently last six months only, we have rolled out two new products from scratch. One is Loan Against Property, which is a secured loan. And the second one is the Nano Enterprise Loan, which is a loan to retailers, shopkeepers, and kirana stores. These two new products are very different than microfinance. We know from day one that microfinance is done in a different way. These are the different sets of customers, different segments, and all together. That's why we have created dedicated branches for this kind of customer. Separate branches, separate manpower, the sales team, the credit team, and the operation team, entirely segregated. And these two products are housed within our subsidiary, Criss Financial Ltd.

To talk a little more about this Loan Against Property, what we are trying to do, we are trying to give small tickets secured loans. We have just started, that's why the ticket size is INR4 to INR5 lakh average ticket size. Generally, there are chances of migrating the microfinance customer to this Loan Against Property, but that's not the design. That's not the construct. Accidentally, if some microfinance customer wishes to take a secure loan, that's okay.

So the customer segment is different, people are different, and the branches are different. When you talk about Nano Enterprise Loan, that's the retailer loan that we have launched. INR50,000 to INR1.5 lakh in the semi-urban area. That is also giving good results. So these two products, what we have done, because we have started from scratch, we have invested a lot of time and energy and resources in building the technology. Because we understood from the market that this is nothing new in the market.

There are many players we are operating. What was missing, we understood that we should have a robust technology solution which gives end-to-end digital journey. We call it Phygital digital journey. Why because in a customer journey, there are three aspects. One is you source a customer, and that has to be physical only, because the staff has to meet the customer, make them understand the product, proposition everything. And there is an on-boarding process, that should be completely digital. Then only you will get a better customer experience. And the servicing part, that is also digital.

So, our processes are phygital and we continue to do that. So the last six months have been a very good experience, I would say. Initially, we found it very tough, because the last 30 years, three decades, we have been doing microfinance, now suddenly moved to two different segments. So with these challenges, there is learning as well. Where to open a branch, where not to open a branch, which state to go to, all these things we have sorted.

So 20 branches currently, by the end of this financial year we will be having 50 branches. By the end of the next financial year, we will be having 200 branches in these particular two businesses. And we are confident that these two products put together we will be taking to INR3,000 crores to INR3,500 crores by FY 2028. It's an ambitious plan. It's not that, we are not planning in a very, very granular manner, because the market has been understood.

Though we plan to grow organically, there are opportunities in the market where we will explore. If time comes, then we can go for inorganic growth also. That's also one of the factors. And again, because these are housed within CFL, there will be a kind of capital requirement in the course of time, that also we are prepared for. So distribution as such, microfinance and non-microfinance we are very, very comfortably placed and to take the journey from this level to INR28,000 crores by FY 2028.

During this period, last six quarters, what we have done, we have seen is there is a big amount of cultural shift that has happened. We have become more of a data driven company and to talk more about data and how we use the data in the business, I would like to invite Dharmvir to talk about that.

Dharmvir Singh: Thank you, Sushanta. So, I feel we have started practicing the data-driven culture at our organization level. So if we look at, data is becoming the new fuel to propel the growth of any organization. Every day as we are growing, the data is also growing day by day. How we are leveraging those data to take effective and strategic decisions to fuel our business growth is most important.

We have more than 12,000 people getting more than 90-plus automated reports on a daily basis. Every second we process a loan in business hours. So if you look at the kind of data and transaction processing we are happening every day, then it's humongous. So how we are leveraging those data is very, very important for us. For those data driving slicing and dicing, taking a strategic decision, taking the data view at different angles, we use Power BI, which is a Microsoft product. On top of this, we have a data lake which is essentially used for reporting. On top of this, we have every user persona-based reporting.

So each individual, workgroup-wise, we've keep reporting each and every data that makes their life easier on a day-to-day basis. We have strong data inhouse engineering team as well which keeps drawing data engineering and give us a best recommendation out of their analysis. Starting from branch selection till loan approval, loan onboarding, and final disbursement. Everywhere the data is involved.

How we underwrite a loan is through a scorecard-based rule engine which itself takes care of all set of parameters like FOIR norms, household income, applied loan amount, what is the eligible loan amount everything taken care by rule engine we have. Next level for this is to automate this rule engine which we will talk about in subsequent slides. So with this, I would like to hand...

Ashish Damani: Thanks, Dharam. I think if I have to summarize this entire thought process in one phrase, it would be, in God we trust, for everything else there is data. Thanks to Shalabh, who has made this as our second nature at Spandana. We talk data, we eat data and sleep data. I'll move to the next P - protection. See we have-- we as an organization have been committed and guided also that our portfolio quality while we are growing this book will remain, the credit cost will remain under 2%. And this confidence stems from the robust risk framework that we have laid.

We have put a lot of controls. We have thought about this business. Thankfully we have a lot of experience within our team who has done this in the past and basis that, this is how we will go about doing, 28-by-28 vision. I will request our CRO Amit to throw some light on what is that we are doing in the risk management from here on.

Amit Anand: Thanks, Ashish. Namaskar and welcome. Good evening to everyone. At Spandana, our model of microfinance itself has a risk management built in it. Because there are many models of microfinance and ours is the JLG, which we kept hearing for some time. That is Joint Liability Group. Because it's an unsecured business, JLG works as a protection, as a social protection where the chances of a default becomes lower. So that is one risk management tool that is built in the system in the model itself.

Now since JLG is at the soul of what we function into, so monitoring how the JLG is functioning, the quality of JLG is a core risk management function because it can give us an early warning signal to act upon. So there is an AV which we will play and here we show how our loan officer goes to the center and do the center meeting with the group. And by monitoring all these activities through geotagging and dedicated mobile applications, we track the timing and quality, duration of the meeting which gives us insight whether there is any issue or any early warning signal on the group functioning. So there is one small AV on that.

[Video]

Amit Anand: So actually, our CEO Shalabh says that microfinance is not an asset management activity but a risk management activity. And in true since we are following that and since we started six quarter back we started putting up a robust governance and risk compliance framework and we are in to process of making it and enforcing it with major enterprise-wide risk management frameworks. But these are the four major areas that we are covering in the risk management team.

So the first one is on the risk diversification piece. Here, as a business, credit risk is very lower in the entire BFSI segment. We all know that in microfinance the credit risk is actually one of the lowest in the entire banking and financial sector. What are the risks actually at in present for us are mainly the concentration risks which we address with a simple principle that we keep on hearing is don't put all your eggs in one basket. So this is that and we follow it mainly through the geographical diversification as well as the product diversification strategies that we have.

And you can see that when we started six quarters back our concentration is top three states were somewhere around 48% which went down to 44% till last quarter and we are planning to bring it down to around 36% by the exit of '25. Similarly, on the product diversification space, we are now diversifying our products as Sushant has said earlier, due to LAP and Nano enterprise loan products. So this we are trying to diversify to another 10% to 15% of our book by FY'28. And this gives us an opportunity to do a diversification of our customer segment also.

So these are three major areas, two major areas. And then as Vishal also said earlier that, our exposure sizing is another risk management practice that we follow. And as we have an optimum exposure sizing which is very low compared to the peers. In fact, we maxed it at 80, around 80,000 which is around 35% to 40% lower than some of our peers. And then the tenor is also on a lower spectrum which keeps us tracking and evaluating the customers. And then as the confidence grows, we take more exposure on them. So these are the major risk initiatives.

And then as Dharmvir said that technology and data analytics is the major tool that we take for risk decisioning. To give more color on this, I'll request Deepak to just...

Deepak Varma: Thank you, Amit. Good evening all. Risk as such in microfinance, I mean mostly everybody is aware of the way microfinance operations happens. For us, the core of managing risk is the JLG model. That's why there are other organizations who are kind of branching out, towards individual exposures within that microfinance frame. But we believe it's a lifeline. It's the first line of defense for us. You can't move foundation and build a building. And as far as we are concerned, we are building a skyscraper here.

So JLG being the core of risk, but there are a lot of ways to actually strengthen that JLG model. One of them is where do you open the branch? Is the location good enough? Or is the client base or the exposure that we're looking at, is that good enough for us to expand there? So our risk, the risk in Spandana starts even before we, open the branch. We, of course, while opening the branch, we have our own strategy note, which locations we want to enter, but which districts, which village, which pin codes we want to enter into.

We have our ear on the ground because that's the best way to get the knowledge considering it is an extremely diverse market across India. However, we make sure that once we have this field knowledge of which pin codes are lucrative enough for us to open up, then we have our own risk frame, our risk scoring matrix through which we take, the portfolio there, the type it is behaving, the average indebtedness of a client, how many lenders are present there, because all these aspects can actually, affect the risk criteria in that particular geography.

Once this is done, then only we even think about opening a branch. In fact, Ajay in the beginning was mentioning about, we have opened 400 branches. All 400 branches in this last six quarter or any of the larger branch being split, each one of them has gone through this model. So we are sure that when we are opening a branch, even before we are opening a branch, we know what we will do there and how it will behave, at least without, having some unforeseen events taking place. So we start with opening a branch, then we come to how do you approve a loan. I mean, of course, you know now which clients you want to go to, but what exposure do you give it?

Microfinance generally has worked over, more from an experience-based lending approval. We, in the last six quarter itself, have moved more to a, a rule-based engine. So we have data which kind of throws out which type of clients and which kind of exposure we want to get into. However, going forward with the vision of 28 by 28, we really want to move to a, and we are in the process of moving to a more scorecard-based lending. So, that we have much more controls on which type of clients we are going to, source and which kind of product we want to penetrate the market with.

Then comes, while, portfolio stress is not a problem as of now for us. I mean, numbers are showing that every quarter. However, when you are looking at five-or six-years kind of horizon, you also need to have, plans for any eventuality which comes. And this industry is a bit dynamic. We've seen that in the last four years, there are multiple facets which can actually impact. Hence, already we have gotten to a process of doing a data-based collection approach. While we have our own teams, however, which clients to go into, when did they last pay, which other companies they are paying to. So there are various data cuts which are already being used to ensure that our resources are, directed well and they get optimum results out of it.

But what we are keen on, what we are keen on is to move into a propensity model kind of initiative, a model tool to actually, augment our collection strategy. We want to really understand before, the client goes into stress or a center meeting goes into stress. We want to understand various parameters of a JLG of attendance, the average indebtedness, the size, how many loans are already there. All these, the model will actually throw out and we'll have an early warning signal even before we get into a stress. So that we have this option of going to the client and actually containing the problem even before it might pop up.

So the risk in Spandana 2.0 starts before the branch and we already are envisaging something which might, while it has not happened, which might happen, maybe sometime in the future which cannot be predicted. However, all this to happen, data is good to have but what do you do with the data? So there has to be a clear monitoring system along with that data to actually make it a bit fruitful and now to talk on that monitoring pattern, I would request Shriraj to actually throw some light on it.

Ashish Damani: Thank you, Deepak. Sorry Shriraj, before you start, if you can just try to, concise our points in the interest of time. Yes.

Shriraj Vedsen: Yes. Thank you. So good evening, all. When we talk about risks, so it is very important to understand, which are the main risks which our field operation is trying to mitigate so that we are adopting the best practices in the industry. The first and biggest risk which microfinance faces is the risk of loan misutilization. Let me explain this a little bit.

So loan misutilization is what happens when the member utilizes the money which he has taken, not for income generation but for personal consumption. Right? We are all clear about it that microfinance loans are not personal loans. She is supposed to buy an asset with that money and she is supposed to use it for income generating purposes. It could be cattle, it could be stock, it could be a machine for sewing or embroidery or whatever.

So to avoid this, we have a system of LUC which is loan utilization checks. What we are in the process of mandating is that for every new member for the first cycle loan, we are mandating that after a certain defined period, say 10 days to 45 days, the person who has given the loan has to go and actually physically check the asset. Right? And to do a double check, we have mandated the supervisors to do random checking. So this is called loan utilization check. This is one way in which we are checking that the loans are not misutilized because this could lead to indebtedness.

The second thing which kind of COVID brought to the forefront is the fact that these members are not very easily locatable. So when COVID-19 happened and social distancing norms kicked in, we found that finding out the houses of these members in low-income areas, semi-urban, rural areas is very difficult because the person who has actually given the loan is a transferable employee. His job involves job rotation. So fortunately, in the age of technology and 5G, we have got a very neat workaround. We do the geotagging.

At the time of giving the loan, the borrower's house is geotagged. The centers are also geotagged so that we are within the geofence of 25 kilometers, which is our serviceable range. And we have an app on the LO's mobile, the Loan Officer's mobile, by which we are able to track whether the center meetings are happening on time and for the correct duration. So this kind of closes the loop. We are in complete control of the geographical aspects of our business.

The third thing which we are kind of monitoring is that the center meetings are happening on time. Now the center meetings are the cornerstone of JLG. It is a very templated affair with protocol involved in which the way, like even if I am not sitting in the meeting, I will have to address the member in a certain way, we greet the people, we sit on the ground only, you are not allowed to take calls. So we do it in a very templated, ceremonial kind of manner and to check whether this is happening in the correct manner.

Again, it is mandated for the supervisor to have random checks. Everybody who goes to the branch does a random check whether the center meetings are happening in the correct manner. This is done to drive attendance, which currently is at around 80%, which is quite on the better end of the industry standards.

The last thing which I would like to mention is that we also have a document checklist. So if anybody visits the branch, even if I would visit the branch, I would ask for the attendance register, the complaints register, the cash deposit slips and stuff like that. So we have a completely templated list so that the branches are audit ready at any point of time. To talk further about audit, I would like to hand it over to Sunand.

Sunand Sahu: Thanks Shriraj. Good evening everyone. I would like to add one more point what Shriraj said. On the geotagging of the centres and the borrowers, it is more helpful for us when we visit the borrowers. And this will help us going on our own rather than relying on a Loan Officer. Now, on the microfinance industry, since it is important on the processes and controls, it has been a culture of Spandana that the processes and controls are adhered to.

However, in the last six quarters, what we have done is we have strengthened the processes and controls of the field level. And how do we do this to ensure this? We have 170 specialised teams at the field level who visit branches on a quarterly basis to check these processes and controls, whether these processes and controls are working efficiently or not.

The key issues that we identify, that is again discussed with the respective stakeholders at the field level as well as at the head office level to address these key issues and mitigate the control gaps. Multi-layer of supervisory monitoring is also done at the field level. Whatever is identified at the field level is discussed with the respective stakeholders and then the mitigation steps are taken on a time-bound manner.

Now, Shalabh sir has spoken about this Spandana 28 by 28. It would be a challenge for us with the spectrum of growth that we are going by 28. The only way how we are going to overcome this challenge is on the digitisation part. A little while ago, Dharam spoke about the data cuts that is being sent on a daily basis. So, these data analysis also being done at the head office level with the offline and online audit that we do.

This also represents that the branch staff who visits at the branches, it is not only once in a quarter but multiple times on a special assignments also. Now, this digitisation would be a game changer for us because we would be highlighting the issues on a real-time basis rather than on a mandatory time. This will help us also the stakeholders to address the key issues as well as the control gaps which are there to fix it on a time-bound manner.

Now, whatever the controls that we implement, whatever the processes that we implement at the field level, now this should be in line with the regulatory compliances because we are governed by the regulators. So, whatever the compliances, control gaps, mitigation steps that we take, it is aligned with the regulatory compliances.

To talk more about the regulatory compliances, I would like to request Ramesh to take it over on the regulatory compliances.

Ramesh Periasamy: Thank you. Thank you, everyone. Welcome to the Spandana 2.0 meet. So, as my colleagues have already spoken about various risk monitoring and risk mitigation measures, so regulatory compliance being in financial sector which is a fundamental thing which we are strictly adhering to it. So, over last six quarters, we have done various measures and steps towards the regulatory compliance requirements and also the good governance measures wherein I, in the interest of time, I will just narrate a few important things what we have done.

So, we have added a more team in the process and organizational excellence and business legal, corporate legal and compliance team and also customer driven redressal management team. Wherein, which improved our overall compliance requirements with a timely manner. So, process and excellence team, they ensure that all the documents, manuals, policies, all put in place and well documented and always being tracked.

Then business legal and corporate legal ensures litigation management and contract management and also the recoveries and compliance team ensures the tracking of all the compliances across the company and also supporting the business in terms of documentations and also coordinating with the regulatory authorities as well as the external stakeholders.

Apart from that, based on our past experience and as a good governance measure, so we have put in place a delegation of authority matrix along with the various frameworks, so which clearly articulates individual's roles, responsibilities and the authority wherein any decisions within the organizations, it flows through the cross-functional team. In case of beyond a certain value, it goes through the management level committees to the board level committees, which ensures any individual decision making which may impact the operations of the company that will restrict and also mitigate the risk. So, over to you.

Ashish Damani: Thanks Ramesh. I think one of the key things to be mentioned is at Spandana now for last six quarters we have been filing all our regulatory reports on time and kudos to this team and the guys sitting here, we have been correcting the perception which was carried in the past.

Now that we have covered the operational risk, we have looked at our liking for JLG, smaller tenor loans, we want to be diversified. There is one more risk or I think I would say more of a challenge for any NBFC or for that matter any financial services is raising the required capital, required borrowings to meet the growth plans. Spandana has had a bit of legacy issues and there were a lot of challenges when we have joined.

If you look at the journey we have taken on the fundraising side, it actually started in August of '22 when we have announced the first quarter results. We did lot of clean up during that quarter and you know that's when the real exercise started, that's when we started getting positively engaged with our lending partners.

If you see, we have been able to raise close to about INR5,800 crores in last financial year over the three quarters. It was the time when we have instilled lot of confidence into our partners. What also happened is not just raising funds but we have raised it across the types of institutions. We have borrowed money from public sector banks, we have borrowed money from private sector banks. We always had lot of capital market borrowings. We could borrow from SFBs, large NBFCs, we have also done some different kinds of transactions ranging from term loans to DA to ECB to bonds and all of this.

Having said all this, we know there is a path, we know that there is lot of improvement that needs to be done in this particular aspect of business when we compare to our peers and to talk more about that how we are going to do this, what is in store, I will request my colleague Subhrangsu to take us into the section.

Subhrangsu Chakravarty: Sure Ashish. Good evening everybody. So when we took over in March 2022, the lender confidence in the market was not that high and as we started interacting with you, as we started engaging with you, we could feel that. At the same time, we could also feel, we could also sense that you had the confidence on the franchise. So we were fully confident, it's only a matter of time that we will rebuild that confidence and thanks to all of you that you believed in us, you trusted us and you supported us all along.

So as Ashish has already pointed out, with your support only, we could raise around INR5,800 crores in financial year FY '23 and as we speak today, we have already surpassed that amount. So we are at INR6,100 crores in FY '24. So with your support only, we could grow our assets. With your support only, we had a comfortable liquidity of around INR1,500 crores across all these quarters. So big thanks to all of you again.

Let me now give you some flavour on the plans and the progress we have made so far. So we follow a diversified funding mix and our diversification consists of borrowing from banks, NBFCs, capital market and also foreign borrowing like ECB, FPI, etcetera. So as on September, that is Q2 FY '24, our borrowing from banks was around 49%. And this by banks, I mean to say, it is both public sector bank as well as private sector bank. And the balance was a combination of NBFC borrowing as well as capital market and a small amount of ECB.

Now what is our focus? Our focus is to increase the bank borrowing. Our focus is to increase the bank borrowing to around 60% to 70% in the next six quarters to eight quarters. And the balance we would be borrowing from NBFCs, we would like to cut down our borrowings from NBFCs and keep it to sub-10%. Our borrowing from capital markets should be sub-15% and the balance is what we are going to get from foreign sources like ECB, FPI, etcetera.

With this kind of borrowing, as on September, our gearing was 2.3x and we are comfortable with a gearing of sub-4x in the next six quarters to eight quarters. So we have a good amount of runway to cover. I would also like to cover one more point. We have decided, we have actually chosen to align ourselves with the sustainable development goals or SDGs as we call as laid down by United Nations. In line with that, we have framed an internal policy and framework. We would also like to add a social bond to our kitty as we move forward.

Along with our focus on increasing our bank borrowing, we would also like to, and another focus area is to reduce our cost of borrowings. On this, Shilpa, would you like to cover this?

Shilpa Jain: Thanks, Subhrangsu, for laying down the plan for diversification in borrowing. This definitely paved the way for reduction in cost of borrowing for us. Reducing the cost of borrowing is one of the key focus areas under this management team. Our marginal cost of borrowing when this management team took over was 14% and gradually we were able to bring it down to 13%, 12.7%, 12.6% during quarter of FY '23 and is further reduced to 12.3% at the end of last two quarters.

It took us almost six quarters with lots of effort, focus and continuous engagement with our lending partners and support with all stakeholders. We were able to bring down the cost of borrowing. As a part of Vision 25, which was unveiled by this management team during July of last financial year, we continue to deliver the numbers what we have promised with the support from all stakeholders.

Ashish Damani: Shilpa, would you mind taking us through what are the plans, how are we likely to get to sub-11, what are the initiatives?

Shilpa Jain We know our cost of borrowing is higher as compared to peers primarily due to the CDR and the management transition of our company as Ashish mentioned. But we are confident that we will be able to bring it down. There are few focus areas which will help us in reducing the cost of borrowing would be diversification. We have already reduced the reliance on the capital market from the peak of 42% to 28% at the end of previous quarter.

Another key focus area would be direct assignment. Direct assignment as we know is one of the low cost funding resource for us. Traditionally MFI has been the key lending source for the banks to meet their PSL requirement. We expect the same to continue and we are comfortable up to 10% to 15% of book as a DA.

Now we will move to the debt management. As a part of debt management, would like to achieve desired level in terms of leverage and the capital adequacy. Our leverage was 1.9x when this management team took over and it touched the low of 1.3x in September '22. With constant effort we were able to improve it to 2.3x and we are comfortable south of 4.0x with a strong network and the capital adequacy.

Currently our capital adequacy stand at 36.6% and we are comfortable anything above 25%. Based on our business projection, we should be around 25% at the exit of ‘28.

Ashish Damani: Capital has never been a challenge for Spandana as such. The thought process is that when we hit 25% that's when we should look for more capital, if at all. When we do so, we will look at least looking for growth capital for two years to three years. That's our thought process. As of now as you can see we are very comfortable. Probably in coming years we may have to look at this as a possibility.

While we have talked about lot of initiatives that we are going to take to bring down the cost. The whole idea is normally when you get financial gains that's when you should try to pass it back to the customer. But any productivity gains or operational gains that should be retained back for the shareholders. That's the large thought process. Not to say that anything we do we immediately turn around. But in essentiality we will look at this as a theme.

And to talk about more on how we are going to become more productive and I have started by saying one of the P for productivity we will drive it by the effective use of technology and for this I would like Dharam to take us through. Dharam, I am sorry I have to put you in this but if you can try to concise in the interest of time.

Dharmvir Singh: Thanks Ashish. So we have come a long way in last six quarters. We have formed a strong tech team and we are happy to announce that this tech team has delivered n-number of features and workflows for different business functions. So if you look at, we are happy to announce that all our infrastructure is fully cloud. We have zero application ecosystem which is hosted in-house. So that's the strength that we have.

Let's look at how we are protected in terms of information security, when we talk about cloud hosting and infrastructure backed application ecosystem. First of all, all cloud services provider like OEMs - Microsoft, Google or AWS, they give us a robust level of security in terms of network security, internet, port label, SSL certificates. On top of this we have additional network security and firewalls which keeps protecting our environment 24x7.

On top of this, every application whatever user groups are configured, they have a privileged access management which ensures within the application which user has what access rights to what extent of editability of a particular record in the application. What we do store all PII data of customer and employees. We encrypt the entire database of PII using different algorithm which is SHA-1, SHA-256 or AES-256. All these various algorithms are used at different application ecosystems to encrypt and mask our data of super confidentiality.

On top of this, we have a security incident and event monitoring tool, which takes care of any threats that is coming out of our network and out of our ecosystem that we operate in. We have a multi-factor authentication which takes care of additional layer of security for super privileged accounts and additional layers, which gives you n number of various questionnaires whenever you change a device whenever you change any security passwords or anything.

Having said that all our infrastructure is fully secure. We are very confident that we are prepared for any future disruptions and we have preempted all future disruptions so that our business continuity remains intact. For continuing our business continuity on top of doing all this security infrastructure setup, we have done a BCP planning as well, wherein all our production instances are fully secure by having a real-time closed replication of entire database and the application which make this un-immutable database backup which means no one can inject any external injection queries, no one can modify the data, no one can read the data, no one has access, even including the administrator privileges. That's the kind of preparedness we have done on infrastructure side.

How we are governed in terms of application and infrastructure I would invite Ramesh to throw some light on this.

Ramesh Periasamy: Thank you, Dharmvir. So as I mentioned earlier, as a learning from the past experience, so we have as a part of our various governance and compliance measures, so though we have enough IT and infra and security aspects, we also put in place IS and cyber security governance aspects and the structure so wherein we have chief information security officer who reports to CRO and he is a member of IT steering committee which is the management level committee. Apart from that we have IT strategy committee which periodically reviews all our IT and IT infra projects.

Apart from that it also reviews InfoSec and cyber security measures in the organization what we have taken through. And apart from all this, we also have a vendor risk management frame assessment and IT risk management assessment and VAPT test which are all periodically taken care and the same thing being monitored by the IT strategy committee and also the risk management committee. In addition to this, we have independent internal and IS information security audit and in case of any gaps or deviations identified in the audit, it's being presented before the board level committees along with the time bounded action plan.

So this to ensure our IT and InfoSec and the cyber security measures are fully taken care our database is fully taken care. So over to Sushanta to go through the process automation.

Sushanta Tripathy: Yes, thank you Ramesh. Dharmvir and Ramesh mentioned about key pointers related to the IT infra back-end how we have strengthened the overall back end part. But to have the scale up of the business, we need to take care of the front end also. So when I say front end, it's our branch staff and the customer.

Today's competitive world, customer what they want. If I go to any village and ask a microfinance borrower they have options. They will say, "I want two things. First, how soon will you be able to give me a loan and how hassle free will you be able to give me? How easily will you be able to give me? So for that, with that two things in the mind, we have done a lot of innovation in terms of process automation.

Earlier days we were taking the loan application in a piece of paper. Our loan officer was writing everything in handwritten. Gone are those days. Last six quarters, we have spent a lot of time, energy, resources in automating our processes. We have introduced a mobility solution wherein the end-to-end customer journey is taken care.

Today we have about 10,000 loan officers, field staff. They start their work from 6.30 in the morning. They take the mobile application to the mobile device. There itself there is village survey, group training, group confirmation, center meeting, any activity during the day, they do in the mobile application. No paperwork, nothing.

He doesn't carry anything in the hand. So not only in microfinance, as I mentioned in my previous section secure loan and nano enterprise loan also we have launched. There also because we have launched recently, from the day one we ensured that some of the additional features in the mobile application is fitted. So that the customer journey is end-to-end seamless and paperless digital journey.

Here one of the important features is when we have this OCR, Optical Character Recognition deployed in the mobile application. When you scan the KYC images, automatically data is prefilled. And once data is pre-filled, you don't have to do manually and all the loan documents are generated pre-populated. That saves time and energy and everything.

After the sanction of any loan, there is a host-to-host integration with the bank. So directly fund gets transferred to the customer account. It's fully digital. So that also saves time. And for doing all this process automation, we have partnership with the tech vendors and they give us an API call and seamless movement of the files happens. So in the end, as a company, six quarters back, we were not that much very process-oriented kind of thing. Now what we wanted was let us do each and every activity, every product we launch. Product feature is one part. But what are the processes involved? That's the key. So for that reason, we have set up a 10-member dedicated team which is called the Process Excellence Team. Day in and day out, they come up with the innovation and do multiple changes in the current setup process to get the desired result. But during the loan journey also, only by defining the process, it doesn't help. You have to have control measures at various points of time.

And Vishal, I think Vishal will be explaining how we have various control in the process in the entire loan journey.

Vishal Sharma: Sure, Sushanta. So tech as an enabler to the business carries a lot of value-add in terms of enabling the entire business for us. But on the other side, tech as a control and risk mitigation as well plays a critical role. And I'll give you a very simple example. So each of our customer is geo-tagged today. Any disbursement which happens, the customer is necessarily geo-tagged. The customer's house is geo-tagged. We have the centers which are geo-tagged. We have our branches, which are geo-tagged. And there is an app which our loan officer carries.

So once you have geo-tagged the borrower's house, you now know in case of any eventuality or the loan officer moving out because there is a rotation process which we follow. Every loan officer has to change branch and centers again as a risk mitigant. But the continuity of the borrower has to be there. So that's one example of the control.

The second is, simple things like, we were earlier managing travel allowance for the LOs, Loan Officers, through a paper process. Through this app, today I know that how much, not just how much he's traveled, how much time has he spent to the center, but also I can reimburse his travel through this app. So there are multiple advantages of how we've used technology and how it is aiding in controlling and mitigating risk for us.

The other thing which we're working on is the e-Sign functionality. It's already live in our non-microfinance book. We're working on the same on the microfinance book. What it will do is that all the paper, all the hard copies, it will do away with that. The entire documentation will be digitized. It will work as a single e-Sign by the borrower and save a lot of non-value-add which happens at the branch. So that's another example.

Also, e-NACH is another example on that. Already following up for non-microfinance business, but we'll be replicating soon. The other is the e-KYC. We have started work on it. The journey has already started. I think in a few quarters from now, our e-KYC will be rolled out in the near future. Taking that forward, the technology being used for analytics and our decisioning-based lending because we have a template-based product lending process.

Deepak would talk about that.

Deepak Varma: Thank you, Vishal. Technology for us, I mean, we've already discussed quite comprehensively how we are using it about creating score, already having a model in place and migrating to a scorecard-based model. And the new businesses, already from the day one, we have ensured that we get into a self-aware, auto-learning kind of a scorecard model which kind of updates itself every six to 12 months. However, I just wanted to touch base only on the base which we take technology as.

We want to be one of the most deeply penetrated microfinance institutions as far as technology is concerned. However, the only reason why we want to be that is not for a bragging right that we'll be the most advanced in this. There are only two things which we look for when we are looking at any of these interventions.

The first is our LO. We have audited an 8,500 LOs who travel from 6.30 in the morning till whatever time. And the second is the 27 lakh clients who we have and which is ever increasing. The only reason why we have these interventions at whatever places is that we can make life easy for these two people who are the biggest elements in our business.

Hence, we have different initiatives coming in like an incentive app which incentive is a large part of this salary of a front-end employee. And to know and have a clarity and a transparency where I stand today and how much I can earn, that itself is a huge motivator for the team. Similarly, having a fast approval matrix. I mean, what best can you give to a client that it is painless and the client experience itself is so good that they want to come and join with us.

Our core agenda for bringing in technology at any level is going to be these two people, the LO and the client. And how we are taking this forward further, I mean, what are new initiatives we are bringing in, I would request Dharam to actually highlight some more.

Dharmvir Singh: Thanks, Deepak. So apart from practicing this data-driven culture, we have also started moving towards safe Harbor, forward-looking culture. So when I say forward-looking culture, we should be becoming a future-ready. So everything that we use has to be future-ready. As we know that in recent times, regulatory guidelines or regulators wanted to discourage the cash economy and our majority of collection is cash. They wanted to promote CBDC, which is digital rupee, central bank, digital currencies.

So we have started doing a POC, how we can enable our collections in offline mode to an end customer who is not having a smartphone. So this is something which we are working on and definitely we are on it. We'll keep you posted on this once we have some updates. On top of this, we wanted to make our entire KYC to be available on private blockchain, which is a new futuristic Web 3.0 guidelines. And definitely we are on it and we have started exploring how we can seamlessly keep all KYC information for all regulatory and compliance purpose for review and audits.

As we are growing, our endeavor is to grow exponentially, but follow algorithmic graph in terms of support function costs. So this is where we are working on and we wanted to have a fully integrated CRM, IVR, chat bot with AI/ML features, which will pre-close all the tickets raised at service and help desk. On top of this, we have also planned for a futuristic fraud prevention algorithm, which will be part of Data Lake itself, which will be autonomous and self-learning, which will preempt all future business risks for loan delinquencies.

We as an organization believe digital transformation is a journey, it's not a destination. At our org level, we have a vision to have one Spandana, one application, and one device per employee, which makes everyone efficient enough to work on a single device with a single console. How we are onboarding customer as on today and how we are going to onboard a customer in future, in near term, let's have a look at a video and try to understand our pain points and what is proposed to ease out those pain points.

Ashish Damani: Can you play the video please?

[Video]

Ashish Damani: Thank you. So, essentially, what are we saying, we'll move paperless, we'll have a very secured environment. And lastly, use latest technologies to help productivity make life easier for our loan officers and bring customer delight. The experience with the customer should get better and better. They should be able to access loans much faster. Today, we are spending whatever, three days to five days, it should go down to, like 10 minutes to 30 minutes at best.

So that's, that's what we are working towards. We are progressing towards, yes, we know there are some peers who are already there, but we are also getting there as we speak. This brings us to the last section, while this is the last, this is the most important, I will just roll back to the first earnings call which Shalabh did. We talked about our vision '25, can you move to the next slide, please, next section, where we've talked about, what are our priorities and in fact, in Shalabh's commentary, he said, from one to 10, my priority is just people.

So while this is the last, this is the most important one, we have taken a lot of initiatives and we continue to do so, because this is the most important stakeholder in the business when you talk about financial services. To take us through this section, I would request Prashant, Prashant Rai, our CPO to take it from here. Thanks.

Prashant Rai: Thanks, Ashish and good evening to all of you and welcome to this session. It's great to have you all here today. So, if I have to talk about people, I would say that in a microfinance, people are the biggest asset. The second important aspect which I also would like to tell you is that, we are in a business where, we are in a very high touch business, right? We have a lot of people who are spread out across the country as different places and the kind of competencies that they have are not up to the mark.

So in that case, it becomes very important that we also need to have significant amount of supervisory layers on top of them to take care of them when it comes to doing the right kind of business. In that regard, when we came six quarters back and took up this new assignment with Spandana, we clearly had three key important aspects that we wanted to work upon when it comes to people management or people agenda.

The one important aspect that we wanted to really look upon was to see that how can we bring in a stable management team in the organization. And in doing so, the important focus that we had was to see that, we had the best people from the industry who could come and join us. And today I'm happy to inform you all that the 13th that you're seeing out here, all sitting and talking to you, are all veterans from the microfinance sector. They have been working in this sector for a very long period of time. And to say in a very few words is to say that we know this business well.

The second important aspect was, as we bring these people from different sectors, obviously they had different ways of doing business in their own respective organizations. So when we came here to Spandana, it was very important for us to also set the right kind of a vision, the right kind of a mission and the values in which we would ensure that as we move ahead, the Spandana 2.0, we would have that all inculcated and crafted in a way that we all align to it. So that was the second important aspect which we did, that we created the vision, the mission and the core values for the organization.

The third important aspect was also to see, and I think Shalabh also talked about it in his opening speech, was that we came into a running organization. It was not an organization which we started off with, rather it was a running organization. So it was very important for us that, there is a cultural alignment which was important to manage that, to create the right kind of synergy for the people who are there in the organization, who are already there and they do not feel left out or insecure when we came into the organization.

So this is some activities that we did, which really worked on. Having said that, we have covered some distance, but I think the journey is still ahead and there's a lot that we need to do. The most important thing that we need to talk about when you're talking about, the Vision '28-by-'28 is the fact that the kind of scale that we are going to grow, obviously we have to make sure that we attract talent from the industry.

The other important thing is also how do we retain talent in the organization and to make sure that even they stick around and they grow with the organization. And third is the kind of changes that are happening in the ecosystem in terms of the governance structures. We have to make sure that, we have the right kind of structured, governance structures in the organization that we could make ourself future ready for the future.

In that respect, the most important aspect is about, attracting talent into the organization. In that regard, I think the business are the ones who are really doing that activity. So it would be great, if I could ask Shriraj, if you could talk a little bit about, what are some of the challenges when it comes to attracting talent and how are you dealing with that?

Shriraj Vedsen: Thank you. Thank you, Prashant. So, what do we mean when we say that people are the most important thing in our business? See, one thing which we are very clear about is that every decision which we sitting on the dais here take, so there is one overriding concern, how does it make the life of the person on the field easier? We are all amazed and honored by the hard work and the dedication of our team and it is our continuous effort to ensure that all our efforts are directed towards making their life easier.

A little bit about the highlights of the journey of the last six quarters. So when Spandana 2.0 came about, there were around 6,000 odd loan officers working in 1,050 odd branches. Today we are sitting at 1,520 branches and 8,500 confirmed loan officers. So how did we manage this quite rapid rate of growth? See the thing is, as Prashant just pointed out, we are all veterans in the industry and we had our own top performing teams with us and we had these people come in and form the nucleus of the team which kind of went on to attract the best talent from the markets and today we are proud of the fact that we have some of the most talented people in the industry working for us.

At the same time, we were very cognizant of the fact that the existing sales team should not feel left out or short changed. We made a salary parity grid so that we didn't have outliers coming in in terms of salary. At the same time, the existing staff were given several welfare measures like internal job postings and we had five year, seven year, 10 year long service awards and we take these things very seriously. There is a very templated kind of award ceremony which happens and all of us are there to congratulate the people on these long service awards.

We also give a lot of other referral bonuses and stuff like that which are all constituting welfare measures. The salary grids have been stabilized. We ensure that our loan officer in the field gets a decent salary between INR17,000 to INR20,000 which is again on the upper end of the median as far as the industry benchmarks are concerned. Lastly, this microfinance business is a people need go along type business where you have 8,500 loan officers working in the field. There is no scope for individual initiative and individual way of looking at things. We have to ensure that the whole team is marching lock step.

To promote this culture, we believe in over communicating in the sense that we have a system by which everybody in the company is able to communicate periodically with the top management. We have quarterly town halls in which the loan officer in the field can be accessed through the branch manager's device and we ensure that everybody from the MD onwards is addressing the team.

Five times a month, we have our chief operating officer address the team and we have these Zoom calls with more than 2,000 branch managers and supervisors connected to the call and we just ensure that the smallest decision is downloaded to the last person in the field. So again to end, I would say that we are proud of the team which we have. We don't believe that these people work for us. We are proud of the fact that we work for them.

Thank you. And I think to take this forward, I think Subhrangsu sir will speak.

Subhrangsu Chakravarty: Yes, sure. Thanks, Shriraj. So you see our business scenario is changing and several changing and to keep pace with this changing business scenario, we must be relevant and contemporary to add more steam to the business trajectory of Spandana 2.0 and in that respect, our philosophy is employee first. It has been made clear by our managing director Shalabh, it has been made clear by our chief people officer Prashant that employees are our greatest assets. So we provide the best of the facilities or best of the benefits in the industry and as Shriraj has already pointed out, our salary compensation is best in the industry. You see, we appreciate the fact that this industry works in a residential model.

That means our employees, most of our employees, majority of our employees are actually based out of, they reside in the branches. So we are appreciative of the fact, we feel that they should not be feeling that they are away from their home. So we ensure that they get the best of the facilities at the branches. So we provide them with cooking facilities, with cooking gas, even a cook, etcetera. etcetera. So all of this is to ensure that they are not feeling they are away from their home.

We celebrate birthdays in the branches, we celebrate all the major festivals in the branches. On the benefits, you see, our salary is, of course we pay best in the industry, but also we make sure that there is some level of social security we can provide. So we have covered all our employees with medical insurance and when I say all our employees, this means which actually includes all the employees who are even covered under ESI benefits.

All our employees are having life coverage. So all of this is to make us the best in the industry. Talking about communication, as you know, Sriraj was pointing out, our communication is not one way, it's a two-way communication. We love to hear back from the employees, you know, we always, we actually follow an open door policy in our office across all the, including head office.

So we love to hear back from them, whatever our employees say is gospel for us, you know, we are also conducting a dip-stick survey. All of this is done to, you know, help us improve if there is any scope for improvement and to see that employees grow and, you know, help the organizations grow.

What we expect from our employees is that they are disciplined in their deliverables and they're compliant with all the statutes which are governing us. On compliance, may I request Sunand to take this?

Sunand Sahu: Yes, thanks Subhrangsu. On the compliances part, Ramesh was speaking about the regulatory compliances and the governance on the IT structure. Now, on the governance of the people, this is one of the most crucial part. We are compliant with all the regulatory compliances as of now. One of the major compliances which is on the labor law, there is a transformation that is going on. We are keeping a watch on this from time to time.

Whatever regulatory compliances changes come, we will be adhering it to. So this is on the compliances part. Now, Deepak was saying on keeping the foundation strong. Our foundation is our employee. So across 1,520 branches, 20 states, 10,000 employees across all pan-India level, hitting the field day in and day out. We have to listen them. That is what Shalab sir was also saying in the opening speech.

So to do this, we have rolled out an internal portal Sahayata, where they can log into the portal and give their grievances, complaints, queries, whatever it is. Whatever they have problem or issue we will solve them. So that is what the portal, how it works.

Continuous trainings have been given at the field level on the compliances part. Continuous training has been given at the head office level also. The people who handle grievances at the head office level are trained to handle these grievances from the employees.

Having said this, whatever grievances we get in the head office, it is being acted upon. However, we also ensure that the right person is not victimized. Now in Spandana 2.0, integrity is one of our core values. I think Prashant will speak about it a little while now. In the contrary, on the disciplinary issues, if there is any wrongdoing by any of the employee, we have a disciplinary action plan in place. So we also give them a chance to hear as part of the principle of natural justice, we give them a chance to be heard from them, post which we have a corrective action on that.

Now on the people practices that Prashant was speaking a little while earlier, I would request Prashant to take it forward on the people practices on the inclusion and diversification, which is our road forward.

Ashish Damani: Prashant, before you add, just one point to be added. Sunand talked about the Sahayata portal that we have. It's not just that people can just put out their requests out there or requirements out there. Subsequently, it is also tracked by us in terms of in what TAT's we have gone back to. In fact, if it is not done in the required TAT, it gets escalated, it gets to Shalabh, it can go to our ombudsman as well. So that's a very important and a critical fact.

It's not just that one portal has been made, kept there, someone is sending it, someone is not seeing it. That's not how we follow. It is being monitored, it is being tracked and we take it very seriously. Sorry Prashant…

Prashant Rai: No, no, thank you. Thank you Ashish. That's true. Second also, I just wanted to make sure that, you know, so we have been doing a lot of initiative, whether it be in terms of tech initiative, whether it be in terms of people related initiative, whether in terms of benefits that we have been giving to our employees. What is this really culminating into, right? And you know, I'm sure as an analyst, you will all be thinking that what is it going, where is it heading to, you know?

I will tell you today that, you know, today our attrition levels against the industry, we are almost around 20% is lower. So that is where it all culminates into. The fact that, you know, we have been doing this initiative, it has been helping us.

The numbers are good, but having said that, we feel that we can do much better in terms of our approach. So the journey ahead for us is basically, you know, in terms of how do we move from employee satisfaction to creating employee delight in the organization. And the most important aspect we feel is that, you know, we need to provide psychological safety to our people who are working in this organization.

The second important aspect which we need to do is also in terms of our retention of employees, how do we bring about long-term incentive programs which are there, which has already been created to make sure that we retain these people who are there in the organization, the critical talent who is there. The second important thing which we want to talk about is in terms of inclusion and sustainability. Today, ESG is the mantra.

And obviously, if you look at the ESG, the social and the governance structures, if you are talking about, has a lot of people element. And that is where we want to really focus upon. Today, we have fairly good diversity in our HO, but we want to make sure that, you know, we are able to also create such kind of diversities down below at the field level as well.

It's a difficult journey and it's a challenging journey. But I assure you, you know, if you have taken the right steps, I'm sure we will be able to achieve that dream as well. The second important aspect or rather the third one is in terms of creating a learning organization.

Today, if you really look at our processes and systems and the kind of work that we have been doing today, there is a certain way in which Spandana does its business. We want to codify this whole process and make sure that we standardize this and create a learning module around it so that anybody coming into Spandana to work with us, they would have all of this provided to them. The second important aspect is also the fact that today, if you look at our people who join us, many of them, you know, this is their first job.

So it is very important that we create the right kind of platform for them so that they can upskill themselves and they can learn and grow. And that's exactly what we would be focusing upon. And last but not the least is in terms of, you know, how do we become an employer of choice.

In that regard, you know, while, you know, Subhrangsu talked about we are doing employee dip-stick survey, we are definitely mapping the employee life journey and also understanding what is the engagement level in the organization. But having said that, the important aspect is creating the right employee value proposition that we would like to share to the people at the external world so that when they come in, they are very clear as to why they should be joining Spandana. All said and done, you know, all work and no play makes Spandana very dull.

And we don't want to make that. So we want to have a fairly good amount of fun when we are doing all of these activities. So in one side, you know, where we are having a lot of technology related activities, we want to make sure that the people element is not missed out.

And we make sure that the camaraderie that is required in the organization is maintained. In that regard, you know, we want to drive our Spandana 2.0 in the journey ahead through our core value system. In that regard, we have created a small video on our core value, which is I CARE.

Let us see what this video talks about. Can you play the video, please?

[Video]

Prashant Rai: So as my MD keeps telling me, you know, if you take care of your people, your people will take care of your business. And I think that's what we are really striving for as we move ahead in Spandana 2.0. That we will take care of our people and our people will take care of the business. We will do it through technology-enabled processes. We will do it through proper collaboration. We will do it through compliance and governance. And we will do it through our process with love and care. Thank you very much.

Emcee thanks the panelists and hands over to Mr. Shalabh Saxena, MD & CEO of Spandana Sphoorty Financial Ltd for Q&A session.

Shalabh Saxena: Right. So, thank you. Thank you very much, Neha. It's important that there are, and I'm sure there'll be a few questions, if not more. Happy to answer all the questions. We have people out on the ground sitting there, you know, waiting for you to just raise your hand so that if there are questions, you know, somebody can please give the mic to. We'll try to answer to the best of our ability. If you have to come back, we'll come back to you. Yes, please.

Anil Tulsiram: Yes. Thank you for the opportunity. Anil Tulsiram here. I have two questions. First, under CGFMU, under CGFMU, you have option to take credit guarantee insurance from Government of India by paying 1% premium, under which 3% to 15% of the portfolio will be covered. So, do we have any plans to take it? And if not, reason for the same. And second question is for customers who after completing, say, three to four credit cycles, want to borrow INR60,000 to INR80,000. Do you think they will be willing to give the joint liability of the other customers and I think they will prefer the individual loan. So, do we have any such plans to do individual loans? And if not, the rationale for the same. That's it. Thank you.

Ashish Damani: So, the first one I'll take. See, we are looking at a credit cost of about 1.5% if all goes well. The challenge with the program, the government program is you have to pay 1% and then there are a lot of bells and whistles. In fact, to qualify also, there are certain, you know, prerequisites which are there. So, at this stage, we believe that we are comfortable with our, you know, resting with our business as is. But yes, at some stage, we may, you know, continue to evaluate. But right now, we are very confident that credit cost should not be more than 1.5% if all goes well.

Shalabh Saxena: To your second question, individual loans, I think it was covered by our colleague, Ajay. Our belief in JLG Supreme, number one. Number two, we think there is enough headroom even now because the penetration of the addressable market is about 45% in the country today as we speak. All said and done, the industry at a INR4 lakh crores, slated to grow at 22%. There is enough and more in the JLG to kind of not really go overboard when it comes to a non-JLG or an individual loan.

The third point, which is very, very critical is, where do you stop? Because companies, kind of go to a INR1.5, INR2 lakhs, INR2.5 lakhs. Everyone has a risk appetite. We understand that we have a risk appetite. Someone else has a risk appetite. They will understand. As far as we are concerned, we are comfortable and I think Vishal had mentioned this point. INR80,000 is the max that we offer. For the next until exit of '25, we will continue with this number. We think there is enough opportunities in the market without really taking undue risks.

To each one, his or her own, as far as we are concerned, our risk appetite, we are comfortable with that number. So we will continue. It is not that we have anything against individual. We might do individual, but that will always at any given point in time be less than 5%. So, that's for sure. Yes, anybody else? Give the mic here.

Balkrishna Vakasya: Hi, my name is Balkrishna Vakasya. So usually, we saw the presentation, you have a target of more than 5% of ROA. So, if I look at the blocks of let's say various blocks of five years in last 15 years. So on an average, if I take it out, then in every five years, an average of around three is made. So how is this sustainable? For example, we have achieved once. After that, what can be the sustainable level according to you?

Shalabh Saxena: See, we have put a ROA number of 4.5%. In last 15 years, there have been three major events. One was Andhra crisis or Andhra ordnance in 2011. In November 2016, demonetization happened. And COVID was a global crisis. Which is why I said, all of this is subject to no such shocks. These are all global shocks. This industry is mature enough to handle localized disruptions. There is no problem in that. If there is a flood, it will be derailed for two months and then it will come back to its own pace.

So to the extent possible, assuming reasonable scenario, we are not saying ideal scenario. We are saying reasonable scenario. We are comfortable, we are confident that the delivery will happen. There are things that we don't know. For things that we don't know, obviously, it's difficult to comment. But this is a reasonably matured and standardized industry with a standardized output. You should know how to play this game. If you know how to play this game, the output is taken care of. It's our belief.

It's been six quarters that we have been doing it. We have been in this business for quite some time. We understand this. Assuming everything to be okay, I think we should be able to be, reasonably confident.

Balkrishna Vakasya: Second question is, according to you, what should be the ideal AUM that a loan officer should manage?

Shalabh Saxena: Ideal, yes sure. So, currently, we are at INR1.1 crores, INR1.2 crores AUM. COVID has taught us that you should not overburden a loan officer. Our estimate and by the numbers that were presented, we anticipate in the next two to three years, the number to go up to INR1.4 crores to INR1.5 crores. That's on the dollar side. On the customer side, 450-475 is a good number. Personally, the distribution that I have seen, we have gone up to a 600 number as well. But that was pre-COVID. COVID has taught us that you have to be slightly more cautious. So a 450-475 is a comfortable number for us. I think that's the number that we are aiming for.

Balkrishna Vakasya: And the last question, there is a lot of buzz about unsecured lending these days. And there is a regulatory guideline from RBI also. So in terms of microfinance, to what extent do you see those kinds of trends?

Shalabh Saxena: It's a very good question. Risk of unsecured is a definite risk. There is absolutely no doubt about it. What hence you have to do is to be slightly… If you see the theme of our presentation, what are we saying? We are saying we will be muted on ticket sizes. We said we are tracking indebtedness, not ticket sizes. Ticket size has no meaning. I am just exaggerating to communicate the point. I can give you INR30,000 ticket sizes but give you one loan every three months. Indebtedness at a borrower level for the companies what we track as institution and that is what we are completely focused on. If you see, we are currently at about INR36,000.

There are companies at INR47,000 - INR48,000 also. And there are companies which are at 30,000 also. Everyone has their own appetite. We are comfortable at INR36,000. We will be in this range only. We don't have any ambition to reach INR45,000 or INR50,000 indebtedness. Because see, what is the underlying thought? Underlying thought is there is an opportunity. Don't go overboard. Don't fall for it. You have to work hard to get that opportunity. You have to pace your innings as I say. This is a test match that we are playing. This is not a T20. And for sure, this is not the slog overs of a T20. For sure. In business, there is no need for bravery. You should not lose focus in excitement. You should work very slowly. It will take time.

Ashish Damani: I will just add two points to that. The first one is if you look at our journey. In the last six quarters, we have given 50% loan to new customers. So we are just adding customers. And when you add the customer, our process is that we give less loan to the first time borrower. In fact, we give INR35,000 in weekly. In monthly, we go up to INR42,000. These ticket sizes have been kept for us for now, almost like three years. The same ticket sizes have been continuing.

The second point is, Shalabh was talking about, you know, number of loans to a borrower. At Spandana, the count is 1.1. You take the industry. You can map it. People are as high as 1.8 or maybe more than two also. But right now, we are at 1.1. And probably we will be like this. We probably increase a little bit. When we do weekly, we would want people to take loans at regular intervals. But those loans will be much smaller ticket sizes. So exposure is what we track.

And that is much lower compared to the industry. And that's how we are comfortable with.

Shalabh Saxena: Next question please. Yes.

Ratnamala: Yes. Ratnamala here. There is a consolidation happening. If you see couple of transactions, last transactions, CreditAccess couple of years back. Now recently, Svatantra announced that they will actually take Chaitanya. How does this impact players like Spandana?

Shalabh Saxena: So look, there are two parts to this. One is, what are we as an institution doing? And two is obviously, there is a shareholder play in this. So I have Kartik here with me from Kedara. So I will be happy to kind of... I will give you my side of the management version of where are we focused? And I will request him to kind of answer from a Kedara point of view. As far as the management is concerned, look, the heads and hands might change. The company has to run.

This is an institution. This is now a INR10,000 crores company. End of two quarters from now, end of this year, we will be INR12,000 crores. End of next year, we will be INR15,000. In INR15,000 crores company, there are responsibilities and there is a critical mass which will keep on chugging along, which will keep on delivering the results that you want. So the results are irrespective of whatever happens.

I am not the right person to kind of answer but from a management point of view, I think we are completely focused on the delivery, number one. Number two, we have completely, we have our set ethos. We have our set core philosophies. Very old fashioned, very conservative, very traditional but that is what it is. You know, we can't change it. We are too old to be changed. Now the point we are trying to say is that given this pace at which we are going, irrespective of whatever, the institution will deliver.

That's what I thought, I will just kind of add before, if somebody can hand over the mic to Kartik. So just to introduce, Kartik Kaji, he represents Kedaara. Long term supporter of Spandana has been around for quite some time. He was responsible for we being here. So the first conversation that I had was with Kartik. Kartik, over to you.

Kartik Kaji: Thanks, Shalabh. I don't know if you are happy about that or sad about that but thank you anyway. No, look, as Shalabh was saying, we have been shareholders of Spandana for a very long period of time. And I think we have always tried to take a very long term view of shareholders from the beginning. Whether that's injecting capital into the company, investing and rebuilding the management team, investing in technology.

Because we firmly believe if you take the right decision in the long-term interest of the company, that will result in better shareholder value for all of us, including ourselves. That's always the view we have taken. Ultimately, we are a private equity firm. We aren't here forever. But we are in no rush either. The vehicle that holds Spandana has quite a couple of years left ahead of it on the clock.

So there's no rush from that perspective. And that vehicle has actually performed quite well. So we have the ability to extend that if we need to. So our view is that we want to support the business through the good times and the bad. We certainly support it in the bad times. And we definitely want to be around for the good times which we think are well on their way right now.

But as and when an opportunity arises in the future to leave the company in a better form than where we found it. Be it in somebody else's hands, be it as part of a larger institution or just a broadly held public company, that is the right long term direction for Spandana. There are no such plans today or tomorrow.

But in the future, of course, as I said, we can't be here forever. But rest assured, whatever happens, whenever it happens, it will be done in a way that leaves the company better off than where we found it.

Shalabh Saxena: Thanks Kartik. Any more? Yes.

Nitesh: So RBI has been quite vocal on the interest rate charged by MFIs. In a couple of speeches, RBI Governor himself said that some of the MFIs have taken a sharp interest rate hike after the regulatory change. So what are the stance there and how are we protecting ourselves against that, any regulatory activism on that?

Shalabh Saxena: So, two answers to your question. In India, there are registered about 206 or 207 microfinance companies. The top 10 companies contribute or constitute about 90% of the industry. If you look at those companies, if you look at the top 10 interest rates, there is a range between 23%-24% and 26%. This is part one of the answer. There are other companies which operate in pockets, which are registered microfinance companies charging much-much higher rates.

30%, 31%, 32% so on and so forth. So, there was no specific name taken or whatever but general guidance is that just be cautious, just because there was an opportunity given to you, don't go overboard. I think that's the nudge that the regulator has given. Now, if you look at our specific to Spandana if you look at our calculations, in the calculations that we do this is the method or the spread cost plus 10 was allowable with that method, I calculate today, it comes to roughly 12.1, 12.2 which is instead of 10, it is 12.1, 12.2.

At any given point in time given the high cost of operating the model and the fact that this is unsecured lending and the fact that this is last mile delivery do we think that 12.1 is usurious by any stretch of imagination I would really hesitate to say a yes, it is definitely a no if you were to ask me. However, in a long term if there are specific discussions with anybody, happy to get into a discussion and whatever is the aligned position we will move on.

But be rest assured that from a point of view of institution, we are absolutely clear that there is this macro which is the repo rate whether it goes up or down although it has been kind of stable I mean post the repo rates if you see the last year and a half the rates have gone up by 2.5%. To a lot we have absorbed and for the last four quarters we have been steady from an interest rate point of view.

If everything goes well and if there is a stable environment, we might go and start reducing as well, there is no doubt about it we will pass on the benefit to the customer but our current rates also if I were to say, they are reasonable in our view, I have given you a comparator 10% was 12.1 probably we have to be mindful of what the regulator is saying and for sure at every given point in time we keep evaluating that position.

Nitesh: Secondly, your ROA guidance for FY28 is lower than the ROA guidance for FY25 what is the rationale for that? Because during that three years there should be some operating leverage which should play out?

Ashish Damani: See largely I think what we have guided for is over 4.5%. Idea is to like Shalabh was explaining idea is to divert the balance sheet focus on ROE at some stage, not now but at some stage we will have to look at reducing the interest rates as we grow. And that's what has been built into the plan. We do understand that sustainably trying to do more than 5% ROA over the years is something that regulator may also frown about. So it makes sense to stay put between that 4.5% and 5% kind of a… what is really important is the ROE piece and that will kick in with the leverage and that is what we will focus on

Nitesh: And lastly the business which Criss Financial is doing, why don't we do that business in the standalone balance sheet itself because we have significant headroom of non-MFI assets now?

Ashish Damani: The LAP and… so this is a separate balance sheet we are doing it in the subsidiary called Criss Finance Limited where the LAP as well as the nano will be housed not just because it will have a good rub off on the balance sheet all together but also from a qualifying assets perspective given that we are NBFC, MFI we need to have 75% of our assets which should be into qualifying that's one more reason why we have it housed in the subsidiary

Shalabh Saxena: I think what he is saying is why don't you do the Criss business in SSFL, I think that's the question right?

Nitesh: Yes, yes.

Ashish Damani: So the second part of my response is the answer… you do it in this balance sheet you have a total headroom of 25% in terms of non-qualifying within that if you look at most of the NBFC MFIs they hold around 10% to between 10% and 15% as liquid cash. And today cash is not considered as a part of your qualifying assets so it becomes a double whammy. So it's little challenging in fact it's a blessing in disguise that we have a subsidiary where we are housing this Thank you. Thanks Nitesh

Rohit: Good evening, sir

Shalabh Saxena: Can I request… Yes, tell me Yes, tell me

Rohit: Hi. So basically Shalabh you talked about that there are lot of knowns and then basically there are lot of unknowns. So how do you build the counter cyclicality in the business like in terms of building provision buffers, capital buffers, leadership backups down the order as such you know lot of you are basically some of you are actually new in the organization, some are actually old but some point of time you will also have to build in the leadership backup in the company.

Then basically talked about plan till you know 2028 when you want to have INR28,000 crores of AUM in the company itself but whether the structure of the organization will remain same or you feel that at that point of time you need to look at maybe some different business model, maybe a pure NBFC model or maybe SFB model that you might explore?

Shalabh Saxena: So when we plan, we don't plan for today. The chair that we have placed here it was not for INR10,000 crores it was already planned it's always a INR5,000, INR7,000, INR8,000 INR10,000 ahead. When we got the team together, at any given point in time INR18,000, INR17,000 was always on our mind and that is why we planned for it. I can say with reasonable confidence that the team that we have here and this is just the 13 or 14 of us.

There are layers below that we have set up which are good for a 28, so in 28 we will have to augment but at a head office and a senior leadership level we are fine. This is exactly what we did. Any organization when you want to scale up, you start scaling up to a 2x minimum because the controls and supervisions have to be put up in advance for that kind of a scale. So controls and supervision do not scale up as you grow.

It has to be a top down and your bottom up will only be your sales efforts when you get incremental sales. So I can say with reasonable surety that for the teams that we have at the head office and the CXO level and a CXO minus one and to a certain extent even up to a VP and a SVP level, we are good barring about three or four positions when we really start hitting across the INR20,000 crores mark.

So we are fine on that field and the nano and the LAP business that requires significant beefing up which we will do as we… and we will always plan a nine to 12 months in advance so the structure we have made in LAP and nano it is good for about 1500-1700, the moment we touch the 1,000 we will start planning for the next 2500-3000. That's how we think, that's how we aligned the distribution model. Head office obviously more or less is a scale game

Rohit: In terms of provision buffer and capital buffer, you can talk about.

Ashish Damani: Yes. I will respond to that and I will just add to what Shalabh was saying, while he touched upon about that point in a passing but the guys who were sitting here Ajay, Vishal, Shriraj each one of them have handled anywhere between INR6,000 crores to INR9,000 crores individually Vishal was heading an institution where he was managing about INR28,000-INR30,000 crores.

So we do have that experience which is required to get to the level. In terms of buffers on the balance sheet we follow ECL we are under the IND-AS and we follow the ECL guidelines so it is predominantly driven by the PDs that you have in the business and doing any counter cyclical is not very friendly that way.

At some stage we will definitely look at bringing in management overlays because once you bring them in you need to continue to, your balance sheet needs to continue to support whatever decisions or whatever toggles you build, so that's why not at this point in time but at some stage we will look at that aspect.

Rohit: But isn't it basically the right time to build those kind of counter cyclical buffers because I think you speak to any other NBFC, MFI, SFB everybody is talking about building the buffers now. And not maybe at the later stage because this is where basically we are making almost like 5% kind of an ROAs, so why at later stage?

Ashish Damani: So we have already moved to 70% in terms of doing our provision coverage ratio, we do have decent amount of provisioning on our SMA buckets. We do have reasonable amount of provisioning and we are an institution which is looking at this very closely the moment it moves into 60% we are holding about 43% provisioning on the asset so it is in a way already built into the structure right now.

And if I have to really look at the portfolio from a static pool perspective, I think we are very comfortable right now but I do hear your point as you are growing and go to INR28,000 crores there have to be more buffers which should be planned. And we will look at them at an appropriate stage.

Shalabh Saxena: On the provisioning and safety side be rest assured we will be a step ahead. The 50 to 70 when we went nobody pushed us or prodded us, in fact if you see our history it was the third quarter of our taking in first quarter, we wrote off we waited for two quarters. We were at 50% the third quarter we jumped to 50%, so the third quarter of us coming in we straight away went into a 70% we are always a step ahead. So this is something that is the conservative side of us, at any given point in time this is not something that you will find us lacking at any given point in time.

Ashish Damani: In fact I think you should look at our last quarter's results. We have also disclosed anything which we are taking from the legacy period charges or whatever have also been provided. We are not keeping it on the balance sheet as if it is not needed to be addressed. So that is something we have been doing and we moved from 55 to 70 just to complete that point which Shalabh was making. We also have introduced a policy on write off which was not there where anything which moves into 365 we are going ahead and taking the balance 30% as a hit on the P&L.

Shalabh Saxena: Next?

Analyst: Good evening. So my question is on LAP, so your customers of LAP are usually self-employed and salaried individuals. So how do you procure fresh customers like how the data comes in like is it a cost per acquisition or cost per lead kind of a model or you basically buy the data or some internal kind of referencing?

Shalabh Saxena: Our construct of the LAP and Nano has nothing to do with microfinance. It is a separate set of people, separate branch separate geography independent merit of the geography and the locality drives our decision to operate in that location. In fact the Chief Business Officer you heard him

Sushanta Tripathi. He looks after only those two lines, we have no ambition to cross sell LAP into microfinance or vice versa.

If at all it happens it will be less than 1% or 2% and it will be by accident not by design. Now to your specific question, we feel that we did a significant amount of interaction you know, some research going out into these markets. This is the segment which is the so called missing middle… as in the banks don't really treat them because it is too low for them our average tickets are about INR4.5 lakhs. INR4.5 lakhs loan against property is too low for them.

So most of the people tend to ignore it, so hence we thought for this profile of customers this is a good business to be in. Let us test this out and the initial results were very good and hence we decided to scale it up. We will go into and there are enough and more geographies across the towns of India we are still in the semi-urban and the lower part of the urban so this is still the bottom of the pyramid of the urban or the semi-urban mid-segment.

These are not deep rural villages like our micro-finance business, it is a different market our sense is that our risk appetite is good for about INR4-INR6 lakhs kind of a ticket size and in the Nano enterprise from INR60,000 to INR1,20,000, that's the range that we will operate in. Both the businesses have tremendous opportunity and that's how we are going to scale it up.

Analyst: And what is your conversion percentage of logins in LAP?

Shalabh Saxena: 27%-28% industry is at about 40% but we are not the industry yet we have still to walk our steps and we are very cautiously going step by step we are at 27% with almost about 70% to 73% rejections we are fine, we will go step by step. And we will kind of take our journey ahead. 3

Shalabh Saxena: Any last question?

Anil Tulsiram: Thank you. Again on the insurance part see for, touchwood if any unfortunate event happens in the next three, four, five years any black swan event. There are only two ways to protect it, first you take insurance, second you create counter cyclical provisions. We are not doing either, so in what way we are protecting ourselves for the next black swan event if it happens?

Shalabh Saxena: While Ashish answered, we have a very good understanding of how this insurance product works. Our experience and while Ashish mentioned 1.5, we did lot of calculations during Covid because this product was available then also. For the premium that you pay and if your loss rates are 1.5% to 2% this product does not work. We have done enough and more research on this and we can have a separate discussion outside of this, we have done lot of and we came to a point of signing in our previous organization and we dropped it off because two, three reasons.

One, is the premiums are high. Two is it helps only when your loss rates are much-much higher, which is the situation that you are mentioning in. Now ultimately somebody has to pay which is the customer in this case obviously you will not, you try explaining this to the customer, it is a bit of a challenge number one, because it adds to your premium. So there is already a credit shield which you are taking from the customer and the spouse in a microfinance. We insure two lives, the member which is the lady and the spouse of the lady.

After that… the premiums are very heavy and there are lot of ifs and buts forget whether you get how much claims you get, I mean it's a whole long process that goes through. We have gone through that cycle, been there, done that we can kind of happy to, now, that you have raised it and I am sure there is a decent enough reason we will definitely go and see if there is a… if something has changed, the exercise that we took a couple of years back when Covid was at it's peak.

There were many suggestions even before the Covid-1 hit, after the Covid-1 hit, somebody said and we kind of went into the detail, it didn't work out at that point in time. Assuming a BAU of 2% loss if 4%-5% loss is there, then it is useful then it becomes useful but at that time we didn't do it we will be happy to have a look at it.

Ashish Damani: I will also add see what are we saying, microfinance yes there are events which happen, external events and where there are challenges which will erupt. But if you look at the way we are going to build business, no state will have more than 12%. So we are trying to diversify because whenever there is a hit or an event it is not that you know, if there is an event like Covid, it is a different thing but otherwise it is geography specific or state specific normally.

Unless it is an external event if you look at the customer's intent that has been solid. We have seen this in the industry across institutions that the repayment rates are good. Although it used to be 1% now the industry is talking about 2% or so that's part one. Second part is we have talked about our balance sheet we will always maintain 25% or over 25% in terms of capital adequacy. This is just to add to the point sir was asking earlier.

The third thing is, see in this business till you can tell the customer that we are there for you whenever you need loan, then you are sorted because they have an intent. And you have an intent that you will continue the business, so for that we are ensuring that we are highly liquid as well. Look at our balance sheet at any stage in any quarter, we have been maintaining more than INR1,500 crores of liquidity.

That would mean my repayments to the banks of two months or so and my cost if I have to look at. Our internal policy is by the way you know one months of bank repayments and three months of operating cost however we are much above that. We have been maintaining 3x, 4x or whatever is required right now. And we will always be like that because in microfinance like you are rightly putting out, these are the measures which will come very handy when there is an event outside.

Shalabh Saxena: Right. I think we have already overshot on time. Thank you very much, you can take the questions while we are moving around. One last request I have and this is a very special one while we will open up. So when you go out obviously after this we will open the bar and dinner is on. As you are going out, just as a token of appreciation for the time that you have spent, we have procured our borrowers Madhubani paintings which are as you go out you will have our team members kind of hand it over to you. Please take it and go. Don't leave it, is our request. These have been carefully our customers did a great job in about 20-25 days they have kind of dished out those paintings. As you go, please take them. And do remember us. Thank you for all the support. Thank you for coming and spending time with us. Thank you very much.

Emcee thanks the audience and closes the event.

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