SG Finserve Limited

January 20, 2025

To
Secretary
Listing Department
BSE Limited
Department of Corporate Services
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001

Scrip Code: 539199

Sub: Transcript of the Conference Call held on January 17, 2025.

Dear Sir/ Madam,

With reference to our letter dated 14th January 2025 intimating you about the conference call with Analysts and Investors held on January 17, 2025, please find attached the transcript of the aforesaid conference call.

This above information is available on the website of the Company i.e. www.sgfinserve.com . We request you to kindly take the above information on your record.

Thanking you.

For SG Finserve Limited

RITU NAGPAL Digitally signed by RITU NAGPAL Date: 2025.01.20 18:13:32 +05'30'

Ritu Nagpal
Compliance Officer
M. No. A38318

"SG Finserve Limited Q3 FY25 Earnings Conference Call"

January 17, 2025

MANAGEMENT:	**MR. SORABH DHAWAN – CEO, SG FINSERVE LIMITED** **MR. SAHIL SIKKA – COO & CFO, SG FINSERVE LIMITED** **MR. ANUBHAV GUPTA – GROUP CHIEF STRATEGY, SG FINSERVE LIMITED**
MODERATOR:	**MR. KISHAN RUNGTA – EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen, good day and welcome to the SG Finserve Limited Conference Call hosted by Emkay Global Financial Services.

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

I now hand the conference over to Mr. Kishan Rungta from Emkay Global Financial Services. Thank you and over to you, sir.

Kishan Rungta: Thank you, operator. Good evening, everyone. I would like to welcome the management of SG Finserve and thank them for this opportunity. We have with us today Sorabh Dhawan – CEO; Sahil Sikka - CEO and CFO; Anubhav Gupta - Group Chief Strategy and other Senior Management with us.

I shall now hand over the call to the management for opening remarks. Over to you. Thank you.

Anubhav Gupta: Thanks, Kishan, Anubhav Gupta here. I welcome everyone to Quarter 3 FY25 Earnings Call of SG Finserve and thanks for dropping by.

As promised over the last Earnings Call, we have started to scale up our loan book. We have almost doubled our loan book from September quarter to December quarter. The loan book which we closed last quarter was Rs. 1,568 crores, which is up 92% quarter-on-quarter. This is after we got type II license from the RBI. We have started getting sanctions from banks. Today, we have limits from six banks, and we are talking to half a dozen more number of banks, which will come over the coming quarters.

So, as we stand today, the equity capital of the company is around Rs. 1,000 crores plus Rs. 340 crores have to come in preferential capital form over the next 15 months. So, we have a very clear foundation to take this loan book to Rs. 5,000 crores in the next 2-3 years and this much of business we can generate from the existing anchors whom we are talking to. In our presentation, we have given a very detailed snapshot of how this Rs. 5,000 crore loan book will look like. And the good part is that the group what we are expecting is to contribute not more than 25%, rest 75% will be from third party anchors which consists of very large, reputed conglomerates and companies similar to APL Apollo level.

On this loan book, we expect to generate ROE of 18%-20% with ROA of 4%-4.5%. So, this is what on the basis of this, we have developed our business model for the next 2-3 years. We believe that it is a very unique business model what we have developed where we are only focusing on the supply chain funding and only for the distributors channel financing which no other NBFC or even large or midsized banks are focusing on. So, we see a clear space where we can continue to grow our loan book with minimal number of headwinds over the next 2-3 years. And as you can see our track record basis on the growth disbursements, what we have done so far the number of bills we have discounted, which speaks of our tech platform over the last 2 years, which we have developed with 0 NPAs and the gross disbursement cycle, which comes out to be 35 days. So, this gives a clear demonstration of the success of this business model and with all regulatory headwinds behind and strong capitalization on the balance sheet, we see a very strong trajectory for loan book expansion with desired ROE and ROAs.

Sorabh, you want to add with respect to 3rd Quarter Results.

Sorabh Dhawan: Good evening, everyone, and welcome to the Quarter 3 FY25 Investor Call for SG Finserve. Great to have you with us today as we celebrate our best quarter in terms of quarter-on-quarter growth and the highest ever profitability achieved in a single quarter in the life of SG Finserve.

Despite the challenges we faced including regulatory hurdles earlier this year, this come out stronger than ever. Quarter success is a testament to the trust of our customers and the anchors and dedication of the team.

So, loan book grew from INR 822 crores in September 24 to Rs. 1,568 crores. This is about 90% quarter-on-quarter jump and operating income grew from Rs. 31 crores last quarter to about Rs. 42 crores, which is growth of 37%. And interest income is up by about 30%. Most importantly, PAT grew significantly by almost 68% quarter-on-quarter basis, achieving Rs. 23.69 crores which is highest ever PAT in life of SG Finserve. With this momentum, we can assure that we continue to maintain our targets of achieving loan book of Rs. 4,000 crores and Rs. 6,000 crores in Financial Year '26 and '27 respectively.

Now, what is required to achieve the same equity, bank debt and anchor tie ups. I would be happy to share that all the required ingredients are in place. We boosted our capital base now at about Rs. 1,000 odd crores. We expect that it will reach to about Rs. 1,500 crores by FY27 out of which, about Rs. 350 crores is committed preferential money, which is to come in.

Number two, our relationships with our anchor partners including Tata Group, Jindal, Vedanta, AMNS and we added some known anchors like Polycab, Whirlpool and Tata Steel dealers, existing MoUs, the program limits that are in place aggregate to about Rs. 5,000 crores. So, there is a clear-cut blueprint which is available to grow our business to about Rs. 5,000-Rs. 6,000 crores of loan book over the next two financial years. So, the bank has already assessed our consortium limits of about Rs. 2,600 crores and sanctions are under way. And we have already received credit rating of AA, A1+ from both ICRA and CRISIL Ratings. We have already received sanctions about Rs. 750 crores and many more will flow in over next few months.

Importantly, we continue to maintain our yield of 13% and the cost of borrowing is about 8.5%. So, our solid spread of 4% is maintained.

In conclusion, the quarter reflects the culmination of our collective efforts and strategic vision. We strengthen a new benchmark for excellence and poised for sustained growth in quarters and years ahead, achieving the committed performance. We extend our heartfelt gratitude to our stakeholders, customers, anchors and employees who have been integral to our success. With that, we open the floor for your questions, please.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Gaurav Shukla, who is an Individual Investor. Please go ahead.

Gaurav Shukla: First of all, sir, I want to know that how many new MoU had been signed with any new incurs. How many new incurs you have added in list in this quarter?

Sorabh Dhawan: We have signed 3 MoUs in this quarter, which is Whirlpool, Ingram and Polycab, right. Overall, our anchors are 40 now and we have total program size signed off close to more than about Rs. 5,000 crores now.

Gaurav Shukla: And sir, in last concall, you have said that your loan originality system, LOS and LMS integration with banks, in last concall, you have said that three banks execution have been made, any new bank is added on to this?

Sorabh Dhawan: Only one bank integration was added and that completes our requirement because that is for the payment side. Collection side, we are integrated with majority of the banks, but for the payment side, we integrated with three banks which solves our purpose.

Gaurav Shukla: And in last concall sir, you said that new calendar year, you will plan to 24x7 banking system till night 2 o'clock, will this happen?

Sorabh Dhawan: So, it will happen on 1st of February. We are delayed by 30 odd days because of integration underway with the banks because there is involvement of the bank, so we will be launching that on 1st of February.

Moderator: Thank you. The next question is from the line of Vishal Singh from Finvesto Financial Advisory. Please go ahead.

Vishal Singh: Just two of the questions have been answered. One question left, this robust growth in what we are expecting in near future in loan book, what are chances of NPA, though it is good till now, nil NPA? What are the chances?

Sorabh Dhawan: Vishal, chances of NPA will be there, but they are low because we have already witnessed that the role of the anchors and the importance of the dealers for the anchors is really important. So, anchors also come and support in times of requirement, so the chances are low and we have witnessed that.

Sahil Sikka: I would like to add on to the same. You can assess that on various parameters. So, one is our portfolio at risk or Stage-1, Stage-2, Stage-3 assets, they are all very controlled. So, first those parameters or those things will influence and then only the NPAs will come into question. So, our overdues are all controlled that is, portfolio at risk are in a very controlled fashion and manner currently.

Moderator: Thank you. The next question is from the line of Rohan Mehta from Fincom Family Office. Please go ahead.

Rohan Mehta: I have two questions. The first one is, in the last quarter, we saw distributors facing inventory losses due to sharp decline in steel prices. So, what impact do you anticipate this may have on the creditworthiness of the distributors and dealers? And secondly, are there any other implications for SG Finserve?

Sorabh Dhawan: To answer on the inventory losses, we have mentioned that our net cycle wherein the client procures the material and pays it back to us is close to about 30 to 35 days. We have not witnessed any major increase in the overdues or delay in payments from any of the steel traders, so they have continued to pay us on time, before time as they have been doing. And we feel that because of the small cycle that we operate in, this will continue in a similar fashion.

Anubhav Gupta: Rohan, Anubhav here. So, on behalf of like the ecosystem of APL Apollo where our dealers did face inventory write downs in the second quarter, see, it is never like that a distributor will end up making a loss if the steel prices are going down, although there was like severe crash in the steel prices in the second quarter, but the dealer would still end up making marginal profit or say, breaking even because he is churning his inventory, say in 20-25 days, similarly, if you see APL Apollo or SG Mart results in Q2, none of the companies reported losses, right. Our profit margins were half, but none of the companies reported any loss. So, similarly, our channel partners behave in the same way when they are churning their inventory every 20-25 days. So, they don't have to incur any loss, right which would prevent them from making payments to SG Finserve or other banks, buying only SG Finserve. They are running limits with multiple banks, multiple NBFCs, multiple FinTechs. SG Finserve is one of the financing in their overall portfolio, right. So, in steel trading, Q2 was the quarter of test, I would say, when prices crashed so severely, right, and still no challenge for the manufacturer as such in terms of like incurring losses, no challenge for the channel partners and similarly no challenge for the financers of the channel partners.

Rohan Mehta: First what I wanted to know is how do you assess the current health of the supply chain sector? That is the first part of the question. And the second part is like I am sure you as a company would make internal models with different scenarios, especially the negative ones. So, in your internal assumption, how far are we based on how the current environment is?

Sorabh Dhawan: So, if you ask me how many scenarios sensitivity analysis we do, we do numerous before onboarding a customer. At present, have we got any clues of any liquidity or slowdown issues from any of the dealers of these anchors, the answer is no because the cycle that we are operating is really small, churning continues to be there. We continue to receive about Rs. 40-Rs. 50 crores of repayments a day and disbursements procurements continue to happen in the same way. That is very important factor in this, Rohan that the kind of anchors that we are dealing with are really fast moving items and these are all well-established branded names in the industry, all are industry leaders. That is why in our last call also we had mentioned that we are going to keep focus only on these large anchors where the item is moving on its own and the money is being received and there is value in the dealership. That is why the dealer is paying us right on time.

Sahil Sikka: Rohan, Sahil here. To add on, just to mitigate, so if you see in our presentation, we currently have tie ups with around 40 anchors. All would be leaders or past moving goods manufacturers in various sectors. So, this mitigates the risk of one sector or one industry facing any challenge. So, overall, if we see the supply, the health of the supply chain sector will be dependent on both the MSMEs, how they are performing as well as the OEMs and will be dependent on the overall economic scenario. So, the kind of diversification in terms of the anchors we have mitigate this risk of any one sector facing a challenge.

Rohan Mehta: And just a final question, on your cost of borrowing, you mentioned, currently you are getting at about 8.5%. Where do you see this from a year from now assuming that there are no NPAs and the sector is doing well?

Sorabh Dhawan: We expect it to come down, but we will ensure that we continue to maintain a spread of at least 4% and upwards. But yes, it comes down. It will come down at an overall financial sector level. So, we will have to pass on some to our customers as well, but the endeavor is to keep the spread minimum at least at 4% levels.

Moderator: Thank you. The next question is from the line of Rajesh Jain from RK Capital. Please go ahead.

Rajesh Jain: I have three to four questions. So, first one is like, today you are financing the distributors and you have MoUs with the anchors where you have stop supply arrangement with the principal company from whom the distributor sources. So, when you eventually start your retail finance business, how will you guarantee repayment there? Will you have a similar stop supply arrangement there also or what will be your model there?

Sorabh Dhawan: So, when we enter the retailers, we would have already considered the entire database and their run with the particular distributor because retailers would only be the ones which are operating with the existing distributors who are our borrowers. We will have stop supply from the distributor at certain anchors. We can also get stop supply from the step down. There are certain brands which give stop supply for the retailers as well, but otherwise we will have to rely on the distributor and also take an underlying contingent guarantee from the distributor when financing the retailers. So, the mitigant here would be that we will be taking guarantees from the established distributors who have been operating with us for at least 2-3 years with SG Finserve.

Rohan Mehta: And when are you likely to start this retail finance business?

Sorabh Dhawan: In the next fiscal year only, please.

Rohan Mehta: And sir, my second question is, in the last call, you mentioned that when you were explaining your business model for the distributor financing, you said that you keep a charge on the assets which are funded by you and receivable generated there on. So, how do you manage to keep a charge on the assets? Can you give some more context on this because when the inventory leaves the principal company and goes to the distributor and which asset you are referring to and how will you manage to keep a charge on those assets?

Sorabh Dhawan: The charge is kept on the assets, which are procured from the funds given by SG Finserve. So, the charge becomes a property of our borrower, and we have a charge filed with the ROCE that all the inventories and the receivable generated thereon. There is a floating charge which will be on their assets, on the assets of the borrower.

Rohan Mehta: No, but the borrower would eventually be selling it to the retailer, right?

Sorabh Dhawan: And then we will have charge on the receivables because once he sells it to the retailer that there will be receivables which will be coming to the borrower, we will have charge on that receivables. It is a floating charge which continues on the books of the borrower, yes.

Rohan Mehta: And in the previous call, you had given an indication that you expect your quarterly disbursement run-rate to be Rs. 5,000 Cr per quarter, if I am right and this quarter you would have done, I think Rs. 4,600 Cr right, across disbursement?

Sorabh Dhawan: Yes.

Rohan Mehta: So, was it just a ballpark estimate or anything which has led to lower disbursements?

Sorabh Dhawan: So, it was just a ballpark estimate, but this is expected to increase in the next quarter. Because the disbursement happened in the last month, majority of the book was increased in the last month. So, this will be much higher when we reach the next quarter. This is a quarterly number, so month-on-month have we reached a run rate of about 5000, answer is yes, but this will be much higher when we do the next quarter.

Rohan Mehta: And sir, my last question is, you said that it is not that NPA cannot happen, so in which hypothetical situation, would you have to take a hit, not just a technical NPA but maybe a write off? In what situation can it happen in your model because you have MoUs, you have stop supply agreement, you have personal guarantees of the promoter, only if the promoter goes bankrupt that is only scenario or what else is the scenario in which you can have an NPA?

Sorabh Dhawan: Bankruptcy of the dealer/ or borrower is the main scenario. Intention is something which can never be controlled. Otherwise, if someone is continuing dealership for the last 5, 7, 10, 15 years, they would not want to give that up. So, that has been the comforting factor when we started this business and that has been witnessed each day because the value of the distributorship is livelihood for that dealer. So, they don't want to give that up. So, bankruptcy is one of the only scenarios or maybe you can say doing some other activities or getting a hit somewhere else and the impact coming onto the business of the company that is the only one scenario. So, we keep a close check that is, I would have also mentioned in the last call that end use of funds is one of the major things that we keep under our control because every penny, so this Rs. 4,625 crores has been disbursed directly to the anchor and the inventory of this much money has been procured and delivered to these distributors, so end user funds is very well monitored by us.

Sahil Sikka: Sahil here. So, the only factor that would be deterioration in financial or creditworthiness of the borrower and in the background of that there may be many factors leading to that deterioration. So, the main aspect would be deterioration in the creditworthiness of the borrower.

Rohan Mehta: So, when you say you monitor the end user funds, you are giving funds to the anchor and obviously, the anchor being a very established anchor having pan India presence, obviously the funds will be used for the purpose for which it has been given, but the concern would be like do you also track any end use at the distributors end like that he cannot sell inventory and utilize the funds for something else other than repayment, you cannot do all those things, right? So, what is exactly the meaning of end use here when you say you monitor the end use because you are giving funds to the anchor only, right?

Sahil Sikka: When we do the disbursement, we are sending the money directly to the OEM or the corporate or the anchor. So, the end users automatically monitored in that case that whatever goods our borrower has to purchase, we are paying on behalf of the borrower to the OEM. So, the end user is automatically monitored in that case, however, when the dealer receives funds from its debtor or our borrower receives funds from its debtors, and he somehow doesn't pay to us or any bank or financial institution, so that I don't think can be monitored.

Moderator: Thank you. You the next question is from the line of Nemin Doshi from Geojit PMS. Please go ahead.

Nemin Doshi: Most of my questions have been answered. Just wanted your sense as to what is the penetration that we have achieved within the segment since we have seen a jump in AUM on quarter-on-quarter basis, so just wanted to get an idea as to the incremental share of AUM hasn't been more from our existing set of anchors or the new anchors onboarded have led to this growth?

Sorabh Dhawan: It is a mix, but new business is coming from the major focused anchor which includes Tata Group, Vedanta, Jindals. So, they are more focused, and we are getting more business from them. But at an overall level, we have seen growth on in each and every anchor that we have been there, but penetration at an overall level as per their channel finance requirement is still. That is why we always say that there is a huge scope which is available for us. There is a good runway which is available for us because penetration continues to be low.

Nemin Doshi: Just one clarification on the same as well, do we only onboard customers which are registered with the anchors? Or do we onboard distributors other than the anchor?

Sorabh Dhawan: No, we finance the distributors wherein we get a recommendation from the anchor. There is one pager recommendation letter which states the previous track record number of years they have been distributors and what is the projected business and how much limits are required and then only we finance these dealer distributors. It is mandatory that they have to be under the umbrella.

Moderator: Thank you. The next question is from the line of Harshit from Premji Investments. Please go ahead.

Harshit: Sir, I just wanted to understand on one aspect that currently the distributors whom we are funding say within the pyramid of that anchor, would be say 100 to 500 distributor or maybe the mid layer of the pyramid for them. That is the point number one and the second point, we do not fund any retailer or distributor at this point of time if I got it correct because you said that you might start it from the next year? And the second question, sir would be that for a distributor, say Tata Steel or Hindalco we will be funding, typically, how many other lenders would be there in similar supply chain financing. So, for example, if we look at players like Mindify or any of the newer ones or maybe mid-scale of any bankers and then how much would you overlap be or the customer typically prefers to just borrow from single lender or the kind of wallet share who wants to maintain within 3-4 months?

Sorabh Dhawan: So, you said about the pyramid. We are extending credit to all kinds of distributors. They can be top of the pyramid or middle of the pyramid, but we might not be the first or the second banker to the A category dealers, but we are certainly third, fourth, fifth banker to them. And even in the large anchors like Tata Vedanta, we are like the third, fourth, we are there. Retailers, yes, we will be starting retailers. We haven't started yet, but we have identified four to five large distributors of our ecosystem, APL Apollo, which have been banking with us for past two years with a clean track record and we have been maintaining, scrutinizing the data of their top retailers and they are all distributors of APL Apollo. So, we will be launching this very early in the next fiscal. And three multiple lenders, yes, in a lot of far large anchor, large dealers, there are multiple lenders and we are happy even if we are third or the fourth banker because it is like our credit gets a certificate that it has been scrutinized by other large institutions like Axis, ICICI and Kotak. We are happy to be one of the multiple banking lenders to the large dealer distributors.

Harshit: So, just one additional question on that part, the reason I ask that for someone who would be say borrowing from the Kotak or from Axis, the cost of funds advantage will definitely be to the other lenders versus us, so is there any reason the cost of funds advantage is not very high, so we are at 16%, say someone, the same dealer is Kotak or ICICI will be excessively funding, you will also be somewhere around 15%-16% itself?

Sorabh Dhawan: We are not lending at 15%-16%. Our lending to the large anchors is 12%-13% wherein the banks would be lending about 11%-11.5%. There is a differential from 50 basis points to 100 basis points. But again, I said that we might be the third, fourth banker. It is as per requirement, banks also have limited appetite. And we have seen that we have been able to make entries into some well known distributors of large anchors. So, there is good play which is available for us.

Harshit: Sir, if I may ask just one more question, is that for the third or fourth position also who would be our technical competitors and if we look at startups like Mindify are they actually comparable to our business model or if you can name a few players who would be in that in that range itself in the third, fourth, fifth category lender to that dealer?

Sorabh Dhawan: I can divide this that banks in supply chain finance are lending between 9%-11% and then it is financial institution NBFCs which include likes of Aditya Birla, Tata Capital, Hero FinCorp, and we are directly in competition at many places with them. And 13 upwards are the smaller NBFCs and smaller players which are into supply chain finance, so 11% to 13%-13.5% is a play wherein we have larger NBFCs, but no one is focused only on supply chain finance. We have an advantage that we are very clear that we are doing supply chain finance and that is how we are covering all the dealers, distributors, for example, when we tie up with an anchor, we get database of the entire dealer distributor base of that anchor. So, we have got a coverage team on the ground which is covering each and every dealer distributor and looking for conversion because we know that the number of dealer distributor number will increase drastically. So, that coverage also acts as an advantage for us to get ahead in the competition.

Sahil Sikka: Harshit, you also understand the DNA of SG Finserve, this is coming from a group which has been into manufacturing for last like 35 years, right dealing with at least 2000 direct channel partners, one in steel pipe business, second in PVC pipe business, put together, we are dealing with 2000 channel partners for last 3-5 years, okay. So, as a manufacturer, we understand what is the requirement for a dealer while he is dealing with the anchor like APL Apollo, right weather in steel pipes for PVC pipes. So, we have developed the product offering the solution in a way which is like very user friendly for the channel partner, right. We understand how he is thinking to buy material, how he is going to move his inventory from his go down to retailer, right, what we have to monitor, what are do's, what are don'ts? And on top of it, if you look at the history of APL Apollo Tubes and Apollo Pipes, right, since these companies have been listed, you can check our annual reports, the default APL Apollo Tubes or Apollo Pipes have seen right doing thousands of crores of cumulative revenue in last 15-20 years since our annual reports started coming out. The default you would see, the cumulative default, NPA or default or bad debts is not more than Rs. 15 crores on like thousands of crores of revenue we have done. So, this is the DNA of SG Finserve. So, this is number one, I would say, USP that it is coming from the house of a group which has been into core manufacturing, understands dealing with small SME traders, channel partners, right and that is how we have developed our product offering and solution. And we are proud to tell you that among like 70-80 NBFCs nonbank institutions, which are being run today, right in India, none of the NBFC is focusing 100% on this single product, which we are doing.

Moderator: Thank you. The next question is from the line of Rakesh Pal from KRSP Capital Limited. Please go ahead.

Rakesh Pal: My question is, sir, like you have given the target RoE of 18%-20%, so I would like to know how it will be achieved and whether it considers any NPA coming in future and the timeline to achieve it?

Sorabh Dhawan: So, it is a simple math on a loan book of Rs. 5,000 crores, we shall be having equity of around Rs. 1,600-Rs. 1,700 crores, right and the balance will be funded from bank borrowings, right. So, our yield rate today is 13%-14%, which will go up as we go down to the retailer. So, our yield rate will expand a bit. Our cost of borrowing is among the lowest in the sector, right as you would appreciate. And over the next 3-4 years, as per the RBI norms, we are already provisioning what is minimum criteria, right. So, you do simple math, you will come out like Rs. 400 crores PBT and Rs. 300 crores PAT number.

Rakesh Pal: So, by FY27, we should be achieving it like you given this guidance in last concall?

Sorabh Dhawan: Yes, we are more confident than we were during the last earnings call. That is why with all that excitement we gave this pie chart in our presentation where you can see that how the Rs. 5,000 crore loan book look like.

Rakesh Pal: Sir, my next and last question is, sir, after we receive the money in form of equity, what will be our book value by that time? The total equity at that time?

Sorabh Dhawan: Right now, the equity base is Rs. 1,000 crores. So, we will be getting another Rs. 340 crores. So, it will be about Rs. 1,340 crores and the flow back of the profit of next year will be about Rs. 100 crore plus, so about Rs. 1,400 crores at the end of next financial year. The number of shares will be Rs. 6.6 crores, so the book value should be around Rs. 225 per share.

Moderator: Thank you. The next question is from the line of Vedant from Clearview Capital. Please go ahead.

Vedant: I wanted to understand a few dynamics around these MoUs, so a couple of aspects. One is, for example, say Tata Motors has a financing requirement of Rs. 15,000 crores, then what is the worth of MoU that they sign with all the financiers? Is it like they sign MoUs worth Rs. 30,000 crores and then the financiers have to compete within them? And the second question is related to further how should we read this say Rs. 500 crores number, what is the probability of the dealers off taking that full Rs. 500 crores or do you have to again compete with financiers within that Rs. 500 crores as well?

Sorabh Dhawan: So, Vedant, when any of these large anchors are signing MoUs, they are very cognizant of the number that they will sign off for because all these MoUs are backed by board resolutions. So, they are not signed off by any sales official, they are signed off, backed by the board resolution. So, they are very cognizant and these are the kind of internal targets after extreme scrutiny that they are on boarding a financier and they are confident and they internally circulate that this is the kind of business that we are looking with these financiers. And there is continuous monitoring also happening that in case we are rejecting more cases, we are sanctioning more cases, our TAT is slow, fast, such kind of monitoring also happens at anchor level. So, this is an underlying number which we as well as the anchor are extremely cognizant to achieve. And there are timelines as well wherein we have to achieve this, if you will ask me about this Rs. 5,000 crores, this should be achieved end of next fiscal, but what we saying that maybe we are able to achieve about 75% so that will give us a runway book of about Rs. 4,000 crores for the next fiscal. But yes, there is an underlying number, mathematics, basis which this is signed off by both the parties.

Vedant: But do you have an assessment of the ratio of the MoUs to the requirement that they have that each anchor usually find?

Sorabh Dhawan: I do not have that data, but do they sign off a lot of MoUs and new MoUs, the answer is no. When a new financier is entering, they are extremely cognizant of the reasons why they are signing up a new financier and the number that they are taking is considering their projected numbers and their projected requirements. So, there is mathematics that happens at their level and they are also answerable that if they sign for Rs. 500 crores, they should be achieving that in right timeline. So, they do not have too many MoUs which are signed with any financial institution because we are a new entrant in majority of these anchors. So, there is mathematics which happens before signing of these MoUs.

Vedant: And just one last question, like you said in the 18%-20% ROE build up, what would be your like cost to income assumption when you have scaled up to say Rs. 5,000-Rs. 6,000 crores?

Sahil Sikka: So, our cost to income currently would be in the high single digit or initial double digit numbers. So, our endeavor is to reduce that cost to income ratio on a continuous basis. That is done by introducing more and more technology in our ecosystem, so that overall cost is gradually coming down. So, the significant cost for any financial institution or bank is the employee cost. So, that is the main endeavor, by introducing technology, how to keep that in control.

Moderator: Thank you. The next question is from the line of Ayush Vimal from Clearview Capital PMS. Please go ahead.

Ayush Vimal: I just had one question. Hypothetically, if another company wants to develop the same technology, have the same SAP integration that you have, how easy would it be for them to crack MoUs with anchor clients? I just want to assess what are the NP barriers in the sector giving somebody else also is able to replicate the technology that you set up?

Sahil Sikka: So, technology is one piece and getting an entry to these anchors is I think the biggest barrier that one would have because these entries into such well known anchors are not easy. So, I would give weightage of at least 75% of getting entries into these large anchors and 25% on technology, but yes technology is something which can be replicated, but it will have a cost and it will take time, the kind of time that we have spent, but major thing would be tie ups with these anchors.

Sahil Sikka: And if we have to list down our USPs for SG Finserve, USP number one will be of course the initial runway which we got from the group companies APL Apollo, right, Apollo Pipes and SG Mart, right so we could easily build up the book of around Rs. 1,000 crores and have the learning curve. Second USP will be one of the lowest cost of borrowing of funds, right, because of the credit rating. So, there is pedigree of the group which gives us entry to larger groups like Tata, JSW, Jindal, ArcelorMittal, Vedanta, etc., which would not be easy for anyone. And fourth USP would be again the DNA of being a manufacturer and dealing with hundreds of channel partners for many years and learning that how to service them right, so same DNA in this business in the form of a finance solution offering.

Sorabh Dhawan: Lastly, so competition is already existent in the market in the form that there are other financers as well who are into supply chain finance and are competing on good, and they also have good technology and are competing with us on that front; however, when it comes to commercial that is another aspect with our good credit rating that we aim to maintain in future as well. That also plays a very pivotal role in this.

Ayush Vimal: Just a follow up there, what I understand SG Finserve was conceptualized post COVID, when APL Apollo had actually stopped giving credit to its channel partners and then it was observed that channel partners were still continuing to borrow at very high rates despite, available upfront, but I just want to know one thing, for the new loans that you are disbursing, what potential loans you are disbursing to new to finance customers and what percentage of loan you are giving to those who already have credit from other sources?

Sorabh Dhawan: New to finance would be extremely low, maybe less than 5%. The rest 95% are already willing finance from some other institutions.

Sahil Sikka: See you got to understand that the anchors whom we are targeting, right, they are dealers would be well entrenched, they would be doing hundreds of crores of business already, right. And they would be having banking limits with top private bank, top PSU banks and top NBFC and new age fintech would be running around to get business from them, right. So, yes, we are not going to like small part time anchors or small part time distributors just to get the business.

Ayush Vimal: So, the incremental group that you look to achieve from here onwards from Rs. 1,500 crores loan book to the Rs. 6,000 crores loan book that would primarily be driven by which of the three factors, is it the market that will be growing? Is it the fact that you will be able to gain more market share versus other players at a particular distributor is dealing with or is it new to finance customers? I think the third one will not agree because you said you hardly deal with new to finance, but is it the market growth or is it market share that you are looking to get?

Sorabh Dhawan: It is market growth as well as market share, but more from the market growth perspective.

Moderator: Thank you. The next question is from the line of Andrey Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: This is Sangeeta Purushottam from Cogito. I wanted to follow up on the previous question that if your customers are primarily well-established dealer and they are not new to finance and could possibly be the third or the fourth provider, what is the key advantage that they see in dealing with you, why do they onboard you at all?

Sorabh Dhawan: I think at present, I can say if we have disbursed close to about Rs. 36,000 crores, we funded purchases worth Rs. 36,000 crores, so we are an established player when it comes to a supply chain finance requirement amongst all these anchors. And the testament is that all these anchors are giving reference of SG Finserve to their dealers and distributors for additional requirements. So, I don't there is any question that why we are not going to the banks and coming to SG

Finserve. I think we established ourselves in the supply chain finance industry and Rs. 36,000 crores of disbursements talks about itself whether it is convenience of banking, the time that we take to decide on the kind of applications, the disbursements and 24/7 banking, the kind of monitoring, digital documentation, all that put together is a very well suited and convenient customer friendly product that one gets.

Sangeeta Purushottam: Sir, you also end up paying a little more for that product, right? There is a difference in the interest rate, so I am a large dealer, and I am already dealing with maybe one large NBFC and maybe one other bank, I am actually paying for the convenience of dealing with you based on all these factors and why is it that the others would not be able to provide? I am just trying to get to the hub of the matter that what drives business to you, I am not getting a complete sense of that and is there not enough capacity in the system that we are able to get these funding from other people, so if you are taking on as the third or the fourth player, even as a second player, I can understand, third or fourth, what would be the driving force because you do have fairly stringent conditions also attached to it, so you have these anchor MoUs and you have a lot of hypothecation taken, etc., so it is not as if dealing with you is does not have a cost, right? So, what is the advantage which offsets that cost?

Sorabh Dhawan: When we talk about practically what has been happening is that the preference has been coming to us because of clear focus on supply chain finance. When I look at competitors, the supply chain finance business for them is miniscule. If I look at quarter on 5 lakh-6 lakh crore book, their supply chain finance book is only Rs. 4,000 crores. Why are they not focusing? Why are they not doing? Because they are still concentrating on vanilla products which is giving cash credit limits and looking for collateral, whereas we are giving supply chain finance, end use back limit and not taking collaterals. I think that is also one of the advantages that happen when people are banking with us. And similarly, if you look at Tata, Tata inspired being the ecosystem, their supply chain finance book is only Rs. 10,000-Rs. 12,000 crores, nothing more than that in spite having the entire Tata Group ecosystem. And entire Tata Group, Tata Steel, Tata Motors has signed up with us. So, that also says that there is a requirement, there is a risk appetite that every financial institution can take on a particular dealer distributor and they want to diversify, and we are one of the options readily available when they look at sharing of risk.

Sangeeta Purushottam: In terms of the ease of dealing with you, what is it that you bring to the table? How is your product more suitable to the requirements of your audience?

Sorabh Dhawan: It is convenient when we talk about the onboarding process, it is entirely digital and onboarding can happen in about 48 hours' time, including all the legal documentation signing. And when it comes to invoice financing, there are SAP integrations with these anchors which are available. All the invoices flow from the anchor SAP to our system and the discounting happens every 15 minutes. If it is PO backed funding. The borrower can come on to our platform and disbursement happens again in flat 15 minutes, which is not happening by other competitors. So, that is the feedback that we have received and all of the feedback that we are receiving, we have been continuously working on improving our processes. I think that convenience has given us a net over and it is about practical user experience. So, it is when a few distributors that we started off, the word of mouth that has spread amongst the distributor fraternity of a particular anchor that has given us a lot of new business.

Sangeeta Purushottam: So, if I were to just sum it up, are you saying that the distributor comes to you because he has a certain requirement which is not going to be met by his number one and number two lender because either they don't have the risk appetite to give him more or whatever other reason and he finds it more convenient to deal with you on a day-to-day basis and for that, he is willing to pay that extra 1%-1.5% that you charge. Is that an accurate summary?

Sorabh Dhawan: He also wants to diversify his risk. He also doesn't want to keep only 1-2 bankers when you become large. If you keep only one to two bankers, you will limit your growth and the time taken for them to fulfill seasonal requirements, quarter end requirements, that also becomes elongated and with us that kind of ease of financing Diwali requirement, quarter end purchase requirement, all at ease of financing and practical financing has been an edge.

Anubhav Gupta: It is like even on personal level, right, you are running a home loan, it may be with bank A, car loan may be with bank B, your credit card with bank C, your business loan with bank D, so as an individual we tend to work with like multiple banks, right. For a business, it makes even more sense, right to diversify the financing requirements through multiple financials available in the market.

Sangeeta Purushottam: So, then the other point I wanted to understand was your total addressable market. You are saying you have visibility of about a Rs. 5,000 crores book based on the anchor MoUs that you have signed. Now, for Rs. 5,000 crores of business to come to you, the total business of that pool would be significantly higher, right? And how do you see this pool itself growing, because we have a target of Rs. 6,000 by 2027 and obviously you would be aiming for growth after that. So, could you just give me some sense into your thinking as to how you are looking at the business from 2–5-year perspective?

Sorabh Dhawan: I will divide it into two parts. One is existing channel finance facilities which is existing business which is hovering around in these anchors. So, how big is that, for example, Tata Steel would be about Rs. 15,000 crores, Tata Motors Rs. 15,000 crores, so use landscape that is A. That is what we are envisaging right now. B, there is a lot of transition which is happening from the vanilla financing which is cash credit and overdraft limits given by banks and NBFCs which are transitioning into more end use back limits. So, that is also another large play of transition of the existing vanilla products getting converted into end use back limits, which is another big thing which is going to come, which is already under process. We started to receive proposals wherein the large dealers are availing only channel finance limits and not availing cash credit limits, or they have converted their existing cash credit limits only to channel finance limits. So, that is a major transition that is happening in industry. And even banks and financial institutions, they are more comforted when you are controlling the end use rather than giving clean cash credit limits. So, that is the game changer for someone who is focused only on supply chain finance.

Sangeeta Purushottam: And last question, do you intend to operate at 3:1 debt equity? Is that an internal limit that you are looking at?

Sorabh Dhawan: Yes, at present that is the limit that we have kept and easily we got equity base of about Rs. 1,500 crores in FY27 and leverage of about 3x Rs. 4,500 crores with a book of about Rs. 6,000 crores. That is the limit that we kept right now.

Sahil Sikka: I think it is going to be remaining forever, Sangeeta being the conservative nature of our group.

Sangeeta Purushottam: So, that is like internal benchmark that you will operate within, right?

Sorabh Dhawan: Yes, that is right.

Moderator: Thank you. The next question is from the line of Miraj Shah from CJ Family Office. Please go ahead.

Miraj Shah: Just one question, I wanted to understand, if you could, you already answered this one, so I just wanted some clarify on this. So, on the ROE tree, if you could just break it down for me, so I was just trying to calculate 20% is what we are targeting is the leverage that we have. And let us say 4%-5% of ROA is what we will be making, so pre-tax it would come to 5.5%-6.5%, how are you putting in OPEX costs over because if I consider the 3% OPEX cost, then that becomes 9%-10% of my total spread and if you are borrowing at 9%, so we would need to charge close to 18% to make our 20% ROE, so just wanted to bridge it where I am going wrong in understanding this part?

Sorabh Dhawan: So, Miraj, how we are calculating ROE of 18% is that if you are looking at a loan book of about Rs. 6,000 crores, 1,500 is equity into average yield of 13% and minimum level what we are maintaining, we will be making about Rs. 200 crores in that, Rs. 4,500 crores and we said that our spread is going to be 4%. So, it is another about Rs. 190 odd crores that we are making on that. So, put together it is about Rs. 390 crores that can processing fee etc., so close to about 400. Our operational cost right now is about Rs. 10 odd crores a year, even if you look at about making the cost increasing towards Rs. 18-Rs. 20 crores we will still be making a PBT of about Rs. 375-Rs. 380 crores, which is leaving us with a PAT of 270 on 1500, which is giving us 18%. So, that is the back-end calculation wherein we are looking at ROEs of about 18% closing Financial Year '27.

Miraj Shah: So, I think in this part as you are trying to say, the OPEX costs are going to be extremely low. That is how?

Sorabh Dhawan: That is how the business model has been built, and we have always said in each and every of our call and presentation that the focus is on working on technology rather than human part. Even at current levels, we are operating with an employee staff of 60 and running a book of about Rs. 1,600 crores and I do not see even at Rs. 6,000 crores, we will ever be crossing about 9200 employees and that is how the business has been built. Today also, there are three projects running on how to reduce manual labor and put technology in place. It is more about transition that we don't have to do write off, it has to be done by machine and we will be doing only assessments that too based on the internal risk models and monitoring models and AI and ML, and that has been the model all throughout. And we continue to increase efficiencies day by day using the same.

Miraj Shah: And there is one other question, sir, this processing fee, if you can just explain, is it a onetime cost that you charge or what exactly is the processing fee?

Sorabh Dhawan: Processing fee is charged on an annual basis, which is onetime to the customers and there are customers which will have renewals, new customers added every quarter. So, it will be visible in each and every quarter. So, some of the renewals which did not happen over the last quarter have moved in here, but do we have a similar pipeline available for the next quarter? The answer is yes. So, this processing fee is a continuous process. It was lower because we could not process the renewals in the last quarter, but this will be a continuous process.

Miraj Shah: So, renewal as in what is the tenure of the renewal, so when do you renew it?

Sorabh Dhawan: We renew it annually one year, so every year we charge he customer a processing fee of around 25 basis points to about 75 basis points to 1%. So, that is over and above the regular ROI that anyone pays. And sanction limits are much higher, but if you are running on a loan book of about Rs. 2,000 crores, the sanction limits will be about Rs. 3,000-Rs. 3,300 and processing fees charged on the sanction limit and not on the utilization. So, that is why the processing fee gives a much better yield, even at 25 basis points, the actual impact would be close to about 40 basis points.

Miraj Shah: And just the last question, sir going ahead, any plans to raise money to NCD from public?

Sorabh Dhawan: NCD, yes and we have also got a rating done of Rs. 500 crores of NCDs. And yes, we plan to raise NCDs very soon.

Miraj Shah: So, we will be again, our cost of borrowing would be some 8.5 close to that only or much higher than that?

Sorabh Dhawan: Should be closer to that only.

Miraj Shah: So, we are planning to keep our cost of borrowings closer to 8.5 lending at least 13% and that is how we are going to make at least 4.5% spread?

Sorabh Dhawan: At least a spread of 4% at all times.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Anubhav Gupta: Thank you so much for everyone for joining the call. See you during the next earnings call. Thank you so much.

Moderator: On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.