SURYODAY
A BANK OF SMILES

November 13, 2023

Ref.: SSFB/CS/83/2023-24

To,

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

Symbol: **SURYODAY**

BSE Limited
The Corporate Relations Department
Phiroz Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400 001

Scrip Code: **543279**

Dear Sir/Madam,

Sub: Transcript of Conference Call held on November 10, 2023, on the Unaudited Financial Results of Suryoday Small Finance Bank Limited (the "Bank") for the Quarter (Q2) and Half year ended September 30, 2023

Ref.: Our Letter No.: SSFB/CS/74/2023-24 dated November 02, 2023, and Letter No.: SSFB/CS/81/2023-24 dated November 10, 2023, respectively pertaining to intimation of Conference Call and disclosure of Audio recording of Conference Call on the Unaudited Financial Results of the Bank for the Quarter (Q2) and Half year ended September 30, 2023

In continuance to above referenced letters and pursuant to Regulation 30 read with clause 15 of Paragraph A in Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**SEBI Listing Regulations**"), we hereby inform that the transcript of aforesaid Conference (Earnings) Call held on November 10, 2023 on the Unaudited Financial Results of the Bank for the quarter (Q2) and Half year ended September 30, 2023, has been made available on the Bank's website within the timeline prescribed under the SEBI Listing Regulations and could be accessed at following link and also enclosed herewith as an Annexure to this letter: https://www.suryodaybank.com/assets/pdf/SSFB_Transcript_on_earning_call_for_the_quarter_ended_September_30_2023.pdf .

The above is submitted for your kind information and appropriate dissemination.

Thanking You,

Yours truly,
For **Suryoday Small Finance Bank Limited**

KRISHNA KANT CHATURVEDI

Digitally signed by KRISHNA KANT CHATURVEDI
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Krishna Kant Chaturvedi
Company Secretary & Compliance Officer

Encls.: A/a

"Suryoday Small Finance Bank Limited

Q2 FY '24 Earnings Conference Call"

November 10, 2023

MANAGEMENT:	**MR. BASKAR BABU – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SURYODAY SMALL FINANCE BANK LIMITED** **MR. NARAYAN RAO – CHIEF SERVICES OFFICER – SURYODAY SMALL FINANCE BANK LIMITED** **MR. KANISHKA CHAUDHARY – CHIEF FINANCIAL OFFICER – SURYODAY SMALL FINANCE BANK LIMITED** **MR. HIMADRI DAS – INVESTOR RELATIONS, HEAD – SURYODAY SMALL FINANCE BANK LIMITED**
MODERATOR:	**MS. PALAK SHAH – ELARA SECURITIES PRIVATE LIMITED**

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 10th November 2023 will prevail.

Moderator: Ladies and gentlemen, good day, and welcome to the Suryoday Small Finance Bank Q2 FY '24 Earnings Conference Call, hosted by Elara Securities 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 star then zero on your touchtone phone. Please note that the conference is being recorded.

I now hand the conference over to Ms. Palak Shah from Elara Securities Private Limited. Thank you, and over to you, ma'am.

Palak Shah: Thanks, Akshay. Good morning, everyone. On behalf of Elara Securities, I would like to welcome you all to the Second Quarter FY '24 Earnings Call of Suryoday Small Finance Bank. We have with us the senior management team of Suryoday, represented by MD and CEO, Mr. Baskar Babu; CFO, Mr. Kanishka Chaudhary; Chief Services Officer, Mr. Narayan Rao; and Investor Relations officer Mr. Himadri Das.

With this introduction, I would like to hand over the call to the management of Suryoday for brief introduction, followed by a Q&A session. Thank you, and over to you, sir.

Baskar Babu: Thank you, Palak. Good morning, everybody. On behalf of Suryoday Small Finance Bank, I extend a warm welcome to our Q2 and H1 FY '24 Earnings Conference Call. I trust that everyone has had the opportunity to review the presentation for the quarter ending September 30, 2023, which was uploaded on the stock exchanges.

Now let me provide an overview of Suryoday's performance for Q2 and H1 of FY '24. So to begin with saying the first half of fiscal year has been good and the bank has witnessed an overall satisfactory performance in terms of growth, asset quality and profitability. The gross advances for the bank witnessed a growth of 28.7% year-on-year from INR5,378 crores in H1 FY '23 to INR6,921 crores in H1 FY '24.

On the disbursement front, the bank has recorded a growth of 30.8% from INR2,130 crores to INR2,787 crores on a year-on-year basis. The disbursement growth is led by Vikas loan and commercial vehicle loan products, which grew by 139% and 262% year-on-year, respectively.

As of H1 FY '24, customer base stood at 25.1 lakh customers, a growth of 20% over the first half of the previous fiscal. This growth in our customer base signifies a focus of our customer-centric approach and the ability to meet their evolving financial needs. In terms of profitability, the banks are PAT growing almost 4x year-on-year basis to INR97.9 crores in H1 FY '24. The uptick is mainly driven by growth, improved operational efficiency and asset quality optimization.

Now let me shed some light on key operational and financial metrics as of H1 FY '24, providing a comprehensive overview of our accomplishments and the factors driving our success.

Now coming to the business performance. On the gross advances front, the bank's gross advances is currently at INR6,921 crores, out of which Vikas loan portfolio is at INR1,621 crores. Vikas loan, the bank's flagship product, is an unsecured business loan offered to the bank's graduating JLG customers, which is covered under the credit guarantee scheme that is CGFMU. We have over 2.75 lakh Vikas loan customers as of now.

On the disbursement front, the disbursements grew by 30.8% to INR2,787 crores on a year-on-year basis. This is led, as mentioned earlier, by Vikas loan and commercial vehicle loans. On the overall collections front, the collection efficiency stood at 101.7%.

Our deposits, we're delighted to inform and to share that our CASA has crossed the INR1,000 crores mark in value. The overall deposits grew from INR4,207 crores in H1 FY '23 to INR6,330 crores in H1 FY '24. We continue to focus on building a sticky and granular retail deposit book. The retail deposits as a percentage of overall deposits currently stands at 77.6% versus 71.9% during H1 FY '23.

CASA acquisition momentum outpaced the term deposit mobilization in Q2 FY '24. In Q2 FY '24, the incremental CASA mobilized to incremental term deposits stood at 23%. On the borrowings front, our borrowings as of September -- FY '23-'24 formed 23% of the total liabilities, the majority of which is from refinancing institutions that are long term and are contractual in nature.

Currently, our bank has a network of 635 branches, of which 96 branches are deposit focused, while 350 branches are asset-focused branches, and the balancing comprise of URCs. During the quarter gone by, the bank has invested in expanding the branch network, coupled with hiring feet on street, the leverage of which will be visible in the coming quarters.

On the asset front, the bank's gross non-performing asset GNPA has reduced to 2.9% in H1 FY' '24 from an elevated 9.9% in H1 FY '23. For the net non-performing assets, the NNPA has decreased to 1.4% from 4.8% in the corresponding period last year.

On the earnings side, the net interest income stood at INR445.8 crores in H1 FY '24, an increase of 26.3% year-on-year. Net total income for the same period stood at INR548 crores, an increase of 40.4% on a year-on-year basis. Our yield has improved to 20.3% in H1 FY '24 from 18.9% in H1 FY '23.

Our NIM has increased from 9.1% in H1 FY '23 to 9.7% in H1 FY '24. Our cost of funds has increased from 6.6% in the previous year to 7.2% in H1 FY '24. Our cost-to-income stood at 56.7% as compared to 55.9% in H1 FY '23. Cost-to-income, including the CGFMU guarantee expenses, stood at 61.5%. We continue to be very well capitalized, and currently the CRAR of our bank is 30.2%.

Finally, to summarize, we are well on track to achieve our stated guidance in terms of overall growth and current liabilities. The bank will adopt a three-pronged strategy, which will focus on expanding to newer geographies, along with deepening penetration in existing markets, continue to build granular retail deposit focus on -- focusing on growth and maintaining asset quality.

Let me now hand it over for questions and answers. Thank you very much.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Anil Tulsiram from ContrarianValue Edge. Please go ahead.

Anil Tulsiram: Sir, my first question is on CGFMU. I appreciate the bold decision which our company has taken to take the credit insurance, and I think it's the right decision. But when I see many -- very few of your peers have taken credit reinsurance under the CGFMU. Is it because they don't trust whether money will be reimbursed at the time of black swan or any other reason? So can you please help me understand this point?

Baskar Babu: Thank you very much. I won't really be able to comment on the position of what others are doing. What we are trying to do is that on a normalized basis, the credit cost in our unsecured business loans distribute to the graduating customers. Overall, on a on a normalized basis, it tend to be around 1.5% to 2%.

The CGFMU cover that we are taking is to really take care of, as early mentioned, this one-off events, call it "black swan" event and which also gives us the stability in terms of really building up the portfolio in a meaningful manner. We do believe that it's a very useful credit guarantee scheme and comes at obviously an investment. And we believe that, that will be well factored in terms of pricing and making sure that we grow in a meaningful manner.

Anil Tulsiram: Okay. But you don't see any risk of reimbursement from the scheme?

Baskar Babu: Our reasonable experience in ECLGS claim have been fast, and we do believe that we do not really kind of haven't expanded our underwriting standards because there is a credit guarantee because we have to be -- as it is completely on our book without a credit guarantee. And hence, we do believe that this is not really going to be coming in, in terms of claims on a normal basis, but only in terms of an extreme event. And we do believe that as long as it is properly done under the various conditions, we do not see any issues in terms of making a claim as and when they are acquired.

Anil Tulsiram: Yes. Sir, my second and the last question is, see, I think our average yield on the secured product is around 12% to 13%. And if I compare this with our peers like Equitas, it's much less, probably due to the fact that Equitas have their secured loan book is around INR6 lakhs to INR7 lakhs and ours is much higher. So do we plan to foray into the lower ticket size to increase the yield for secured product in next two years to three years? Or we are happy with our current structure?

Baskar Babu: As you know that in the last two years, the focus is in terms of deepening where we are already present in terms of products, we have been fairly successful. And given that we are comfortable on our book in terms of the micro home loans, which is in the range of around INR3 lakhs to

INR7 lakhs, has been fairly good, currently stands at INR150 crores and yield of around close to 17%.

So now we want to expand that in terms of our secured business loans of lower -- small tickets value, which would be in the range of around INR3 lakhs to INR10 lakhs, but we will really make an entry in a very meaningful and stable manner. And the market per se, the opportunity is large. There's also enough competition out there.

But we do see a large opportunity even within our existing customers, and that will be our priority one, as we start expanding toward from Q3. But the volume build-up will be gradual, and we would like to really build it on a very strong platform as we have done now for the micro home loans. Probably, we'll target around INR10 crores to INR20 crores in this quarter from this product and gradually increase it and probably look at as a run rate on permanent basis from the Q1 of next financial year.

Anil Tulsiram: Yes. And sir, can you -- just last question. Can you elaborate more on the micro home loan products? How many branches it's already there? And what's the team size and other stuff?

Baskar Babu: Currently, it operates around closer to 25 branches and expanding that branch-by-branch. Mostly all of this, currently, are locations where we are operating for inclusive finance offer, mainly for inclusive finance. So in time, this will increase. As of now, it has been more in terms of Karnataka, Tamil Nadu and Maharashtra. And we are present in around 10 states. So we would like to expand.

But more importantly, the given in the states, we see that currently our disbursements are averaging at INR10 crores to INR12 crores. The intent is to really take within these states closer to INR15 crores to INR20 crores. And as we speak, the delinquency of the portfolio is sub 0.5. And the NPA will probably be much lesser at, one or two cases, at around 0.1 and 0.2. The intent is to really can we scale this up to, say, INR500 crores and continue to maintain par of less than 1% and an NPA of less than 0.25%.

Anil Tulsiram: Okay. So if I understand right, our focus for high-yield secured products will be micro home and not the macro-LAP business loans?

Baskar Babu: As of now, as we speak, so we would like to enter that as well, micro secured loans, which is a little more scalable, faster than it's at home loan. Home loan happens in tranches, and it's around INR3 lakhs to INR7 lakhs, INR10 lakhs at this point of time. So it's not that we don't have the focus, but currently, we started with home loans, and now we'll expand to secured business loans of small ticket value.

Moderator: Thank you. The next question is from the line of Kushal Parekh: from Mehta Investment. Please go ahead.

Kushal Parekh: So I have a couple of questions. So the cost of funds has risen from 6.6% to 7.2% for H1 FY '24. So where do we see this normalizing for the remainder of this financial year?

Kanishka Chaudhary: So at this particular point in time, I think we have peaked in so far as our cost of deposits are concerned. This quarter basically sees the impact of the elevated cost of funds that we have generally seen in the market as well as specific campaigns that we may have run. So from here on, as a management that we don't intend to see a rise in our cost of deposits. And that's what we will keep on track.

Kushal Parekh: Fair enough. Sir, one more question. So what is the AUM of the commercial vehicles? And what are the yields of these, currently? And also, how is the composition of the commercial vehicle loan? So do you do light commercial vehicles more or MHCV more? Your clarity on the same?

Kanishka Chaudhary: So we have a portfolio of around INR550-odd crores, which we have provided in our investor deck as well. We are mostly doing light commercial vehicles. And the idea is that now from here on, we will get into commercial equipments as well, which is at a very early stage of ideation, but that's one segment that we would like to target.

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

Shailesh Kanani: Sir, wanted to understand a couple of things from a medium to long-term basis. What would be our CTI, given that we have paying this on quarterly basis this CGFMU, where our CTI is, I think, about the band, what we had guided earlier? So what will be our revised CTI targets for next two years?

Kanishka Chaudhary: Shailesh, I think, CGFMU, while we kind of count it as an operating expense, we would like to think of it more as a provisioning or in terms of an investment in terms of the provisioning over a period of time. So minus that, that would obviously be directly proportionate to the amount of portfolio we cover under that. Ex of CGFMU, our target is to really go closer to around 50% to 53% in the next two quarters.

Shailesh Kanani: Next two quarters?

Kanishka Chaudhary: Yes. This quarter, we can focus more in terms of expanding and kind of putting in quite a bit of our branches and all that. We would like to kind of moderate it around -- 55 basis points is what our immediate focus is. And therefore, at least 150 basis points we would like to do it over the next one quarter -- two quarters.

Shailesh Kanani: And what would be our target for CGFMU? Because last time you had said around INR40 crores. But in the first half already, we have spent around INR25 crores, INR26 crores. So what would be that annual amount?

Kanishka Chaudhary: It's proportionate to the business. So if the business pickup is higher than what we have projected, it will be closer to around INR50 crores to INR55 crores. We stay around the INR55 crores is what looking to be.

Shailesh Kanani: Okay. So that would be INR55 crores. Okay. Sir, second question is, can we share segment-wise yields for our secure book, across various segments? What kind of yields we are getting over there?

Kanishka Chaudhary: Yes. So if you look at mortgage, we are closer to 12%, -- 12%, 12.5%, including LAP, right? And if you look at CV, we are more in the range of 13%, 13.5%. The micro home -- micro mortgage, which is a small portfolio, gives us around 17% to 18%.

Shailesh Kanani: Okay. And last question from my side, sir. Actually a couple of questions. One is on non-interest income. I think, again, this quarter, we have seen a good jump in non-interest income. Sequentially, it is flattish. But year-on-year it's a good jump. Last quarter, you had highlighted PSLC income was the main contributor, which was not consistent. So how should we build that? And again, if you can highlight the sustainable ROAs for our business cross-cycle, both of those questions. Thanks a lot.

Kanishka Chaudhary: Yes. So on an overall basis, our fee income has been flattish, but that's largely due to the fact that in Q2, there was a lesser opportunity for the PSLC certificates. Our income from PSLC certificates reduced from INR23 crores to INR13 crores, but that was offset by the processing fee that we generated on account of the higher volumes that we did. So our new business increased from INR1,000 crores to INR1,500 crores, and that helped us to be at the same level on an overall basis.

Shailesh Kanani: And on ROA front?

Kanishka Chaudhary: So on ROA, currently, we are at 1.9%, 2%, right? And as you would remember, Shailesh, we had guided that on a full-year basis will be around two quarter. So as of now, we stick to our guidance. We will need to be able to build our book at a slightly faster rate over the next half of this year, and we are confident of being able to do so.

Moderator: Thank you. The next question is from the line of Yug Mehta from AP Capital. Please go ahead.

Yug Mehta: How is the micro home loan product going for us? And what is the disbursement run rate there?

Kanishka Chaudhary So micro home loan, we typically do anywhere between INR12 crores to INR15 crores a month. We have about INR150 crores portfolio today, with a yield of around 17% to 18%. The good part about this portfolio is that in terms of credit quality, it's Pristine. We actually have only two NPA cases till date, and we have been running this business for a little over a year.

So the main focus now is how we are able to scale this business. Like Baskar mentioned, we are in, primarily, two states, Karnataka and Tamil Nadu, which have worked very well for us. So the focus is, one, how do we go deep into these two states. And which are the new states, which are right for this particular product.

The good part for us is that from day 1, micro home loan has been very proximate to our inclusive finance business setup. So we run it from the same offices. We are targeting more or less the same customer segment. So now right now, the focus is, one, on being able to scale this product from here on.

Yug Mehta: Okay. Next, you have mentioned cost of income, including CGFMU scheme, at 65.4% for Q2 FY '24. That's subject on a higher side. At which level can it settle down, going forward?

Kanishka Chaudhary: So if you look at our cost-to-income, taking of the CGFMU for a minute, we have been around 60% for this quarter. And that's primarily because of the investments that we have started making in branch expansion. So our focus right now will be that over the next six months, the 60% cost-to-income, excluding CGFMU, we are able to bring it down to 55% by the end of the year.

Moderator: Thank you. The next question is from the line of Anil Tulsiram from ContrarianValue Edge. Please go ahead.

Anil Tulsiram: Sir, can you please explain your unsecured business loan product like target customer, the average ticket size, yields and the normal NPAs in this product?

Baskar Babu: So these are customers, who are curated with us coming as the JLG customer would be with us for more than one cycle, first, the second. But the important is that the loan quantum is not decided by just the repayment track record of the previous loan. So we look at the overall household income and expenses. And most of these customers are probably around 40% of the economics data as far as the JLG customers are concerned.

The loans have given one-to-one, directly to the customer and the repayment comes through the bank account, which they have with us. And around 32% of our customers at this point of time in the Vikas loan, which is the unsecured business loan, the payment comes directly through UPI, without us collecting cash at all.

Around close to 30% further comes to the branch and deposit the money. So around 60% of that gets the deposit -- more than 60% gets collected either through UPI or other branches. On the presentation date of the EMI, 70% gets cleared, and the remaining 30% is what we kind of take the effort in terms of reaching often. And closer to around 99% is a collection that happens before the month ends. It's at the overall household level analysis. And fairly as of now, as we speak, we have around 3 lakhs customers intend just to really take it to closer to around 4.5 lakhs to 5 lakhs customers at the end of the year.

So the origination pool comes in from JV after curating. During the period, the assessment is on at the household level. And the quantum of the loan varies anywhere between INR75,000 to maximum of around INR1.5 lakhs at this point of time. But the average ticket size is around INR75,000 to INR80,000 as we speak.

Anil Tulsiram: Sir, actually, I was asking what unsecured business loan, which is shown under asset quality as some INR150 crores book and the NPA was shown at 6.7% something. So that was the product I'm talking about?

Baskar Babu: That's a partnership product for those partners for...

Kanishka Chaudhary: Yes. So that's the book that we are running with our partners. And presently, that book is primarily the book we are building with Lendingkart. So they are unsecured business loans of around INR150-odd crores, where we follow an FLDG model for the expansion of the business. At this particular point in time, yes, I mean, 6% is the kind of delinquency that we've seen. We are hoping to bring it down over the next six months.

Anil Tulsiram: So what sort of ticket sizes do we give here? And what's the yield? And what is the FLDG do we get?

Kanishka Chaudhary: Yes. So ticket sizes will be around INR3 lakhs to INR5 lakhs. But in so far as our impairment is concerned, it is entirely covered by the DLG that we have -- FLDG that we have from the partner. So to that extent, at this particular point in time, we are comfortable.

Anil Tulsiram: Okay. And sir, on the last slide, under the FY '24 guidance, you mentioned that partnership with digital platforms to mobilize low-cost deposits and assets. So can you elaborate more on this or say, over the next two years to three years, what sort of deposits and assets we want to build to the partnership? Because currently, when the assets are quite minimal, I think, hardly 2% of the book.

Kanishka Chaudhary: Yes. So currently, we are at the experimental phase, to be honest, right? So we want to pursue a couple of use cases with a few of the partners to then determine the one that works the best for us given the kind of customer segment that we are targeting. So it's too premature to say, how much of book share we want to target from these initiatives. So at this particular point in time, we are more focused on driving the use cases and testing them out.

Anil Tulsiram: Yes. And sir, one last question. In the past, we have given sustainable ROAs, I think, around 3% guidance. So by when do you think you'll be able to achieve it, any tentative guidelines for that?

Baskar Babu: I think it will take us around 18 months or so to be able to reach that. So the first port of call is where we land by the end of the year. So on a full year basis, we said we will do two quarters. But Q4 exit will be more like 2.75%. So that's how where we start the next financial year and then build over time to be able to come to a 4% the number.

Moderator: Thank you. The next question is from the line of Manav Vijay from Deep Financial Consultant. Please go ahead.

Manav Vijay: Sir, my first question is regarding the Vikas loans that you have. So I believe at the beginning of year, you were guiding for around INR2,000 crores of Vikas loan by the end of this year. And now I think in this PPT, you have raised this guidance, I think, around INR2,500 crores. So is my understanding correct on that? And the reason why the CGFMU provision or the cover expenses guidance has also been raised?

Kanishka Chaudhary: Yes. So yes, right now, we are looking at a portfolio build of around INR2,500 crores for Vikas loans. And when we started the year, we were talking about more like a INR2,000, INR2,200 kind of a number. And the increased disbursement will be the reason for the higher CGFMU expenses because as we had indicated in our prior discussions as well, the entire Vikas loan portfolio and the JLG portfolio is covered under the CGFMU scheme.

Manav Vijay: Okay. Second question is, so again, at the beginning of year, you were guiding for a provision cost -- sorry, I think quarter 1 call, you were guiding for a provision cost of around INR50 crores for the rest nine months. You have taken INR25 crores in this quarter 2. That means rest INR25 crores will come in H2 or we will again have a higher number?

Kanishka Chaudhary: No. If you look at this time, we have taken INR11 crores of floating provision, and we had another INR4 crores of additional credit cost on account of impairments right, which is lower than what we did last quarter. Because in last quarter, we had to take a INR41 crores of provision on the security receipts. So at this particular point in time, I think we will be in the similar range over the next two quarters. What we are hopeful of doing is to ship the entire provision that we made on account of the security receipts to the floating provision and improve our PCR.

Manav Vijay: So for next two quarters, quarter 3 and quarter 4, should we build at INR25 crores quarterly or we should build it INR25 crores for the entire second half?

Kanishka Chaudhary: No. I think if you look, we will be doing around INR20-odd crores per quarter, not more than that. That's like the outer limit. And the INR40 crores that we had made provision in respect of security receipts will shift over to the floating provision to help us improve our PCR.

Manav Vijay: Okay. Next question is regarding the employees. So I think this quarter, you added with, I think, roughly around 7,000 employees, which is almost about 10% quarter-on-quarter and you've added, I mean, a decent number of branches as well. Now I believe this is the build-up that you are, I mean, putting in on the ground for next year. Can you help us understand how next-year looks like to you?

Kanishka Chaudhary: So in the current year, like we had guided, we would be looking to have around 70 to 75 additional branches in the inclusive Finance segment, and we will be targeting around 30 to 35 branches additionally on the retail banking. And that will basically set us to continue being able to deliver a 30%, 35% and thereabouts kind of growth for next year. So in our call last quarter, we had said that we look to see ourselves grow about 35% to 40% on a year-on basis for the next three years. So we stick to that guidance.

Manav Vijay: Okay. And also with the 30% to 35% growth in advances, how the next year cost income can look like?

Kanishka Chaudhary: So at this particular point in time, our immediate target will be to go below 55%, right? We would like to see that by the end of next financial year, last quarter, we are able to reach a 50% number.

Manav Vijay: Okay. And by doing a 30% to 35% growth this year and again, repeating the same growth next year, you believe that there is a probability of even a capital raise even by the end of FY '25?

Kanishka Chaudhary: I think for a 35% growth book, I'd say we will not be requiring capital given where we are today. But like we have talked in previous investor calls as well, opportunities can always be explored. But per se, from a regulatory point of view, a 35% growth in book will not require us to raise capital for next year.

Manav Vijay: And my last question is regarding your non-other income, yes, which noninterest income. So can you help us to -- let's say, provide one, let's say, one benchmark as to whether other income as a percentage of the NII or other income as a percentage of the total assets that you have, what is that we should try and build this number to?

Kanishka Chaudhary: So there are two parts to that. So one part is the processing fee. If you look at the processing fee, it will be typically somewhere around 2% of our overall volumes, given how the mix of Vikas loan and JLG is building out, right? The other part is the PSLC income, that is a little bit more difficult to predict, right? So just to give you an example, in Q1, we sold INR1,200 crores worth of PSLC at 2%. And this quarter, we were able to sell only INR900 crores worth of PSLC at one quarter.

So PSLC pricing trend is that it keeps reducing on a quarter-on-quarter basis, right? But what we have noticed in the last two years is that the market has become very unpredictable. And one of the reasons, for example, is that today, if you look at the market, there's a trade-off between doing PSLC sale versus raising money using IBPC, right? So that's the kind of a trade-off that a small finance bank treasury will look at every quarter and then decide what to do.

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

Prabal: Sir, so my first question was on Vikas loans. So after how many cycles is the JLG customer eligible for these loans? And typically, how many customers are able to graduate on JLG model to the Vikas loan?

Kanishka Chaudhary: So typically, minimum two cycles will be required for a customer to be eligible for Vikas loan. And one of the major precondition for somebody to graduate also an individual loan is to have some kind of a business, right? Based on that criteria, what we typically see is that about two in three persons will qualify ultimately to be operator Vikas loan.

Baskar Babu: But is the fact it's purely not as we mentioned earlier, not number of cycles alone. Customers have lots of trade lines, including in retail assets for themselves or for the co-applicant, which a majority of the cases happens to be the spouse of, the lady of the household, who happens to be our JLG customer. So we combine all of that, if the customer has got a track record for more than, say, five years in a secured loan and as we see only for 14 months she should be qualified. And somebody who has been there for 24 months with very good track record in JLG, but has got delays or defaults in other loans that they have taken from the market, she may still not qualify for a Vikas loan.

So the curated product currently we run with probably a preapproved a number of customers around closer to 5 lakhs and converting closer to around 70,000 to 75,000 on a month-on-month basis or targeting, probably will end up with around just about 60,000 or 70,000 customers per month on the VL front.

Prabal: And the person underwriting JLG loan and Vikas loan is the same person?

Baskar Babu: Centralized underwriting through data and the only input that comes from the field is in terms of whatever it is preapproved, they may still choose not to really fund the customer base on the difficulty in terms of collecting from the customer on an ongoing basis. So they will have a right to drop off some customers, but it's a pure score card, FOIR and GRE loan.

Prabal: But these are mostly preapproved loans, not the customer coming to us and asking for a high ticket loan?

Baskar Babu: Yes, these are all preapproved loans.

Prabal: And then in cycle 1 and cycle 2, how does the ticket size change for the JLG customer?

Baskar Babu: So it was INR35,000. And the second one goes to around INR40,000, INR45,000 below flexibility and no more than INR50,000 at the end of the second cycle.

Sasidhar Vavilala: Just to add to what Baskar said. This is Sasidhar here. So there is no guarantee a customer has completed one cycle, we'll give them a second cycle. So it is, again, based on their behavior on offers on us and the scorecard-based model. So we run scorecards and there is no guarantee that first cycle customer, though they are on zero DPD across loans, they'll get a second secured loan. It also depends on the FOIR and score card.

Prabal: Okay. Sir, and on the CGFMU. So how much -- is that actually covering what is the expense? So for example, it's a INR1 lakh loan. So how much is CGFMU covering? And what is the expense that we have to provide for?

Baskar Babu: Currently, we are covering around -- current coverage is around 80% of our portfolio of JLG plus IF is covered under CGFMU. Typically on a three year loan, if you really look at it on an equated basis, the discounted cost upfront was around 2.1%, mostly our JLG loans as well as Vikas loan currently at around two years. So get that you were on close to 1.5%.

Prabal: 50% of the loan has covered -- 80% of the loan gets covered?

Baskar Babu: 80% of our portfolio is covered. So whenever we cover, we cover the full loan. But currently, on overall portfolio, we started covering from last year as a base rate, around 80% of our IF-plus would be covered. 72% apparently.

Prabal: No, actually, my question is, let's say, there's a default in INR1 lakh loan. So how much will CGFMU reimburse, sir?

Kanishka Chaudhary: So there are two parts to it. So one is that this works on a portfolio basis, right? So if you look at it on a portfolio basis, the maximum impairment in the portfolio that gets covered is up to

15%, right of the coverage that you take. And of that 15%, 72.75% is what gets claimed and paid by the CGFMU trust and the rest have to be borne on the bank.

Prabal: Okay. So at least INR10,000 is guaranteed by the CGFMU because of...

Kanishka Chaudhary: No. That's not how it works. So if you look at the portfolio basis, all loans up to INR10 lakhs, meant for businesses get covered. So this works on a portfolio basis. So once the portfolio is determined for a quarter or a base year, then 15% of impairment of that portfolio can get covered technically by the CGFMU scheme.

Baskar Babu: In a simple term, if you cover INR100 crores portfolio, given an extreme event if the GLP were to be around 20%, maximum reimbursement that can come in at 15% of the portfolio on INR1,000 crores portfolio, it can be INR15 crores -- INR150 crores. And it is at a portfolio level on a base year to base year, year-to-year basis. So this around is to put it at 72% of the NPA portfolio and reimbursed by the scheme at the extent.

Prabal: And the expense you mentioned is 2.1%. So for INR100 crores portfolio, you have to provide an expense of INR2 crores to be able to insure this amount?

Baskar Babu: Over the period of the loan. Over a period of two years.

Kanishka Chaudhary: We can take it a little more offline because we can kind of explain it in detail. It is based on the quarter of disbursement, what is the premium paid on the base we have. Next year, it is on the principal outstanding. And then you can cover the quite a bit, it's a little more intense scheme rather than a state covered scheme.

Prabal: Okay, sir. And my last question will be in our top 3 to top 4 states in the MFI segment, are you seeing some rise in leverage at the secure level for these three, four states where they are predominantly present?

Baskar Babu: Sasi, can you tell based on the data?

Sasidhar Vavilala: So we are seeing stress in a few states, especially in the northeast and east. Where we are present, we are seeing stress in Ahmednagar, few pockets. It's not state level, it's more at a district level and pockets level.

Prabal: And this is because of the rise in leverage? Or this is because of the overall distress that is remaining in the system?

Sasidhar Vavilala: Some markets are historically like this market is more migrant labor population. So such markets, we stay low. We don't scale up aggressively.

Baskar Babu: We aren't really overall seeing a trend of any heating up of a big leverage. So on a normal level, the data that we see, the build-up has been only been steady. And there are some states where we don't operate. So we can't really comment on them, but the growth has been pretty high.

Moderator: Thank you. The next question is from the line of Mayank Kumar from SBI Life. Please go ahead.

Mayank Kumar: So my first question is regarding unsecured business loan, which we have partnership with Lendingkart. So just wanted to understand like what is underwriting we do here, how we assess the income. What is the yield in this settlement?

Kanishka Chaudhary: No. So these customers are on-boarded by us. They are contractually our borrowers, and we underwrite them end-to-end. So Lendingkart is working more as a VC partner in terms of originating the possible transaction and handing it over to us. So to that extent, it's entirely underwritten by us and as per our credit grid.

Mayank Kumar: Okay. Yes. Because of the three to five slag, in some level of informal segment also comes in where income could be in cash level. Documentation may not be very high, so pay level income assessment is required. So we're trying to understand a fintech partner and then from centralized processing. So how does it work?

Baskar Babu: Currently, we are not doing any fintech partnership with Lendingkart. It's a physical file, which comes over. Adjustment is done. They do their grades in terms of passing through their curve. Final underwriting and approval has done buy us along with the bank statement. And the other things, which are available, for instance, the ticket size goes beyond a level. I believe they should have a GS registration and also verify whether they have filed the returns in time.

We are not a full visibility in terms of the amount paid for the GST, but they've been filing returns, bank statement, that's how we do it. Ticket sizes are usually much lesser than INR10 lakhs. There is a small piece of the portfolio which is about INR10 lakhs for which it will be far more intense in terms of underwriting.

We are in the process of tying up with two fintech, two of the entities for the fintech lending. And there the DLG as per the new guidelines will be 5%. And majority of that will be the scorecard and they'll be low on the small ticket transactions for INR5 lakhs, predominantly dependent on the track record of the customer as well as on the bank statement as we're relating it to the cutoff value.

Mayank Kumar: Okay, and second question is in margin. So, H1 we are at 9.7%, Q2 at 9.4% and guidance, earlier guidance was 10% net interest margin. So, do you want to revisit that guideline?

Kanishka Chaudhary: No. Given that our deposit rates have peaked like we said earlier in the call, on a full year basis, we are looking at a 9.5% to 10% margins, and that will be a range bound. So that's what we are targeting. Because what will essentially happen is, from now on, there will be a slight change in the mix as well, right, because we would want our VL book to grow up to INR2,500 crores. So that will ensure that we are able to stick to this guidance of 9.5% to 10%.

Moderator: Thank you. The next question is from the line of Saikiran Pulavarthi, an individual investor. Please go ahead.

Saikiran Pulavarthi: Just one quick question, sir, it's almost like four to five quarters since you had upgraded your tech systems. I just would like to understand from your perspective, what are the benefits. How do you see things panning out on a structural basis, on a cyclical basis, maybe both on the credit underwriting or maybe on the uplift rage and how do you underwrite the book? Thank you.

Baskar Babu: On the tech side, we move the financials, we have a much better hold in terms of what product -- cycle times have come up the gap very sharply. So probably we are able to now to roll out any tie-ups or products in one month to three months depending on the product tie-up. So that's a positive offer. In terms of analytics, it's a great platform, irrespective of whether we're using profile earlier in Finacle that continues to be robust. So what -- having control on the platform orders in the in-house will really help us in terms of what we see as data to rolling out as product becomes far more smoother time.

Moderator: Thank you. The next question is from the line of Anil Tulsiram from ContrarianValue Edge. Please go ahead.

Anil Tulsiram: My question is on liabilities. two, three questions on liabilities. First, do we have plans to increase the liability branches in the next one year? That is the one. Second is, if we have no plans, when do you think that the existing branches will be able to increase the liabilities to match our asset growth? And the third is on the last slide of your guidance, you gave the guidance of reaching CASA 22% for FY '24, that is in the next six months. Our CASA has been declining, I think, though a couple of percentages, but for the last two quarters, three quarters is declined. So what is that we are going to do differently that in the next six months so we will reach 22%?

Kanishka Chaudhary: Anil, I will have our retail banking, Himanshu, answer the question. So Himanshu, over to you.

Himanshu Mishra: Thank you, KC. Hi, Anil, so I'll take one-by-one. So one on the question of expansion, as Baskar and the CFO said already that our focus is very, very clearly to build a strong retail and gradual franchise by the a way of expansion or adding new branches and new geographies or adding the existing branches in existing geography. So that goes on.

And as already highlighted by KC, we are looking to add about 30, 35 fresh branch banking branches before the financial year end. And maybe converting a few existing asset center into the composite branches, along with also doing and looking at various use cases of the little intrinsic partnerships. So all these three put together, I'm sure we'll give us the desire results. That's one.

On the part of saying that, how are we going to look at the trade 1% of the CASA ratio? If you look at trend in the industry today because of the higher rate interest scenarios in the market today, if you look at across the industry. Across all the banks, there has been a little bit of deterioration of the CASA ratio. However, we are comparatively better off compared to other operations in the industry. And as you look at our book, it's primarily the retail book, 78% of our book is actually retail and 22% is only the big deposits.

So our focus on building a truly granular retail book remains by virtue of adding the relationship channel in the branch banking setup, and adding new product offerings. I hope that answers your question. Yes.

Anil Tulsiram: Yes. And last, you said given the guidance of CASA for 22%, can you elaborate on that?

Baskar Babu: See, Anil, what we did also was that there was a big focus in terms of looking at term deposits for building of the book. So hence, as a percentage, it has kind of come up though we touch touched INR10,000 crores. So the intent is to really take it from INR1,000 crores to close to around INR1,500 crores towards the end of this financial year in the next five months' time. So there is just that kind of the shift in focus and hence the term deposit growth may not be as high as it was on the base in the beginning of the financial year. So a combination of that INR1,500 crores on the 7000 crores of deposit, so we'll close it to 20%.

Kanishka Chaudhary: Also if you look at, Anil, incremental CASA growth for the year -- for the quarter is about overall basis, 20-odd percent. This mid-quarter 1 CASA book was about, INR820 crores, INR832 crores and right now in excess of INR1,000 crores. So slowly and suddenly, we are making progress, and I'm sure we'll be able to deliver what we promise.

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

Baskar Babu: Thank you very much for attending this session. I wish you all and your family a Happy Dhanteras and Diwali. Thank you very much for your support.

Moderator: Thank you. On behalf of Elara Securities Private Limited, that concludes the conference call. Thank you for joining us, and you may now disconnect your lines.