JANA SMALL FINANCE BANK
(A Scheduled Commercial Bank)

JSFB/SEC/2023-24/138

27th January, 2025

National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra (East),
Mumbai 400051.

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400001.

Sub: Transcript of earnings call for the quarter ended 31st December 2024

Ref: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

Please find attached transcript of earnings call for the quarter ended 31st December, 2024. The same will also be uploaded in the website of the Bank at www.janabank.com.

You are requested to kindly take the same on your record and oblige.

Thank you
Yours faithfully
For Jana Small Finance Bank Limited

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Company Secretary & Compliance Officer

JAMA KARO, JANA KARO

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"Jana Small Finance Bank Limited Q3 & 9M FY25 Earnings Conference Call"

January 21, 2025

MANAGEMENT: **MR. AJAY KANWAL - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, JANA SMALL FINANCE BANK LIMITED**
MR. ABHILASH SANDUR - CHIEF FINANCIAL OFFICER, JANA SMALL FINANCE BANK LIMITED

MODERATOR: **MR. NIDHESH JAIN - INVESTEC CAPITAL SERVICES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Jana Small Finance Bank Q3 & 9 months FY25 Earnings Conference Call hosted by Investec Capital Services India Private Limited.

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

I now hand the conference over to Mr. Nidhesh Jain from Investec. Thank you and over to you, sir.

Nidhesh Jain: Thank you, Steve. Good afternoon, everyone. Welcome to Q3 FY25 Earnings Conference Call of Jana Small Finance Bank.

To discuss the Financial Performance of Jana Small Finance Bank and to address your queries, we have with us top management team from Jana Small Finance Bank. The Management Team is represented by Mr. Ajay Kanwal – Managing Director & Chief Executive Officer.

I would now like to hand over the call to Mr. Ajay Kanwal for his "Opening Comment." Over to you, sir.

Ajay Kanwal: Nidhesh, thank you very much and welcome everyone. Like last time, I would focus on the investor presentation we have uploaded. And I will be referring to the pages of the Investor Presentation when I speak. So, let me start by using Slide #3.

So, we had a very strong Quarter 3 where both gross NPA and net NPA have declined. And I would really like us to go through these specific numbers with me, which is in the box. So, first, regulatory provision in Q3 has come down to Rs. 81 crores versus Rs. 149 crores of Q2. And if investors, analysts who are on this call remember what I said last time. I did say that Q2 has seen the peak of our challenges. And this drop in regulatory provision 149 to 81 is from that purpose.

Second, we are providing extra provision so that our net NPA remains below one. And that is primarily due to our need to apply for a universal bank in May this year. As we all know, to apply for a universal bank, you have to meet conditions of gross NPA below three, net NPA below one for two consecutive years. We met it last year, and to make sure that we meet it this year, we keep providing the accelerated provision. So, in quarter three, we have done that for Rs. 93 crores. However, if you see the net NPA has fallen to 0.91% versus 0.95% of Q2.

Our PBT post the regulatory and accelerated provision is Rs. 105 crores, which of course is higher than Q2 of 88. If you add back our deferred tax asset, which is lower in Q3 from Q2, our PAT is at Rs. 111 crores versus Rs. 97 crores of Q2. For people who would like to calculate what would have happened to PAT or ROA or ROE, if there was no accelerated provision done by the bank, I have also given those numbers. Our adjusted PAT, just adding back accelerated provision would have been Rs. 204 crores. Our ROA would be 2.4% and ROE would be 20.7%.

So, very important that we understand accelerated provision, the need for us to do it. And of course, both gross NPA and net NPA is dropping. I will show you credit cost in detail on the next page. But on the very high level, it's been a fabulous quarter with a drop in regulatory provision, with an increase in PBT. And if you go down to the balance sheet, we have seen a solid growth in secured loans, 36% year-on-year, and now our secured book stands at 68% from 60% in the March ending, 2024 financial year ending.

Our unsecured book has declined 7% year-on-year, given stress in the MFI business. And from last quarter, we have initiated CGTMSE for the micro enterprises who are in business and for the rest of the MFI book, CGFMU. And I will share with you how much we already put into the guarantee program. Our deposits continue to grow well and our LCR is at 279%.

Our book value has improved to Rs. 380 per share which I thought I will share, so that we are very specific about it. So, very important to remember from the first page, it's been declining gross NPA and net NPA, and if one were to remove the accelerated provision taken by the bank, PAT would be at Rs. 204 crores.

Page #4 of the Presentation Deck is on our credit quality:

So, our credit cost, Q1 - 196, Q2 - 210, Q3 has down to 174. In 174, accelerated provision itself is 93. So, in reality, credit cost has dropped. If I take away accelerated provisioning and recoveries, then the net credit cost is just Rs. 44 crores. So, again, I would like to repeat for folks who are attending our analyst calls regularly, you have seen a drop in our credit cost in Q3 and the peak challenges are behind us. And then I have also given, because many of us want to know what happened to the gross NPA during the period and so what to anticipate. So, here we are on the opening GNPA balance at 755 crores. We added about 437 crores. And we had recoveries and write offs of 434 crores. We are closing on flattish gross NPA.

Now what is the portion of gross NPA and net NPA which is secured and unsecured? We certainly will cover before I go into Q&A. So, the main thing to remember from here is a drop in credit cost in absolute terms. And if you take away the accelerated provisioning, it's even much lower. Our PCR continues to be very healthy at 66.94%. And when I say very healthy because 66.94% is considering or rather given a secured book of 68%.

The other points I want to cover are other Q3 developments, which is now Slide #5, we have initiated CGTMSE and CGFMU which covers about 13.3% of our Unsecured portfolio. And by March' 25, we hope to reach about 25% to 30% of our Unsecured portfolio under both the guarantee programs. I want to emphasize that us taking guarantee programs is just to make sure that anything unforeseen in the future does not shake us from a credit cost perspective. We are conservative in how we lend, much more stringent than the MFIN criteria. We do believe our book is performing much better than the industry, but I did want to make sure that we were extra careful given the environment.

The second thing that I have pointed out here is the cost to income ratio. And for all the folks, I have actually done OPEX to Total Business, which is total of my asset book and deposit book. I have divided OPEX by Total Business. And there you can see it is 0.9%, 0.92%, 0.91% per quarter. So, really our costs are not going up. It is in line with the AUM growth. The challenge being the NIM is dropping because unsecured book is dropping. And that is stressing the cost-income ratio. So, the moment we stabilize our unsecured MFI book, which we expect to do in quarter four, which is it doesn't drop any further, just remains where it is or goes positive, our cost-to-income will start getting better. So, we should expect cost-income to start getting better. There is nothing extraordinary that is happening. It is just a change of mix between secured and unsecured. and we have seen an unexpected steep decline in unsecured given the environment. So, I just want to give comfort to everyone that we have our eyes focused on cost and this is just a mathematical thing which will get aligned as the MFI book stops de-growing and of course will get even better as it starts growing.

Finally, I want to show CASA. Now we took a step on 3rd of October of reducing our CASA pricing because we did feel that there was a lot of expensive CASA coming in, which to our mind was not the best CASA to retain. Having done that, I have shared with you what was our cost of CASA as of September end. It was 4.8%. It has now fallen to 4.44% in a quarter alone, purely because we have taken away the upper end of CASA. The result is that our CASA ratio is down to 18.43%. Since we dropped on 3rd of October, a lot of the expensive CASA which migrated to other banks, we could recover some of lost CASA from other bankbut not all of it. We will certainly make CASA positive as we go into Quarter 4. Our LCR continues to be very healthy. We are very liquid, so there are no challenges around that. So, big takeaway from here is we are at 68% secured. We are on trajectory to become 80% secured. Balance 20% unsecured, we, as a bank, would like to put that under guarantee programs so that there is no event risk that we will run once we do that.

Secondly, cost-income is showing an increase, not because of some extraordinary cost, primarily, a drop in the MFI. And third is we have aligned our CASA rates. We do think that it may be a short-term hit, but certainly the healthiest thing to do for CASA growth.

I will now move on to Slide #9. Very important to see our asset book and see how the asset book is really growing in the areas that we want them to grow. So, affordable housing for nine months with an average ticket size of 11.9 lakhs has grown at 25%. Our micro-LAP, which has the average ticket size of 6.4 lakhs has grown by 14.3%. Our MSME loans has grown 17.4%. Our Two-Wheeler by 73.9%. Our gold loans at 104.9%. So, all the core businesses are secured and are growing at a very healthy rate. We continue to expect to see a strong growth in secured book in quarter four too. Unsecured as you can see, as in the nine months, has de-grown by 11%. And I do expect that quarter four, we should at least at the minimum hold back any further decline and that is not for any other reason. We do believe that our focus on our business, the criteria we have applied gives us comfort in making sure that we hold the book at this point and start growing it because the new book obviously is doing very well.

I want to now move on very swiftly to Slide #14, which will show you our anchor bank strategy. I just want to make a very important point. We have always said that the future of us is making sure that the aspirational customer, the middle of India, gets a home bank, and we want to be the anchor bank. For people following our anchor bank slide, which is there in every quarter, you will see that gold loan penetration in home loan and LAP customers have increased from 1.8% last quarter to 2%. Our TD penetration, which was at 19% has gone to 20%. Our pre-approved business loan, which was at 15% has gone to 16.5%. Doing this is super important for us because this is where we get operating leverage. This is where we get a competitive mode. And this is where our customers really treat us as a Bank.

Once we get more and more of these customers, we will get better and better credit quality. And that is the reason we put up this slide and we keep focus on it. And I am glad to present to you that there is real positive change here.

I will now move on to the next slide, which is on the deposit side. I want to cover 2-3 points here:

First, our CD ratio is 102.5% for two reasons. One really is, we had a ODFD growth in the last week, which was unexpected, which has been paid down, which is why if you see the last page on secured asset, there's a big jump in ODFD growth, which is for this quarter. Otherwise, it could have been at a 98% or 99%. Second, we always keep it in the 90s because we do know, all of us know that we have refinanced line from NHB, SIDBI and NABARD. We have taken additional Rs. 730 crores of NHB and SIDBI money. This is 10-year and 5-year money at very good pricing. But we do it because it does help ALM getting long-term rates. So, on the liquidity side, a few things to remember. LCR at 279, we are very liquid. We don't have a challenge on liquidity. We are maintaining CD ratio at a slightly elevated level only because we do not want too much cash on the balance sheet, which tends to be a drag. And the reason why this happened is purely because we do get refinanced lines from NHB, SIDBI, NABARD, which we do think is very healthy from a tenure mismatch angle.

Next, I would like to move down to Slide #19. And I really want to reaffirm that if you take away accelerated provisioning, you take away DTA, we end up at 2.3% ROA, which is the true value of the bank. And we would certainly be in the 2 plus range once we kind of finish the net NPA under 1% and gross NPA under 3%. Once that is sorted out, we will be there.

Slide #20 gives you a net NPA breakup between secured, unsecured and total, where you will see that nearly 79% of net NPA is with secured loans. With the secured loans having property backing with an LTV of 46%. So, there is not much one should expect in terms of credit cost going forward. I really want to repeat on the credit cost. We had said that in Q2, it will come down in Q3, you have seen the worst. And we certainly have put this behind us. I don't want to give an illusion that it is not hard work. It's still a lot of hard work. And we are very focused on making sure that we continue and persist with that and keep this credit cost at the lowest point as we go along.

I have a P&L slide, which is Slide #21. Our PBT of Rs. 354 crores in this tough environment has been the highest we have ever done. So, Rs. 354 crores PBT is after Rs. 208 crores of accelerated provisioning. And very important for all of us to know this because there was certain trajectory you may be expecting from us. And rightly so in terms of profits. I just want to share that we are maintaining that trajectory. It's just that we have to make sure that net NPAs are below one, which is where we are doing accelerated provisioning. The Management and the Board remain consistent and everybody is on board as they used to be.

And with that, I just want to give 1 or 2 highlights before I close and open it for Q&A. Number one, credit costs have dropped. If I take away accelerated provisioning, which is required to maintain net NPA below 1%, we are really at the extreme low end of provisioning anticipated. The worst is behind us in Q2 itself, which is what we had signaled, and now you can see the numbers. Our secured group is growing very strongly, and so we should be in the 35% range when the full year finishes on secured growth. We would like to grow our unsecured book in Q4, at the minimum keep it stable. We are very focused on cost, though we think mathematically better answers will appear any which way in Q4 and LCR remains strong, our deposit growth remains strong, and we are very liquid.

With that, thank you so much, and happy to take on questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Manish from Nirmal Bang. Please go ahead.

Manish: My question on the microfinance business, so in your opinion, where is the stage of the pain in the industry? Number one. And secondly, when you say quarter four, we will see some growth or stable and secure book, so I mean, are you seeing collection trends in the current book is improving? And can you talk about from October, November, December, how is the trend of collection? That is the question number one, sir.

Ajay Kanwal: So, Manish, thank you. Let me tell you what I think. First, having an industry answer may not be possible anymore. I think whether it's SFBs or it's MFI, now you will see divergent performances and two things will decide that. Number one is, who has what composition of book and that becomes very important. So, you know, secured book can also be of various natures. Our secured book is largely property backed, so we should have a different answer. Again, MFI, we have never done a lot of growth. So, if you take our 2018 book to our December 2024 book, our CAGR would have been around 1%. So, really you should not see much of a challenge because the book has grown slowly. It's not that there is no challenge, but the amount of challenge would be less. So, I really don't have a good answer for you saying what is to be accepted by industry. I think you will have to go by the books. Now where are we on MFI industry? I must tell you that reaching 99% by the 20th, 22nd of the month is still very hard. We kind of stay at 98.5, 98.6. That's a collection percentage of B0 I am talking of. I am not adding anything else except what is demand in B0 and what is collected in B0. And we still keep fighting till the month end to reach the 98.5, 98.6. I don't think so that is changing in a hurry. But having said that, we are consistently 98.5, 98.6. We can see the new book that we have disbursed through the year is performing well. Whatever we could have seen as challenging, we think most of it has already passed. So, I do think that we have comfort too now. At least keep the book flat, if not grow it. And that is a step we are going to take in Q4. I hope this helps. But see, very importantly, I did say in Q2 that you have seen the peak. But we may be probably among X number of players who will probably say that in Q2. Different players will have different, depending on what kind of books they have.

Manish: And the second question to Abhilash, I remember on the end of the quarter for earnings analyst meet, you said the operating expense of growth will be 8% to 10% for the year. But if I look at the nine-month number, it's growth of 19.5%. So, given the pressure on the credit cost, how do you see the growth in OPEX growth versus your guidance raise of 8% to 10%?

Abhilash Sandur: So, the OPEX growth, I think it's in line with the AUM growth. So, what has happened is, if you see, Ajay covered it also in the slide earlier. So, the OPEX is growing in line with the AUM. So, we had given earlier guidance of 8% to 10% basis the scenario not considering any additional collection costs and additional marketing spend which would have been required during the year. So, that is the reason there has been a slight blip during the current year. So, Ajay, you want to add?

Ajay Kanwal: Manish, math is very simple if you take page #5. We have people in microfinance, about 8,000 of them. But the book is negative for the year for about roughly 11%. Now, this book would have been positive 5% or 6%, which is what, if there was no stress, that would have been a normal year then our cost of income would have probably been around 55%. And we would have justified this cost increase. Now, the challenge is we have the people who are doing collections now and not doing any incremental business, which is why you have elevated cost, and rightly so, because you obviously have more collectors than what we anticipated. And the collectors are not doing new business, so cost-income is getting a bit challenged. I don't think so we are increasing collection capacity anymore. I think we are already having enough and more than we need. So, you should not see a cost increase. And like I mentioned that if you stabilize the unsecured book in Q4, which means at the same level that is today or get even slightly positive, you will see a pushback again and cost-income will go down. The reason I put a very specific box is that I just want you to know that we are very conscious of it. We are still always very proud of our cost-income. And we would like to bring it back to the 55 levels because our longer term aim is to get to the 52%-53%. But right now, the collection progress is more important to us, which is where we added the bodies.

Second, as you know, there has been a bit of attrition across the industry, which does cost a bit of a jump in the people cost and probably a harder push towards collections talent being higher than it normally is in every year. If you add the two up, that will explain why our cost is higher. But then I would have anticipated this question and it does bother us, which is why we put up that box and we certainly would like to see a better cost to income as we get into Q4.

Manish: And last question on the slightly longer term perspective. So, you mentioned in the analyst meet that we aim to achieve the secured book of 80%. Our margins keep on declining because of the rise in the secured book and the decline in the MFI book. So, if I ask you, what one should model your sustainable ROA given the cost metrics and the pricing of the credit cost and the NIM profile on a sustainable basis?

Ajay Kanwal: So, Manish, first is again because this year is a bit of an unexpected year. Slide #5 gives you earnings at 7.6%. And it tells you that if the MFI book had stayed, forget growth, even if it had stayed at the March levels, my NIM would be 8%. Which means my secured book NIM is actually holding up where it needs to hold up. 8% was my NIM in March, 8% would have been my NIM in December, forget growth. If I just held the microfinance book flat to March. So, that is what I want to give you comfort that even though we are turning Secured, we have micro LAP, we have gold loans, we have two wheelers, we have affordable housing, our NIMS are very healthy. So, that's rule number one or rather point number one. Manish, three years, our model was that our NIMs would drop 50 basis points as we turn 80% secured. I want to tell you the point to point. So, we assumed 60% in March '24 we will get to 80. So, 20% change in secured, 50 basis point drop in NIM. CASA will improve from 20 to 30. So, 20 basis point help from CASA. Net NIM negative would have been 30 basis points over three years. So, you are not seeing that 30 basis points today. What you are really seeing today is the microfinance book going down from 9,800 to 8,800. The secured impact is not in. That's what the secured book has done very well. And in fact, it's holding NIM exactly as it was in March. There is no decline in secured NIMs. It's just a decline in unsecured.

Moderator: Thank you. The next question is from the line of Saumil Shah from Paras Investments. Please go ahead.

Saumil Shah: Sir, we have guidance for a 30% PAT growth for this year, which means we have to almost do around Rs. 500 crores of profit for next quarter. So, how far is it achievable? Of course, we will be taking some DTA benefits in next quarter, but still it's a very tall task. So, would you like to revise our guidance?

Ajay Kanwal: Yes, so listen, I didn't put any more guidance because I think for quarter four, one can calculate. But let me just step back a bit. See, if you take Slide #3, adjusted PAT, that is at 586. Forget DTA completely. You just think that if I didn't have to put accelerated provision, I was in the number that we had guided towards, or probably slightly better. And the reason I put it up is exactly for that, say, our business model, had there been no need to be net NPA below 1%, you certainly would have been at a 500 plus number. It would not be exactly what it is because we may not want Net NPA to go much higher. But certainly. I would have been better than it, which is what I am showing saying, if you step back and think about the franchise ability to produce that, it's much higher. And I do think that now that the worst is behind us, we had a very strong quarter. We have seen a credit cost decline. I think our acceleration in PBT in quarter four will certainly be higher than what it has been in Q3.

Saumil Shah: And sir, as per the last quarter, we had Rs. 740 crores of DTA. So, can we know how are we going to use this? I mean, is there any calculation for next two years?

Ajay Kanwal: So, as per our original calculation, we would have used most of our DTA except the last 100 crores when we end FY27. This year obviously we will leave a bit of DTA on the table. We do want to sit down now and we are going to do that as we start it in next year that how we use most of our DTA because we have two more years to use it up. We have some ideas in our mind and we will certainly be working on it. We will share it with you all when we come for next year. So, when we open up next year, when we do full year March 25, we will do two things for you all. And of course for us, one is to make sure that we give you guidance for next year, which is very straightforward. Our guidance on asset 20% - we will meet, our guidance on deposit growth of 20% - we will meet. If you give us the benefit of adding back accelerated provision, then we are meeting the ROAs, ROEs, etc. But we will come back with guidance for next year when we do March 25. We will also share with you how do we plan to use the DTA because we do have a small gap which has come up from this year.

Saumil Shah: One book keeping question for the current year, I mean, I just wanted to calculate on the PSL certificate. So, see when we become a universal bank, our PSL requirement will be at 40% from 75%. So, how much additional benefit can we get on the sale of PSL certificate?

Ajay Kanwal: See excess PSL certificate won't give us much benefit. I will tell you why. The larger PSL book when you turn from a 75% to 40% will be the surplus MSME micro enterprise. It doesn't get you too much value when you sell it, maybe 10 basis point, 20 basis point. So, you can use about 30 crores-40 crore at best, not anything more significant. Because the real money in PSLC is when you sell the SMF, which is small and marginal farmers, which anyways we are surplus, and we make use of that PSLC sale even today as an SFB. So, one is there is not going to be a big jump in profit from 75% PSL to 40% PSL. I do think that you should, and at least in our heads, we are budgeting a 25 basis points minimum drop in cost of deposit when we turn into a universal bank. And we do expect the velocity of growth of both CASA and deposit to be much better when we drop the word ‘Small Finance’. Those are the two things in our mind that we are contemplating. There are other changes like your capital adequacy may drop, 50% of book has to be below 25 lakhs, will change, but those we don't think is impactful. I don't think so we are going to cut down on capital adequacy or we are going to do a lot of big loans. I think everything else will be the same, but I think for us, the main change will give us certainly a big advantage on with velocity and cost of deposits.

Moderator: Thank you. The next question is from the line of Rahul Bhangadia from Luck Investment Managers. Please go ahead.

Rahul Bhangadia: First question is on your Slide #4 which you have kind of covered before. If you could just give us a sense, the additions during this period have broadly been in the same range as previous quarter but the regulatory requirement of provisioning has come down. Just give us a sense of what is the recovery is all about, 430 odd crores, because your recovery under other income is also not a very big number. So, just to give us a sense of what, and where do we expect this 400-crore odd number gross NPA addition to kind of go in the future?

Abhilash Sandur: Right, so two things. One is it also has technical write-off and recoveries both in the 434 line. So, that's the first important piece. In terms of write offs out of 434, that would be about 109, rest is all recoveries. And the recoveries comes in two lines, one is in the credit cost and second is in the other income. So, we do anticipate that both will continue as we go into Q4. We would be able to take technical write-offs as we do full provisions. And we will continue to get good recoveries, which we have seen an acceleration of in Q3. We do think Q4 will sustain that. We are hoping and we are working towards the addition, which is 437. We should bring down that a bit more in Q4. And we should end up with a closing GNPA number, which is flattish to lower than where it is right now.

Rahul Bhangadia: So, given the way in which the book is kind of evolving towards an 80% secured book, what is your expectation of what the credit cost would look like? Because from what we see in one of the slides where you have given the gross NPA numbers even for your affordable home and the micro LAP book, they have gone up quarter-on-quarter from Q2 to Q3. What is your expectation generally on that book?

Ajay Kanwal: Let me take one by one. First is we did say that our credit cost this year will be 1.6% to 1.7%. And given where we are in Q3, we will end up with a 1.6%-1.7% cost. And very important is to also look at Slide #20, which gives you a sense of where the challenges, if at all, can appear. There you can see 79% of net NPAs is in the secured piece, which tends to be, it is more a timing issue than whether you will get your money back and LTVs are very low. In our three year model, which I explained earlier that we have assumed a secured of 80%, we have modeled a 1.5% credit cost.

Rahul Bhangadia: And so the last question before I go back to the queue, any extra ordinaries in the current quarter in terms of interest write back or anything like that?

Ajay Kanwal: I am looking at Abhilash. No, nothing that should change. I think the only extraordinary, I must say that what we had not anticipated, we tried but couldn't succeed. We were hoping to stabilize the microfinance book in Q3. But somehow the focus on collections continue to be high. We had a good October, but again November, December, hard work. So, our disbursement didn't keep up to what we thought we could do. Other than that, in our working also we didn't find anything else which looked odd.

Moderator: Thank you. The next question is from the line of Kamal from Investec Capital Services. Please go ahead.

Kamal: Firstly, like following up on the question of the previous participant, like, could you highlight the reasons why there was an increase in the GNPA in the secure segments of micro LAP and affordable housing?

Ajay Kanwal: So, it's just, for us, very specifically two states are showing a bit of extra challenge. And I don't know whether this is industry-wide or Jana specific. One is in the state of Odisha. Secondly, we have seen slight pickup in West Bengal. We have taken actions to address those. And we do believe that we should see this gross NPA certainly getting more better than where it is right now. But nothing that, if the question is around, are you seeing a spillover from microfinance into micro-LAP? The answer is no. We don't have too much overlap. And we don't see the micro LAP responding also like that, neither affordable housing. But we do think there are two geographies where we need to tighten up our shop and our act, and which is what we are focused on doing. Nothing other than that is giving us any discomfort, which is why if we really see quarter-on-quarter advances growth, which is on page 9, we continue growing affordable housing and micro LAP at a very healthy pace of quarterly growth of 7% and 5%, or rather 6%. So, nothing that worries us, but a little bit of hard work in two geographies.

Kamal: And was my understanding correct that the write offs during Q3 is Rs. 109 crore?

Ajay Kanwal: That is correct. Abhilash mentioned that. And listen, see first I want to tell everyone that this whole feeling anxious about what microfinance can do, what does the numbers look like is all behind us. Given a choice, we would certainly like to make sure NPAs does remain below one because we want to become a Universal**.** So, we are doing our best to get to the right point. And Q3 has been to our mind extremely good because the numbers we kept talking about in Q2 saying this is our peak, we have actually shown the numbers. If you take our credit cost, it's actually shown including accelerated provision also which is very large number. If you take our Slide #4, our credit cost is at 174 versus 210 of last quarter. And that 174 is 93 of accelerated provisioning. So, yes, you are right. The technical write off was 109 and rest were recoveries.

Kamal: What was the number during last quarter?

Ajay Kanwal: Abhilash is saying there was no technical write off. Only this quarter we had technical write-off.

Kamal: Also sir, if you could just help us out like what is the blended credit cost and ROAs for your secured book and unsecured book?

Ajay Kanwal: Blended credit cost. Okay, why don't we take a next question while Abhilash quickly calculate that.

Moderator: Thank you. The next question is from the line of Darshil Jhaveri from |Crown Capital. Please go ahead.

Darshil Jhaveri: Just wanted to know with regards to like, our PAT growth like on a reported basis will not be able to do a 30% growth. So, what kind of PAT can we expect next quarter like it will be similar on what we have reported like Rs. 110 crores-Rs. 111 crores?

Ajay Kanwal: Certainly, it should be better. For simple reason, whatever asset we have added this quarter, it will give us extra income next quarter. We certainly would like to grow and at least stabilize our unsecured book. So, that will also add to the profits. We are not expecting any higher credit cost for sure. So, I think that should also go positive. You also know that quarter four is anyway good for all banks. It's the best quarter in every year which means a lot of disbursement goes up and certainly leads to a lot of fee income. So, I mean, if I just use those three parameters of bigger balance sheet going into Q4, unsecured hopefully stabilizing, and higher disbursement in Q4, I do expect my cost of deposit to go down in Q4. And that I can see happening because we have repriced our CASA. We had also repriced our deposits. So, I would anticipate much higher PBT and PAT. And I would certainly like to keep net NPA below one and gross NPA below 3 as I finish the quarter. I can say that with great comfort because we are on the 21st of January and we are really having clear view of what we are expecting.

Darshil Jhaveri: So, sir, the accelerated provisions, those will maybe end in FY26, right? Like, or we will, how long will we continue these accelerated provisions? Because they're dampening a book quite a lot. So, just wanted to, like after we apply for the universal banking license, will it continue in Q1 also or how would it go through, sir?

Ajay Kanwal: Right. I think the unwinding will happen over the next 3 or 4 quarters. It won't happen in an abrupt matchup. But what will happen is the addition to the actual provision will diminish as we go into next year. So, certainly, because right now the total corpus of accelerated provision Rs. 208 crores. Let's say we take another 60, 70, 80 crores in quarter four. So, we will be closer to like Rs. 275 crores to Rs. 300 crores of accelerated provision we are carrying into next year. So, obviously we will use up those provisions. But certainly I don't see why we should add more to them. And remember, as your unsecured book stabilizes the need for provisioning anyway comes down. Secure doesn't take too much provision. And like I said, the small blips in secured will get sorted out. So, I do see that the carry of accelerated provision, which means my PAT has reduced this year, it won't happen next year. And to make sure that what that number is, I put that clearly in Slide #one so that there is clarity in everybody's mind that what to expect with our franchise.

Darshil Jhaveri: Any kind of guidance that you would like to give for FY26 right now?

Ajay Kanwal: So, listen, asset growth 20%, liability growth 20% I mean that we said for this year, we will achieve it. We will certainly put up a similar guidance for next year. I don't think that will worry us. I think what we want to give around PAT and ROA, ROE is we just want to take time to finish this year and see the impact of how the release of accelerated provision happens, etc. just need to be very clear about it. And then we will certainly come back to you when we declare the March results. All I can confirm to you right now is asset and liability growth will continue. Secured book growth will continue. We will certainly like to grow our unsecured book also. We will not like to see a decline in it. So, all three are going to happen. We will try and grow CASA even harder. And like you have seen, we have brought the CASA cost down. That strategy won't change. So, I think those are some of the givens you should assume that Jana has a strategy and that won't change.

Moderator: Thank you. The next question is from the line of Shailesh L. Kanani from Centrum Broking. Please go ahead.

Shailesh L. Kanani: Sir, can you point out any strategy which we have deployed in 3rd Quarter apart from the routine collection efforts? Because our performance seems to be very well in terms of vis-à-vis (voice not clear)..

Ajay Kanwal: You are asking why our performance is better? Did we apply any special strategy in Q3, right?

Shailesh L. Kanani: And any states you would like to call out where our performance has kind of sequentially improved dramatically? Anything you would like to call out? Any states which are performing well?

Ajay Kanwal: I just want to take you and everybody else on this call to a slide, which is Slide #11. So, first, out of Rs. 8,899 crores total unsecured book, Rs. 5,124 crores is individual loans. I do not think we will get too many other MFIs or SFBs which have high proportion of individual loans. We have been doing individual loans because we were in urban microfinance. We moved to our individual loans way back in 2018. So, one thing about individual loans is they are a lot more urban in nature and you can see we have given a break up where our agri and non-agri is. But you know, we give individual loans to people who have finished one cycle of group loan and number two, our underwriter visits them and this is a visit by an underwriter of credit to figure out what the cash flows are before you give them loan because typically the individual loans are higher. So, I think one of the reasons our book is better is, one, it's individual loans, we had done underwriting. Two, individual loans collection behavior is far better now than group. Because in individual loans, there is no ganging up of people saying, okay, let's get together and not pay or let's put up a barricade outside the village saying no MFIs are allowed. That all doesn't happen in individual loans. There is no ringleader here. There is a customer and there is a bank. And secondly, customer is being through a credit cycle, knows what credit is. And third, my underwriter has visited him and we were giving the market this clear indication even in Q2. But we didn't have the numbers to back it up because Q2 did see an increase. And we kept saying that listen at our end we have seen the worst of it. And the start point of evaluating us versus what will happen in the industry is to start from this page. What is the book made up of? 5,124 is individual loans. 1,643 is BC where we have service guarantees, which means if I don't get my money collected by them and it turns NPA, they are responsible in a financial sense. So, if you add these two, you can see why my credit cost should be lower, both because we had service guarantees from BCs, which roughly is 20% of my book. Individual loans is 5,124 of 8,000 crores which is roughly 55%. 70% of book is very different from a regular MFI or an SFB I would think and which is why you would expect differential performance. And we are very convinced, we will continue this strategy. Yes, we had a few hiccups with 3 BCs. We know what to do differently now. But remember out of the 17 BCs, 14 were very good. So, the three they have taught us the lesson, we will fix it and then we will move on.

Shailesh L. Kanani: Just to add up, sorry to harp on this, but I was looking for sequential performance. See, individual share was high for us even in second quarter, right? Maybe a few bips here and there, but even in second quarter, we had more than 50% share in individual lending. So, I just wanted to know if we have done better because individual book per se has seen a mass improvement Q-on-Q. So, I was just wondering if something has happened over there?

Ajay Kanwal: So, some of it would be technical write-off because you heard Abhilash that we have not done technical write-off in Q2, we have done in Q3. Some of the GNPA drop is got to do with the taking technical write-off. So, you are right, it looks better than Q2 and I think one of the reasons would certainly be the tech write-off. But if you step back and think, listen, even if you take Q2 numbers, they are around 4% odd for individual loans. And I think individual loans will show, across MFIs and SFBs and banks, better performance than group loans. And I think, again, unless somebody has done it in a very odd way, if you have done a credit decisioning, these are customers who are credit experienced. I do think you will get a better experience in IL, than you will get in group loans. And I do think the more of the industry will turn towards IL as an answer, because batteries are broken, there is no ringleaders around this, and you will find that customer behavior with the bank or a financial institution, when it's one-on-one, will end up being better.

Shailesh L. Kanani: Any shout out for any state in terms of performance?

Ajay Kanwal: So, where are we working very hard? I am looking at Raman now. We are working very hard in Bihar. We have certainly a challenge in pockets of UP, but not all over. So, I wouldn't call out the state in general, but a few districts there. We certainly are seeing stress in Odisha, and that we can see both in MFI and even our housing book. So, there is a general level of challenge in Odisha. I think other than three, small pockets of West Bengal, nothing significant, but we have never had a big part of our exposure there. I mean, that is what I would call out.

Shailesh L. Kanani: My second question was with respect to BC book. So, BC book has again seen a noticeable decline sequentially, and GNPA is also increasing?

Abhilash Sandur: Big reason again is, see, BC book first is improving. So, that is the rule number one. But some of it may be any tech write offs taken here could be the reason. But yes, you should take away that, and when you look at the credit cost, the one assumption you should certainly make sure is there that the unsecured has seen the worst, including the BC book.

Shailesh L. Kanani: Just last question from my side. So, in our individual lending in JLG customers, what other products you would have in terms of overlap apart from the unsecured loan? Do we have an overlap with affordable housing or any other product for our customers?

Abhilash Sandur: So, here is what you must know. We have 3,000 feet on street to do affordable housing micro LAP. These 3,000 people are reporting to a business manager who runs affordable housing micro LAP business. And most of them or rather I would say all of them are from either banks or NBFCs who do housing or LAP. There is no overlap of salesforce between microfinance and affordable housing or micro LAPs. So, that's rule number one. The credit underwriting of affordable housing and micro LAP is done by a separate set of underwriters which has a scorecard and physical visits, valuation, legal that you would follow. I also want to clarify that our micro LAP is not moral obligation by customers. It is SARFAESIable property. So, even though it is 6.5 lakhs, we don't have a product which is, please deposit a power of attorney-based property transaction and we will give you a loan. Ours is a property which a legal lawyer has signed, yes, and we can do SARFAESI action on it. So, I just want to clarify this because if there is like how much is the impact of microfinance on this, in our book should not be high. Are there any microfinance customers in affordable housing and micro LAP? Yes, because there are certainly a lot of microfinance who are good. This would be about 5% or 6% at best of the affordable housing micro LAP book. We have tested their performance and the good news is that our microfinance, micro LAP customers who are from, affordable housing micro LAP, customers who are from the microfinance background, their performance is very good, but they are not a large chunk.

Shailesh L. Kanani: And predominantly, there will be only one unsecured product for this customer, right, be it individual or JLG?

Ajay Kanwal: So, we only have one in the bank only. We have no other unsecured business only. Our entire bank only does microfinance, where you can get a JLG. If you are a JLG graduate, you will get individual loan. There is no other unsecured product only in the bank.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital Private Limited. Please go ahead.

Sarvesh Gupta: Most of the questions have been answered. Just one thing if you can give some more clarity. This 2.3% adjusted ROA that we have earned for 9M, now once the tax benefits go away, this can also come down by around 25%. And then you explain that there can be a 30 basis point impact due to us reaching 80% sort of a secured book. So, net-net, where do we see maybe in 2-3 years, where do we see the ROA and ROE stabilizing post tax benefits are also over?

Ajay Kanwal: So, that's a good question. So, 3 years later, and you rightly pointed out NIM will be a compression of 30 bps. It will be 80% Secured. What we have not put in our 3 years numbers from now is that we will also have a credit guarantee on unsecured. We are going to model that now. But in the past model that we had done, where we had turned 80% secured with a drop of NIM, our ROA would be 1.8% to 2% range, and ROE between 16% to 17%. That is a steady-state model that we had imagined would happen. And also I must add that CASA had become 30%. So, there were three variables, 80% secured, CASA at 30%, drop in NIM of 30 bps and then ROA would be 1.8 to 2, cost-income would be about 53%, and ROE would be 16 to 17. The one variable that I would like to now add is now I have a credit guarantee program. It does have a cost, but it also has an upside to us if something does go wrong. So, we will just put that model in. And when we see you again after March results, we will bring that forward to all of you. I do think that it's important for us also to do it, but I must admit that we have been too busy around trying to bring around this stability and turn around in the credit cost. Now that we have a bit more breathing space, we will certainly complete that and share with you folks when we bring the March results.

Sarvesh Gupta: And on the CASA cost, this time you had reduced it in October. And I believe we pay a decent sort of a savings rate beyond 5 lakh and 10 lakh. So, as we grow, do we sort of expect to be a top tier sort of a savings bank interest rate player or do we have intention to sort of reduce it and given that now this time you have reduced so your CASA has also dropped. So, how do we look at this entire scenario, if you can throw some color on that?

Ajay Kanwal: What we felt was at the top end, when you are offering a 7.8 or some other extreme CASA rate, you tend to get very large tickets. And fundamentally, we looked at it and said, listen, this does help us grow our CASA. But is it the kind of CASA that we want to build ourselves for? Because once you start going that route, then you get more and more of that. Because it is very easy to get that. You are really paying money and getting good CASA. So, if you look at the upper end, let's kind of cap it to a point. It is not that we are going to reduce our price and become uncompetitive, but that extreme end, we don't want. There are banks which, I mean, we know where our CASA went and which bank actually got it away and what price. But we think that is too extreme a price. And our bias is, listen, there is no hard work. We will open branches, RMs, if you see our presentation, there is a lot of segmental offers we have started. We are seeing very good traction for it. So, at some point we think that there is a, our CASA pricing has to be very competitive, but there is some competition that we did not want to play, which is why we cut it off. I put this slide again showing cost decline because there is a CASA decline in the industry. So, people may think that Jana's CASA is down like the rest of the industry or in part, etc. I just want to make sure that listen, our CASA decline is purely on a price drop. We have recovered some of the money gone out. Recovered means the wholesale money or wholesale CASA gone and retail CASA has come in. But we have not really reached the point of matching it off. We are going to work hard and get past that.

Ajay Kanwal: Nidhesh, Abhilash has an update for one of the previous questions. Kamal had asked a question.

Abhilash Sandur: The credit cost between segments for Q3. Secured, if I remove the accelerated provision, the regulatory provision of 23 crores, unsecured 56 crores. That is our credit cost for Q3. So, that one answer was spending, so that I have given here.

Moderator: Thank you. The next question is from the line of Chintan Shah from ICICI Securities. Please go ahead.

Chintan Shah: Just firstly on the PCR, in this quarter, we have increased our secured PCR to 48% from 29% in the previous quarter. So, probably what could be the reason for this? Is there any change in the PD assumptions or LPD assumptions or how is it?

Ajay Kanwal: Chintan, it's very simple. See, listen, I have no other place. Whatever I provision in unsecured, I am taking a technical write-off, right? Then I have left with a secured book. Now if I have to keep net NPA below 1, I have no other way but to increase PCR there.

Chintan Shah: Just to keep net NPA below 1 this has been done.

Ajay Kanwal: But you see, when we started the year, we had 18%. And some of us suggested that why don't we make it like 20 to 30 because that is what the industry is. So, we made it 28 last time. But now we have no other room. We have to make it 48. I worry that when we put the next money in this quarter to keep net NPA below 1, this may become 58 or 68 also. But yes, that's the way it's going to go now.

Chintan Shah: And I don't know if I missed this but have you mentioned the microfinance slippages for the quarter which was like around Rs. 230 crores in the last quarter?

Ajay Kanwal: Abhilash is giving the number. Just give me a minute.

Chintan Shah: And also one more number. So, I think, did we mention the collection efficiency month wise for the last three months. Also, any numbers there work? Could you please provide? And also on the January, how has been the collection trend so far for the unsecured portfolio specifically? And even on the secured front, are we seeing any spikes or any steep decline in the collection efficiency?

Ajay Kanwal: One is on the secured side, I mentioned a few geographies where we can see an uptick, which I think is more to do with us than an industry in general, where we have to tighten up both our collection effort and some of the credit parameters. So, I think that is one. Nothing stops us from growing. So, we continue our growth path. Nothing is alarming us, but just some work to be done and we fix it. On the unsecured side, I do think January, February, and March, till the 30th of the month or 31st of the month, we will be running hard to reach the 99%. I don't think so anything has got streamlined that will reach 99% or 98.5% which we have been doing by the 20th or 22nd. I don't think so that stability is there either certainly in the way customers are responding and how the industry is looking at things. So, I think that hard work will continue. Only thing now I can see is people are more confident of it than they were in the previous quarter which is why I feel the disbursal will pick up even more and the book will flatten out. But we do think that we are very, very attentive on microfinance still. But only good news for us is given the shape of our book, we have not had the damage that one would have anticipated, and which is what I can, you all can see in this Q3 results. But yes, nothing on secured which should, I am being very clear here. There's nothing there that is or above and some impact. It's I think just two geographies actually, which is challenging this.

Chintan Shah: We have already made Rs. 208 crores of accelerated provision so far and probably another 60-70 as mentioned would be done in Q4. So, roughly Rs. 300 crores of baggage. So, what will make us reverse this accelerated provisions in Q4? So, what could be that trigger for the reversal of this provisions?

Ajay Kanwal: So, it will be happening over the next year, rather than 1st Quarter of next year. And very simply put, there is a need to keep net NPA below 1. And to keep the net NPA below 1 when you have slippages, there is only one way to keep provisioning for it. So, I do think as the slippages are getting more and more normalized, we will need less and less provisioning. And when some of these customers after some point will need 100% provisioning, we will not need to put any more provision because we already provisioned for it. And certainly on the unsecured side, whatever this Rs. 208 crores goes to unsecured, that will be fully used. Either we will collect the money or we will use it for 100% provisioning. So, obviously our need for provisioning will still be lower. But all depends on, so the Q3 provisioning will probably unwind around Q2, Q3 next year. What we provisioned about, I think around Rs. 60 crores in Q1, that is probably what will be available in Q1 next year. So, it is, that kind of phasing will happen.

But importantly, you know, Chintan is we did give a set of numbers that one should expect from the bank. I do think that if you add the accelerated provision, a lot of it is visible. So, when you do forward numbers, you should say that the bank doesn't have to put an accelerated provision. It already has Rs. 300 crores surplus. What will the numbers look like? And so it makes life very easy for you. And hence, and to be very upfront about it, I put it in Slide #3, assuming we don't do any accelerated provision, what would the bank look like? It'll give you a better sense of what next year will look like.

Chintan Shah: Probably it could be better if there is a reversal as well on the credit cost.

Ajay Kanwal: Of course, no listen, just give me till March, if I made a statement here which I wasn't very clear about, when I sit with you with March results, I will give you a clear sense of when the reversal will happen. We cannot continue with beyond the point, but you know the speed of reversal and which quarters will it come, let's just give me an opportunity to do it right. One thing you should know for sure is when you finish this year, we have right now PAT around Rs. 360 odd crores. We have one more quarter to go. You can take any reasonable addition to that, which is better than Q3. So, you know what PAT will finish with. Plus, we will carry about Rs. 300 crores of accelerated provision. So, you can do a fair estimate for next year now, which means that we will not have accelerated provision. And plus some of this provision will get released, if not all of it. So, you can take a fair guess of where the number will end up. From our side, that proper guidance, we will give you when we meet with March results.

Chintan Shah: And, sir, just lastly on the credit guarantee scheme, so when is the recovery? Any timelines on the recovery? When can we expect that? And what could be the quantum? Any thoughts there?

Ajay Kanwal: No, so I am hoping, Chintan that there is no recovery because we just started guaranteeing now. If they turn NPA, we will have to request the institution to give us the money. The fresh disbursement has been guaranteed. So, until this NPA is done, I can't request for money. I am hoping I never go back to them for money. It'll probably happen next year if some of these do turn NPA. I think what you will see, Chintan, is next few quarters we will keep adding to our CGTMSE and CGFMU guarantee programs so that any event risk on unsecured will not disturb us too much. It will of course disturb us a bit, but it will be very marginal. What we have seen this year, I don't want to see it any other year.

Chintan Shah: So, it is more of a kind of an insurance taken against the portfolio, right?

Ajay Kanwal: 100%, And given that we have seen no external event, yet we saw stress in the book, right? That means there is possibility of future stress without an event. And you know, our takeaway for all our investors has been a persistent, consistent book where we are predictable. We got disturbed now. We have taken our medicine and we want to make sure that we don't get disturbed in future. There's enough and more business to do. Books are performing well. We are in 180 cities. We have got 24,000 people. Our products have all seen COVID in their existence. We are very comfortable with growth and what we are doing. So, I want to take away one amount of Credit risk. I thought BC was one opportunity. And to be fair, BC has worked well, two-three have not. But I do want to also add up to the CGTMSE, CGFMU. I also must tell you that even my BC book, I am also guaranteeing that while I am doing my own book also. So, we are doing the entire unsecured book, both BC and non-BC, so that there is, even for my BC, there is much more safety in the future if something odd happens which none of us can see.

Chintan Shah: And just lastly on the MFI slippages number, if you have last year handy?

Ajay Kanwal: 230.

Chintan Shah: So, that is flat on Q-o-Q basis, right?

Abhilash Sandur: Yes

Moderator: Thank you. Next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

Ashlesh Sonje: A few data keeping questions. Firstly, how do you account for the FLDG on the BC book in MFI?

Ajay Kanwal: So, simple, it goes to NPA. There is a deposit which is available under the service guarantee program. And we take the deposit and we apply it. So, what happens is my net NPA, my credit cost goes down. So, two things, gross NPA goes up that I can't change. Net NPA, because I take the money and apply it, the net NPA remains stable, which means it remains lower. And my credit cost also doesn't take that into account. Roughly we would have taken about Rs. 110 odd crores out of the various deposits available with us during the year.

Ashlesh Sonje: That comes under provision reversal, right?

Ajay Kanwal: No provision made at all. So, no reversal required. So, the moment it goes into NPA, I apply the deposit.

Ashlesh Sonje: And secondly, can you share the SMA book in MFI as on December and September?

Ajay Kanwal: We have not done the SMA breakup. but we did want to give you a sense of what's flowing in, which is what we have done in Slide #4, where our closing gross NPA is about 753, right? And if you take Slide #20, it will tell you that, out of the Rs. 758 crores, 382 is secured, 225 is unsecured, and 151 is BC. Mostly the unsecured and the BC book has got a PCR of 86 and 98, so no trouble coming from here. The secured book has like, Chintan asked earlier, 48% PCR. So, really, that is a high PCR, mainly to keep net NPA below 1. But LTV is 46, so this should not worry us. So, the real worry is what happens to, then what is the need for provisioning in Q4? It's the only fresh slippages which come in from unsecured. Because I think secured we can do enough and more feedback on the action we have taken in Q3. So, that should be the only number that you should put in your model.

Ashlesh Sonje: And lastly, can you share the microfinance disbursements in this quarter and the previous one?

Ajay Kanwal: Yes, I can. I have it. Abhilash, has it ready. I will give you in a second.

Ashlesh Sonje: And Y-o-Y also if possible.

Ajay Kanwal: I can tell you, Y-o-Y is negative, about 19% odd. But I will just give you the exact numbers there.

Ajay Kanwal: While we are doing CGTMSE and CGFMU, one of the risk mitigation was also revisiting the BC approach, which is why I said the Rs. 110 odd crores that we have reduced from our credit costs, it is a result of us giving higher income to the BCs for all these years. And in a stress moment, we did think that they would not have a challenge, but if they had a challenge, they would have to account for it themselves, which they have done. 1809 is our disbursement in MFI for this quarter against 1338 in Q2.

Ashlesh Sonje: But what was it in Q3 of last year?

Abhilash Sandur: 1970.

Ashlesh Sonje: In the write-off, which you had this quarter of Rs. 109 crores, that would be completely from MFI?

Ajay Kanwal: Correct, which is why you should kind of use that to figure out why we did not grow even though we did 1809 crores of disbursement**.**

Moderator: Thank you. The next question is from the line of Sagar Shah from Spark PWM. Please go ahead.

Sagar Shah: Actually I had a couple of questions. My first one was related to the data keeping question. What were the interest reversals in this quarter, especially in the MFI segment?

Abhilash Sandur: Around Rs. 50 crores of interest reversals which has happened year-to-date actually, For the quarter, it's around Rs. 18 crores, for the quarter.

Sagar Shah: Rs. 18 crores for the quarter in case of MFI segment, right?

Abhilash Sandur: Yes.

Sagar Shah: Now, second was related to the slippage ratio. You already highlighted the number before that in this quarter, actually our slippage ratio still is relatively little high at around 6%. So, was it Rs. 230 crores you highlighted was predominantly based on for MFI business. So, for another, the second half was totally related to the secured segment. So, can you highlight that which of the secured segments are actually the secure slippage ratio was relatively higher?

Ajay Kanwal: So, if you look at our gross NPA, net NP, this is the slide on page 9. We get the micro LAP, like I mentioned 2-3 geographies which are giving us a bit of a challenge, we have seen a gross NPA increase in micro LAP and slightly in affordable housing. So, there are just two points. MSME loans are very stable. And in fact, two-wheeler has dropped back. Gold loans anyway is technical. So, a bit of micro-LAP which has seen slippage specifically in the three geographies and not the book in general across the country.

Sagar Shah: So, micro-LAP and that is completely secured business, right, the micro LAP business?

Ajay Kanwal: Yes, I specify that it is entirely SARFAESI applicable property business with a 33% LTV. With an LTV which we have given, as you can see on page 9 last column, is 32.8%, which is 33%. So, it's a timing issue. But, we are not seeing anything where it is kind of we know a few geographies we could do a bit better, which we are now just tightening, that's about it.

Sagar Shah: So, there's no major reason to worry, at least on that, or there's no major overlap with MFI. It's not related too much to MFI business.

Ajay Kanwal: So, I want to be very clear on that, listen, which is why we see quarter-on-quarter growth of 5.8%. I would have retracted back or slowed down the growth if I find that, listen, I am entering an area that I am uncomfortable with. We don't have the discomfort. And I want to be like extremely easy with this/that, if we see sign of trouble, we would be running away from it and I would have already announced it to you folks, that listen, there is where I can see a problem coming. I don't see a problem coming. It's 1 or 2 geographies, we will fix it.

Sagar Shah: And lastly on the PCR, the PCR for the secured segments, what is the PCR for the secured segments as on this Q3 FY25?

Ajay Kanwal: Slide #20, 48.3% on secured. It gives you two things, it gives you 750 gross NPA breakup. It tells you 79% of net NPA is all secured. So, really not much damage, just only worry about unsecured slippage in Q4. That's all that could be hitting our credit cost. If you minus your recovery, then I think we are in good shape anyway. And we have a large amount of PCR. But like I mentioned earlier to Chintan, that most of this PCR unwinding will happen next year.

Sagar Shah: And just on this, if I can squeeze on the last that, you made a statement that we have seen the bottom as far as the microfinance business is concerned. So, by Q4, can we expect sequential uptick in disbursements in this particular MFI segment?

Ajay Kanwal: 100%. Because anyway, Q4 is always strong. Q4, you know that, right? That is not what worries us. Can I grow enough that my book will turn, no negative growth or become positive? That is my big ask to myself. And Sudhir who runs our business sitting right in front of me, our work is there, but listen, here is the classical piece. If you source group loans, your rejection rate is 70 to 80% now, batches. So, we don't want to grow and end up with problems also. So, we are very hard on what we are growing. So, for example, my existing customer, if he's not in a metro city, and has more than Rs. 50,000 outstanding balance with any MFI, I am not giving him money. By saying this, I am only telling you that listen, I can grow much faster, but I don't want to grow when I am not certain that this is going to turn out right credit. So, I am saying this again, non-metro city, more than Rs. 50,000 offers exposure, good customer of Jana, he will not get a repeat loan because we are not ready now till the industry is pretty much sorted out, which I don't think so we are sorted out right now. So, we have put stringent conditions, we will continue with those. If we are slightly more challenged on growth, I would rather live with that, but I don't want to add up till we are very clear of what we are seeing in the front. And this is in spite of having a credit guarantee because my idea of credit guarantee is to be used in an event risk, not in taking more risk and saying, okay, whatever comes on top will be covered. That is not our bias.

Moderator: Thank you. The next question is from the line of Anant Mundra from Mytemple Capital. Please go ahead.

Anant Mundra: Sir, we are at a slightly higher LCR. So, I just wanted to understand why are we carrying higher liquidity, and when do we expect this to normalize? And I am guessing this will have some impact on our NIMs as well. There could be some uptick in NIMs. So, is that understanding correct?

Ajay Kanwal: So, you are 100% correct. Our LCR is very, very high. We did try to bring it down. We made some progress in Q2 but back in Q3. See what we tend to do is when we do bulk deposit now, we tend to ask all the bulk depositors to take like 5-10 basis point extra, but make it non-callable. Somehow our salesforce is very comfortable with that. And it gives us strength in whatever bulk we take. We have launched a few products which would increase our retail deposit and reduce bulk in general. Once that happens, the LCR will also come down. So, the way we think is bulk has a reason why it is called bulk. So, the best thing is when you take bulk, make it non-callable. Once you make it non-callable, then you can sleep easy. And we have also given the breakup of how much is one year plus, we roughly have about 70% of all bulk deposits in more than one year also. But we are conscious of that. We do know that we will save some money if we get it right. And we will attempt to do that in Quarter 4.

Anant Mundra: We have done fairly well as compared to our peers when it comes to managing this MFI cycle. But what really is the next challenge that you are seeing in terms of meeting your long-term guidance of having a steady state ROA of 1.8% to 2%. Is it the mobilization of CASA where you have to get to 30% or there's been some increase in the NPA on the secured side. So, is that also bothering you? So, what is really bothering you now given that this cycle is behind and you are past the peak?

Ajay Kanwal: Affordable housing, micro LAP, MSME, I think we are doing fine. In MSME, we are incrementally seeing sales invoice and purchase invoice discounting. So, our focus is building credit structure early warning around that. So, I think that's rule number one. I think on micro LAP and affordable housing, we just are in 180 cities, just need the operations to run well. I just mentioned we are 3,000 people. So, always it is like you have to keep your hand on the machine all the time. You can't assume everything is fine. So, I think just making sure we are executing well is all that is required. It doesn't bother me. And, we are among the players who have a microfinance business, we have a micro LAP, we have access to credit bureau. You know what the overlaps are, who's doing what, not just with us. I know my microfinance customer have taken micro LAP from somebody else. How they're behaving if taken from me, how they're behaving, that is not our real worry. What I would really like to do is first get the cost-income back because that's been our strength. And we have got a bit of a hiccup now. So, I want to get cost to income right. And that will come from unsecured going back to its 10,000 levels. And if that is slower, then I think we have to work harder on the secured side so that the cost-income becomes better. So, I think that is one of my focus areas. Doing product diversification in MSME is our second area. I don't think we will take the eye off the ball on collections, whether MFI or non-MFI, because I think that is core in this environment. I think that won't change. On CASA, we have segmental offers, and we have even shown the segmental offers in one of the slides. It is making sure that we really focus on retail growth here. I think there is a bit of hard work, but we will continue doing that, and we expect that to continue. So, those would be our real top areas - CASA growth, MSME into sales invoice, purchase invoice, making sure that we keep our hand on execution in secured. MFI collection doesn't get easy ever. And finally it's making sure that we get the cost-income back on track because that is something which we think cost is a certainty, revenue is a hope, so cost has to come right.

Anant Mundra: Just one final question. Could you briefly just explain the economics of CGTMSE and CGFMU?

Ajay Kanwal: So, CGFMU cost is 1% of the disbursed amount for one year. Next year, we will pay on whatever is the balance outstanding. Then the first 3% of the gross NPA. Let's say Rs. 100 you guarantee, Rs. 5 goes into NPA. 3% of Rs.5, which will be about 15 paisa is your cost. After that, 75% of the balance amount will be paid by the CGMFU. They could change your cost of guarantee if your delinquency is whatever it is. So, that is the economics. I think beyond a certain point, very early, about 1%-1.5% you are fine. You start getting some money back. On CGTMSE, it is 0.3% of the cost. It is only for micro enterprise. So, you need to give Udyam registration. It has to be a small business. And you get money back once it goes NPA. Only thing is, I think the current condition they've applied is you get money back equal to 2x of the premium you pay for that year. So, unless you don't have a real bad year, then most of your money of NPA on the CGTMSE book will come back and that would be our bias.

Anant Mundra: And this is not on a pool. This is on each specific loan that you give out?

Ajay Kanwal: So, there is a proper format where you get in all the details. You put the Aadhaar number. You put the Udyam number. You write all the details. Everything has to match. And once that is done, you upload it into the system. The system accepts it. Then you pay the guarantee fee. And then it becomes guaranteed. So, it's a very formalized and very automated process. And there is enough checks and balances to make sure that these are done rightly. And I think it's very well organized by the National Guarantee Corporation.

Moderator: Thank you. Due to interest of time, this will be our last question. It's from the line of Vikram Subramanian from Marshall Wace. Please go ahead.

Vikram Subramanian: Just a couple of questions, is more a follow-up on a couple of other participants before. Can you give a sense of how the SMA has moved between September and December and how the collection efficiencies have moved in the past four months? This is majorly to get a gauge of how the on-ground realities are, because even though you are calling out peak stress behind, slippages still seem to be flat Q-o-Q and you also call out that the overall environment still remains challenging. So, just to get a sense of more like forward flows, so if we can get an idea of the SMAs or the collection efficiency, that will give a better picture for us.

Ajay Kanwal: So, one is collection efficiency, unsecured at 98.6, 98.5, consistent across October, November, December. Our push to get to 99 was not very successful and some reason or other always gets pushed back, which is why I keep saying that it's still going to be focused enough from our side on microfinance because we'd like to see it at 99 plus. So, that's rule number one. Also I said that in microfinance, normally we will reach a 99 around 22nd, 20th. Now we are fighting to the 30, 31st. I don't see that changing much. So, I suspect will be a bit more relaxed in Q1 next year rather than Q4 this year. So, hard yards will continue. We are geared up for that. We have put the collectors in place. We should be there. Our SMA has reduced in Q3 over Q2. So, I don't see a challenge. Also, recoveries are much better than in Q3 versus Q2 and Q1. So, which means we are getting better traction than we got earlier. It also means that the collection force is much more settled now. Because once you start hiring people by the time they understand the system and they start reaching out to customers, finding out where they live, we of course have lat - long for everybody. So, we know exactly how to find our customers. Well, it takes some time to be able to settle in. I think that settling period is over. So, why I said the worst is behind us and I said that in the last quarterly meeting, see it was the shape of our book and like if you take secured book also if my book was not property backed I had a different version I would have said. Let's say my book was vehicle finance, it would have another future how it would look. Similarly, in MFI, if I had more group loans, I would have probably taken another quarter, I feel. So, I think that group loan is not so settled, I feel, from whatever I gathered from our MFI business. That's what I think, fortunately Q3 turned out right. Like I said, the only thing that I was hoping but I couldn't achieve in Q3 was to really stabilize my unsecured book to where it was at the end of September. I thought we will make it happen, but somehow our field force**,** hadn't got the confidence to do more disbursements. So, we continue working on that and once we get that right, I think most of the issues are well settled. I know it's a bit of a longish thing, but I do expect it gives you a good sense of what to expect in Q4 and next year.

Vikram Subramanian: Just to follow up on that, just so I am clear. So, our book mix and our recovery efforts and potential gives us confidence to give out this comment that credit quality peak is behind us. It's more to do with how we have been dealing with and how our book has progressed. Am I right in assuming that?

Ajay Kanwal: Yes, absolutely. And so that peak is not a hope, but a reality if you take actual credit cost, which is what we have given in Slide #4, it is lower in Q3. So, if you take the Slide #4, even assuming a higher accelerated provision, my total credit cost is Rs. 174 crores. It is lower than Rs. 210 crores of last quarter. And it's a perfect 196, goes up to 210, comes down to 174. 174 is 93 of accelerated provision, which is higher than the 61 of last quarter. You should see in the Slide #4. So, I just want to give, not just how I feel, but these are actual numbers which tell you that, listen, it is behind us. Now, if our net NPA is 0.91, suppose I had made it 0.95, if that was our chosen path, then yes, PBT would be higher or PAT would have been higher by Rs. 15 - Rs. 20 crores. So, if it is a little less, Rs. 15- Rs. 20 crores, we can always, as things are more exuberant we can show them. Right now let's be more conservative.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today's conference call. I now hand the conference over to the management for their closing comments.

Ajay Kanwal: Thank you. Listen, in closing, I just want all of us to know that our bias and focus towards Secured has really helped us a lot. And it only increases our conviction that we should get to 80% secured. Secondly, our focus on making sure that MFI is not just operational risk business, but has credit risk and should be treated as such, which is where the whole genesis of individual loans really began. I think we are also in our mind very clear it was the right answer and we will sustain on that path. So, I think that will not change. I think, thirdly, we are very committed on making sure that we deliver a strong cost-income, and we are working very hard for that. Because we do believe that, that certainty which was our strength, remains our strength. Finally, I must say that we took a hard yard on pricing on CASA because I did feel that as we continued growing, at some point we would have to make this call so better earlier than later. I know that our branch team led by Shrini is committed to making sure that CASA does reach its growth path, and we are investing behind it. And we are very confident that Q4 will see a much better CASA number than what we saw in Q3. I think other than that, we would certainly like to apply for a Universal Bank in May. I think the advantage it will give us with our employees, with our customers, with our deposit rates, with our deposit velocity will be tremendous. So, we certainly would like to keep the net NPA below 1%, gross NPA below 3%, and put up a good case to the regulators to find it suitable to get the license. More for you folks when we come to the March results. And thank you for your support and belief in this tough environment.

Moderator: On behalf of Investec Capital Services India Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.