



Date: 2nd August, 2024

National Stock Exchange of India Limited,
Exchange Plaza, Plot No. C/1, G Block,
Bandra-Kurla Complex,
Bandra (East), Mumbai – 400051.
NSE Symbol: SBFC

BSE Limited,
Phiroze Jeejeebhoy Towers,
21st Floor, Dalal Street,
Mumbai – 400001.
BSE Equity Scrip Code: 543959

Sub: Transcript of Earnings Conference Call

Dear Sirs,

Pursuant to applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, please find attached the transcript of the earnings conference call which was held on 29th July, 2024.

The transcript of the earnings conference call shall be uploaded on the website of the Company at <https://www.sbfc.com/investors> under the section 'Disclosures under Regulation 46 of the LODR' in due course.

You are requested to take the above on record.

Thanking you,

Yours faithfully,
For **SBFC Finance Limited**
(Erstwhile SBFC Finance Private Limited)



Jay Mistry
Company Secretary & Chief Compliance Officer
ICSI membership no. ACS34264
Encl: as above

SBFC Finance Limited
(Erstwhile SBFC Finance Private Limited)

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“SBFC Finance Limited
Q1 FY25 Earnings Conference Call”

July 29, 2024



MANAGEMENT: **MR. ASEEM DHRU – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SBFC FINANCE LIMITED**
MR. MAHESH DAYANI – CHIEF BUSINESS OFFICER – SBFC FINANCE LIMITED
MR. NARAYAN BARASIA – CHIEF FINANCE OFFICER – SBFC FINANCE LIMITED
MR. PANKAJ PODDAR – CHIEF RISK OFFICER – SBFC FINANCE LIMITED
MR. SANKET AGRAWAL – CHIEF STRATEGY OFFICER AND INVESTOR RELATIONS – SBFC FINANCE LIMITED

MODERATOR: **MR. RENISH BHUVA – ICICI SECURITIES**



Moderator:

Ladies and gentlemen, good day and welcome to the SBFC Finance Limited Q1 FY25 Earnings Conference Call hosted by ICICI Securities. 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Renish Bhuva from ICICI Securities. Thank you and over to you, sir.

Renish Bhuva

Hi, thank you Neha. Good morning, everyone. Welcome to SBFC Finance Limited's Q1 FY25 Earnings Conference Call. I will now hand over the call to Sanket for the introduction and take this call forward. Over to you, Sanket.

Sanket Agrawal:

Thank you, Renish. Good morning, everyone. Thank you for joining the call early in the morning. I have with me the management of SBFC, Mr. Aseem Dhru, Mr. Mahesh Dayani, Mr. Narayan Barasia and Mr. Pankaj Poddar. We will start with opening remarks from Aseem, followed up with financial details from Narayan and then we'll open the floor for questioning. Over to you, Aseem.

Aseem Dhru:

Thank you, Sanket. Good morning, ladies and gentlemen and thank you for taking this time out on a wonderful monsoon morning. If there is one thing BFSI companies and their investors cannot complain of, is boredom. There is always something interesting happening around us all the time. And while some of us could be our doing, most of us isn't our doing to start with.

It's been an interesting quarter where we faced three headwinds, a long drawn electoral process that affects smaller towns more specifically. And also, those that need to deal with government machinery like us when we have to register mortgages. Climate change is real and summers are getting hotter and monsoons more volatile and temperamental. The exceptional heat wave created its own challenge. And thirdly, the regulatory recognition of disbursements at the RTGS stage was the biggest change we had to adapt to. And this resulted in a 5% AUM growth, which is at the lower end of our guided range. These factors are transient and it's back to business as usual. In a rising interest rate environment, our cost of funds has moved up by just one basis point Q-o-Q. We have seen opex to AUM come down by 21 basis points Q-o-Q.

NPAs move up 17 basis points quarter on quarter and credit costs go up by one basis points. Spreads and NIMS have held. This has resulted into a profit growth of 7.2% Q-o-Q. ROA has remained steady at 4.56%, while ROE has moved up by 40 basis points to 12.3%. Nothing has changed in the environment for us to revisit our guidance. We maintain our guidance of 5% to 7% Q-o-Q AUM growth and a credit cost in the 80 to 100 basis points corridor.

We will also continue to maintain PCR above 40%, which is double of our LGD. We do not accrue interest on NPAs. Once an account turns NPA, even as we provide higher for LGD, we believe it is more conservatively reflecting the reality. For us, it's a decadal journey and quarters are just milestones marking our progress. So, with your permission, I would like to get back to business at hand, over to you Narayan.

Narayan Barasia:

Thank you Aseem. A very good morning to you. In terms of business, our AUM grew by 35% on a YoY basis, 5% on a QoQ basis to INR7,167 crores. Out of which almost 99% of the AUM is secured either by property or by Gold. Our MSME AUM grew by 38% on a YoY basis, 4% on a Q-o-Q basis to now INR5,954 crores. We added three branches during this quarter. Our average ticket size of MSME loan remains at about INR9.2 lakhs. In terms of borrowing, our borrowing costs remain constant at 9.32% for the full year. We have received a rating upgrade from CARE in this quarter from A+ positive to AA- stable.

We have diversified further and have raised money by issuance of listed NCDs from mutual funds. We are further looking to diversify borrowing as we go along in future. In terms of asset quality, our GNPA has slightly increased to 2.6% as of June 24 with a PCR of 42.6%. Our credit cost is steady at 0.86% for the quarter. In terms of capital and return ratios, our yields on loans and spreads are stable at 17.58% and 8.26% respectively. Our opex for the quarter is 4.8% of AUM which is lower by 25 bps against Q4 of FY24.

Our return on average AUM for the quarter is stable at 4.6% while return on average tangible equity has increased to 12.3%. Our tangible net worth is INR2,604 crores as of 30th June 24 with capital adequacy ratio of 40.8% and debt equity of 1.42%. The PAT for the quarter is INR79 crores thereby reporting a growth of 7.2% sequentially against the AUM growth of 5%. With this, we open the floor for questions and answers.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Shubhranshu Mishra from Philip Capital. Please go ahead.

Shubhranshu Mishra:

Thanks for this opportunity. I just wanted to understand, one, what are the pitfalls in technology onboarding across various functions that we have done? Second is, what are the pitfalls in co-origination that we do?

Aseem Dhru:

Is your question, what are the pitfalls in technology and pitfalls in co-origination? Am I right?

Shubhranshu Mishra:

Correct.

Aseem Dhru:

See, what happens is that technology, as much as it enables, also creates its own risk in the process. And while as your dependence on technology goes up, any hitch in how the technology flows, I mean, we all saw what happened that one day Microsoft upgrade happened and the Cloudflare issue popped up. So, to that extent, all modern institutions are vulnerable to technology outages and more and more we invest, more and more is this risk.

However, what has happened over the years is that there is a fair amount of preparedness for both in terms of DPDP, data privacy and data protection. Because there is a risk of attacks coming onto a network. There is a risk of ransomware coming onto a network. There is a risk of data disappearance from your setup, etc. So, duplication of data, for example, even in a live server, every half an hour it goes and backs itself up to ensure that there is no loss of data. Or the loss of data is limited to that 15-30 minutes at best. So, it's easy for us to restore.

We have also invested in a DR/BCP, which is based in Hyderabad on a different tectonic plate to ensure that we have a fallback on that. So, while we recognize that this is a risk, we are doing

our best to ensure that this risk, even if it does materialize, is well managed. The risk of co-origination, I mean, there is no risk in co-origination. It is just that you will have to taper it to a level that you believe is sustainable and good for the organization.

Over-dependency on co-origination, over-dependency on anything is a problem. So, as a prudent lender, you need to diversify across every risk that you have. So, you cannot be dependent only on one setup. You cannot be dependent on too much of a high percentage that if for some reason the partner disengages or the law changes, the regulations keep evolving, so, if the regulation changes, it shouldn't be that you are exposed to that risk. So, we ensure that we only take on as much as what we can handle, in case events come up which question the continuity of what has been built.

Shubhranshu Mishra: Thank you. I'll come back.

Moderator: Thank you. The next question is from Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Sir, just 2-3 questions from my side. One on this ticket size. So, when we look at the disbursement ticket size, it is falling consistently from the last 3-4 quarters and now sitting at about 9.2 lakhs. So, what is happening there? I mean, essentially with inflation, this ideally should go up. I'm just wondering, are we changing customer segment or what is happening there?

Mahesh Dayani: So, Renish, hi. So, as we were mentioning on our calls and as you would see as our distribution keeps on getting deeper in every state, our incremental origination is going to be away from tier 2 towns and nearing more towards tier 3 towns where the ticket sizes are going to be obviously lower. So, on a marginal origination basis, the ticket sizes would come in.

What we've also maintained is that between 9-11 lakhs is what the ticket sizes are going to be. Last quarter we were closer to 9.6 and this quarter we are closer to 9.2. But by and large, we should be between 9-11 lakhs. It also gives us some benefit in terms of our yields and to maintain our spread as we move along on the lower ticket size because obviously the yields comparatively are a lot better.

So, if you really look at both the engines in terms of co-origination, where the ticket sizes are slightly larger, yields slightly on the lower side. But that's more than compensated with the lower ticket sizes but compensating for the high yields. So, on an overall profitable mix, you will see a very stable spread that comes through and yields are also pretty much at almost 17.6% on a Q-o-Q basis.

Renish Bhuva: So, sir, I mean, if we go by what you've just said that the ticket size will remain between 9-11 lakhs. We are already at 9.2. So, going ahead, do you feel this ticket size will remain where it is currently? Or it should further go down?

Mahesh Dayani: At this point, sure, there but largely within the set guided range. So, I don't think it's going to go down to 6.5 or 7.5. But yes, between 9-11 is something what we are comfortable. We don't tend to do technically anything below 5 lakhs or 5.5 lakhs. So, we are not really treading on that particular trajectory. So, you really won't see the ticket sizes falling from the cliff.

- Renish Bhuva:** Got it. And, sir, my second question is on this asset quality metric. So, when we look at 1+ DPD, which has been steadily increasing from 5.5% in June 23 to 6.4% in June 24. And simultaneously, when we look at the customer profile, that in terms of the CIBIL score, the share of more than 700 CIBIL score customers are actually going up. So, I'm just not able to connect the dots here. I mean, at one end, the share of quality customer is increasing. At the same time, on a YoY basis, 1+ DPD portfolio is increasing.
- Pankaj Poddar:** So, for Q1, we have seen a muted collection efficiencies and that has impacted the portfolio into 0+ and 90+ in that sense. We expect the same to stabilize in coming quarters. And this is not a sequential impact as per our assessment.
- Renish Bhuva:** No, but, sir, if we look at last 7-8 quarters, in fact 10 quarters, the 1 plus DPD as on June 24 is highest.
- Pankaj Poddar:** It has been stable with 5% around. So, if you look at last 3-4 quarters, it has seen volatility in that sense. Even if you take quarter 1 of last year, we have seen an increase from Q4 of previous year. So, Q1 has seen an increase. This quarter, we have seen a higher increase in collection efficiency impact in particular and we expect that to stabilize. And we don't expect that to impact our credit cost range, which we have guided. And we expect that to remain between 80-100 basis points.
- Renish Bhuva:** Okay. Got it, sir. Thank you and best of luck.
- Moderator:** Thank you. Ladies and gentlemen, you may press star and 1 to ask a question. The next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.
- Nischint Chawathe:** Thanks for taking my question. Just curious, you started off citing 3 reasons for some sort of weakness in disbursements this quarter. I want to sit in the lower end of your guidance. Just curious, how do we see the next 3 quarters? And more specifically, if you could spell out the contribution of the RTGS rule change, basically, the RTGS disbursements rule. And how much would that have contributed? And let's hypothetically say that if that were not the case this quarter, how much growth could have been?
- Mahesh Dayani:** So, Nischint, hi, good morning. So, as in the opening remark, Aseem rightly articulated, the key reasons. So, if I were to numerically translate that, it was roughly a month's disbursement that was impacted. If you were to look at our overall volumes and even probably take the lowest possible denominator for last year's numbers. So, we had close to around 2,000 to 2,500 odd customers. So, if you were to translate that particular number, we would have been closer to 7,800 odd customers for the quarter, which would have been technically higher than the previous quarter. Having said that, yes, the month of May was impacted. And partly also because of the circular and also because of operational limitations that we had during that particular electoral season.
- Having said that, the good news is that June was back to where the business was. So, whenever you do a process change and probably adjust to the new norm, there is going to be a one-month impact. But then it gets back to its role from the next quarter. So, which gives us the confidence of saying that it should be business as usual from the current quarter onwards and our guidance

with respect to our growth rates continue to remain the same. So, there has been no change as such. The only minor tweaks which I mentioned earlier could be on the ticket sizes moving, but that's also going to be largely in the same range.

Nischint Chawathe: But ticket sizes moving, does it sort of enrich the yield mix?

Mahesh Dayani: That is so. If you probably look at our yields and spreads, given the current season that you would probably observe in, our spreads have held on, our yields also have held on, despite our co-origination percentage being 22% on a higher base. So, if we've managed to maintain the yields at roughly at 17.6% and our spreads at 8.25% or whereabouts, which goes on to say that it's been largely more than compensated with the better yields on the lower ticket size.

Nischint Chawathe: And this is a trend which we probably think should continue, right?

Mahesh Dayani: Yes. So, as our distribution tends to go deeper, we will get enriched in terms of the yields or at least hold on to the yields despite continuing with the current percentages on co-origination.

Nischint Chawathe: Sure. And just one technical question, this interest on co-origination, co-originated loans this quarter would have been how much? I think last quarter was around INR6.6 crores.

Narayan Barasia: So, interest on co-origination remained as where it is in the last quarter. Our share in that structure goes up based on the portfolio we originate. So, as the volume increases there, our share just keeps on going up. But it just remains where it was in the last quarter.

Nischint Chawathe: Sure, that number just helps us to sort of model spreads better and I think that's where I was asking this question. Anyway, thank you very much and all the best. Thank you.

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

Lakshminarayanan: Thank you so much. A couple of questions. First is that there has been a push from RBI as well as other eminent people in the government, saying that we need to bring down the rate that is being charged to the end customer. So, how does that affect a company like us? I mean, how do we demonstrate that we are charging a reasonable rate to our end customers? That is the first question I have.

The second question is that, given there will be changes in the way in which debt schemes or a lot of taxation things have got changed. How does that change your treasury operations in a short term or a long-term perspective?

Aseem Dhru: So, see, the regulator basically is trying to strike a fine balance between what is fair interest rate and what is a usurious interest rate. Now, it is anybody's guess in terms of exactly where this line is drawn. But as long as what is charged is not unreasonable, they have been largely leaving interest rates to the lenders to decide. Now, the point that they were making, that was mentioned by the governor as well several times in his speech, that it was specifically aimed at microfinance and the yields therein. So, what we believe is that our yields are there and that is something we have to continuously be sensitive about, that we don't end up crossing the line.

Somewhere it is between striking the right yield for the business that we strike for, in terms of the ROA, as well as balancing that from the customer's viewpoint, it doesn't become unfavourable or too burdensome. So, at the moment, we believe that we are holding that balance. But you are right, that is something that we have to be mindful of.

On your second question on treasury operations, again, we are doing our best to diversify our exposures away from any dependence on one class of lender. So, if you see two years back, 77% of our funding used to come from banks. That number has moved to 54% last year. And the number may move to under 40% this year. So, we are diversifying away from banks. Within banks, we are diversifying between foreign banks, PSU banks, private sector banks, etc. to ensure that even within banks, we are well diversified and we don't have dependency on a large lender. After our upgrade to AA- ratings, we have opened up the NCD platform where we have borrowed from almost all the large mutual funds that you can mention. And we will now be borrowing from DIIs shortly to diversify our lending more. And explore ECBs, etc. as well down the road.

In terms of, yes, the flow into debt schemes anyway wasn't material. So, that anyway hasn't been material even before the budget. Post that, the flow may get muted a little more. However, we are a small company, we are not seeking those large levels of finance. And whatever we are seeking, that seems to be reasonably easily available and there is appetite for our paper at the moment.

Lakshminarayanan: So in terms of your branch extensions, we have around 186 branches. What is the approximate number of branches we intend to open this year?

Mahesh Dayani: So, what we have been always guiding is that, in a year we would be opening close to around 20 odd branches, where about. And these would largely be in states where we are already present. So, we are not adding any new state, but the existing states where we have been reasonably covered, we will only go deeper in those particular markets.

Lakshminarayanan: And do you actually do branch-wide profitability? And if so, at what point in time a branch becomes profitable or it will at least break even?

Mahesh Dayani: Yes. So, what we do is that for the purpose for our investor deck, we call out the AUM at a branch with their agings. But internally, we do have profitability metrics driving it down to a branch level.

Lakshminarayanan: And typically, how long it takes for a branch to break even? Is it less than 18 months or more than 18 months?

Mahesh Dayani: So, we have got two products. We have got gold and the other which is backed by property. So, both have different metrics, but to probably answer your question in a different way. A gold branch at INR6.5 crores, INR7 crores gives us the required ROE and an ME location or an ME branch at an AUM of close to around INR33-34 crores gives us the required ROE. The break-even period could be anything between 12-18 months, depending upon the location and the branch metrics that we operate in.

Lakshminarayanan: And in terms of your book, typically at what point in time you actually find that the book can actually potentially get into a stress? Is it that at the end of 12 months, in general, what is the pattern? When does a typical loan, if you just take the entire cohort, you start getting bounces?

Pankaj Poddar: So, this is a mortgage loan. So, typically, we see the vintage curve kicking in at a 36-month kind of time frame. So, that is the majority that we look at, and based on that, we have built 80-100 basis point credit costs in the month.

Lakshminarayanan: And one last question, what kind of hike you have actually affected for your employees? And what has been the attrition at the mid and the junior level staff for us for the last year?

Sanket Agrawal: On the blended basis, you would have 8%-10% of increment at a company level. We have most of our staff that are incentive based because of being frontline employees. Those get a combination of increment and incentives. The other staff would get increments that would be in the range of 10%-20%, but the blended at a company level comes to around 8%-9% of increment.

Lakshminarayanan: My question is related to employee attrition at the lower-level management, mid-level management or the senior level management? I assume senior level management is negligible. I just want to look at what is the mid management, essentially branch heads and so on and then the lower management, lower grade staff. What has been the attrition?

Sanket Agrawal: Internally, we grade the employees in three bands. So band 1 is obviously AVP and above where you would have negligible attrition. The managerial level, which is the band 2, would be roughly around 20% attrition and the front line would be at a higher attrition rate. For our permanent employees, we roughly see right now at 40%-45% of attrition rate in the front line. We continue to do training, we continue to try and make efforts towards reducing this number. This has been high from last three years, both in industry and for us. We endeavour to reduce it further. It was upwards of 50% as of last year. This year, it has stabilized slightly, but we intend to bring this lower going forward.

Lakshminarayanan: Got it. Thank you so much.

Moderator: The next question is from the line of Himanshu Taluja from Aditya Birla Mutual Fund. Please go ahead.

Himanshu Taluja: Sure. Thanks a lot for the opportunity. Just a couple of questions. I actually initially missed your comment, so probably I may be repeating. Sir, when we see the collection efficiency dip in the quarter and some bit of surge in the 1+ and the GNPA ratio trend, is there anything to read or is it just a first quarter phenomena which has happened and probably things will revert to normalization in the second quarter? So what is your thoughts around this?

And the second part of the question, is there any signs of deterioration in the ticket size which you are operating from an industry practice in the secured MSME? And is there a need to tighten the risk model or the credit underwriting model further on this now, given some signs of normalization is also happening from an asset quality? And if you tighten anything, is there a

risk to growth? Probably what you are guiding of 6%-8% Q-o-Q growth, probably that is a trend which you wanted to see over the next couple of years. Is there any change to that?

Aseem Dhru:

So I think you missed the opening comments. We are not changing our guidance. There is nothing that has happened in the environment that leads us to believe that that is not deliverable anymore. So we are sticking to what we had said. So if you had heard my previous calls last year as well, we had mentioned three things. I think Nishchint you may remember this was an answer to your question earlier, that the Goldilocks scenario of banking is going to be questioned this year and the regulator also wants a slowdown of growth. And what the regulator wants, happens. There is going to be an increase in credit costs across the industry. And there is going to be a compression of NIMs across the industry. And I expected it to be a little later, but in the first quarter itself, if you read the results of all lenders, you can see a combination of all three emerging. So that is point number one.

Point number two is that if you see CIBIL data, it tells you that the deterioration of prime and super prime has been very sharp. So you can see that there have been more downgrades in the people rated prime and super prime. In fact, the good thing for us is that there has been more upgrades in the quality of lenders that we lend to, quality of buyers, borrowers we lend to. But the prime and super prime is coming down, which basically means that there is over leverage that is happening of those customers. Too many people are chasing the 750 plus CIBIL customers. And that is what is creating a challenge. So one, the environment is raising questions. Two, one sparrow does not make a summer.

So, at the moment, we are not taking a conclusion that there is a huge challenge ahead. One, first quarter, there is a little bit of softening across everything. There is a normal softening that happens in the first quarter.

Generally, people work up to March and then there is a little bit of relaxation that creeps in, in the industry and I've seen it over the years. So, the second is that there have been specific reasons in this quarter whereby it has not been a normal quarter, both in terms of disbursements as well as in terms of delinquency. So we expect that from this quarter, we should be back to business as usual. We'll have to watch it for a couple of quarters before we see a trend emerging. At this moment, it looks pretty in control. And in a long journey, you will have some amount of bumps here and there along the road. But there is nothing that is happening that is causing us any big concern.

And ticket sizes, we don't seek a ticket size. We are in the business of seeing what is coming through our door and what is acceptable as a credit risk. So they will bounce around a little up and down the alley. And it is a fine balance that we also have to seek, that there is a particular ROA that also we need to drive because we are in an environment where after IL&FS, it has been a permanent change in the environment where all NBFC's leverage has fallen off a cliff.

So which means that unless an NBFCs is able to sustain and deliver a high ROA, it will struggle to deliver the ROEs. We are in the business of delivering the ROEs. So for us, it's a fine balance that we have to seek the right yield by the right risk and manage that risk through cycles. So that is what we are aiming to do.

Himanshu Taluja: Sir, just last two questions. If your credit cost guidance of 1% which you wanted to hold for a long period of time, is that still on hold? And the second is, according to your model, basically, when do you expect to reach around a 14%-15% closer ROE and the levers to attain the same?

Mahesh Dayani: So what we've earlier also guided is that in the last quarter of next financial year is what we had guided for achieving a 15% ROE. A couple of metrics that is going to come through. So if you probably look at our ROE tree, since we've invested in our entire distribution, which means people and branches, a lot of those costs were loaded up front.

And then as you start building the momentum, the distribution tends to sweat. So if you look at probably our cost structure, that's slightly elevated, but that's by design. And as we move along, you will see a lot of that cost beginning to sweat and that's what's beginning to come down.

So what we've guided is that on a yearly basis, you will see a cost or a ROA coming off by almost 50 basis points. I think since most of our book is largely variable, except for gold, we are confident of holding the spreads and that's what we've demonstrated over the quarter that our spreads have held on. And our fee income remains robust. So clearly moving forward, given the current run rate at what we're operating and the profitability metrics that we've been maintaining, we're pretty hopeful that we will hit our 15% ROE by the last quarter of next financial year.

Himanshu Taluja: And the credit cost guidance of 100 bps still holds for the FY25 as well?

Mahesh Dayani: Yes.

Himanshu Taluja: Thanks a lot.

Moderator: Thank you. The next question is from Abhisar Jain from Monarch AIF. Please go ahead.

Abhisar Jain: Hi sir, thanks for the opportunity. I have a question on your more than 36-month branches. As we see in the PPT, the AUM for these branches has moved up year on year from INR39 crores to around INR50 crores. So I was just curious to know what would be the opex to AUM trending for these branches. I'm assuming obviously it should be much lower than the whole company level of 4.8% and how much leverage can play out as we build the AUM in these branches as well as build the number of these branches?

Mahesh Dayani: So in terms of number of branches, that's been mentioned in slide 12 of the PPT. But you're right, the opex in these branches obviously largely because of the size is significantly below 3%. We don't call out the exact number, but largely if we were to guide you on a percentage, it would be less than 3%.

As you can see that on a Y-o-Y basis that's growing roughly at 25%. The number of people in those branches, as we had maintained, that the staircase for these set of branches which are more than 3 years, so if you're into a new location, a new market, which starts with 4 or 5 people, which moves to 7 to 8, and then ultimately moving to 11 or 12. So this is based on the kind of origination, the color of origination, and as Pankaj mentioned that we'd like to see the maturity of the profile before we start investing in it. So once we have a good amount of comfort with these set of branches, that's where largely the investment starts to happen.

- Abhisar Jain:** Understood. And can you indicate that in some of the much more old and mature branches, what would be the AUM per branch like? Is it a significantly higher number than this average of 50 cr?
- Management:** Yes, so you would have some branches who would be upwards of INR65-70 odd crores. There would be some of the branches which would be at INR40-45 crores. But then it's a combination. A INR45 crores branch could be as profitable as a INR65-70 crores branch because the cost and the OpEx structure for both the branches may be really different. But as I mentioned earlier that as long as our branches beyond INR33 crores to INR34 crores on the ME side starts delivering, the required ROE tends to come through.
- Abhisar Jain:** Understood, sir. Okay, and the second question I had was on the HFC license that we were, I think, looking for and also other plans to make a meaningful entry in that segment. So, sir, can you update on the status and also your plans there for medium to long term?
- Aseem Dhru:** See, that is a little two bird in the bush. It is not in hand. We have applied for the license. We don't know what time it would take. As and when we hear from the regulators, we will then come to you with specific plans. At the moment, as things stand, it is just business as usual at SBFC.
- Abhisar Jain:** Okay, sir, understood. For the co-origination book, I'm seeing that the percentages have been building, I think, over time from mid-teens to now it's 21%. So, is there a level that you want to take this to at which you will be, comfortable? Or is it like the way it is building, it is more of an outcome rather than a target?
- Mahesh Dayani:** So, what we are comfortable with, and that's what, we've been guiding over the last four quarters, that co-origination is going to be between 15% to 20%, and we run the circular one and not circular two. It gives us the comfort of planning our origination, and it helps us in both in terms of origination and also to maintain the right profitability metrics. So, from a guidance perspective, we are happy to be around 20 odd percent, even at a slightly higher base.
- Abhisar Jain:** Understood, sir. And last question, on the gold loan book, it is around 16%. So, again, that percentage also you want to maintain or grow it slower or faster than MSME?
- Mahesh Dayani:** Yes. So, broadly, we were at 85:15, largely by the ticket sizes. So, if you really look at our gold loan business, that's got a bump up largely because of a good gold price. And so, there's been some momentum there. But from a long-term perspective, we would expect 85:15, but slightly it's going to tilt towards the ME, going slightly higher than the gold, largely on account of the ticket sizes. So, our ticket sizes are in the range of 9 to 11 lakhs on ME, and gold is close to around 1 lakh.
- Abhisar Jain:** Understood. Thank you so much, sir. Best wishes.
- Moderator:** Thank you. The next question is from the liner, Raajesh Bhojwani from RBB Ship Chartering Pvt. Ltd. Please go ahead.



- Raajesh Bhojwani:** Good morning. I want to understand the long-term plans of SBFC. And the second question is, any dividend policy?
- Aseem Dhru:** So, long-term plan is to continue growing 5% - 7% Q-o-Q. And, you know, the business of financing is the business of compounding, and nothing changes to the fundamental stuff. We don't want to do anything new or different. We'll continue doing the boring, hopefully over long periods of time. As long as, in an NBFC, as long as your growth is higher than your ROE, there is no question of paying dividends.
- You want to reinvest in that growth because you are maintaining your ROEs and growing, so, we would be needing capital. We are a capital-hungry business. So, generally, NBFCs at the early stage of their operations do not declare dividends until they get to a stage where the growth matures, ROEs stabilize, and your logic of giving dividends kicks in. At this stage, we prefer to reinvest our profits into our growth because that is also delaying the next capital raise in some sense, and thereby, pushing up our ability to move the leverage up.
- Raajesh Bhojwani:** Thank you.
- Moderator:** Thank you. The next follow-up question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.
- Nischint Chawathe:** Just two small data-keeping questions. How many of your customers have Udyam registrations? And what was the headline attrition rate that you mentioned in one of the questions?
- Pankaj Poddar:** So, Udyam registration would be upwards of 75% customer base from an origination standpoint.
- Sanket Agrawal:** And attrition is different at a different band. Band 1 was negligible. Band 2, closer to 20%, which is a managerial grade and the front-line permanent employees would be around 40%-45%.
- Nischint Chawathe:** So, you said band 2 is how much?
- Sanket Agrawal:** Band 2, roughly 20%.
- Nischint Chawathe:** Okay. And at the overall company level?
- Sanket Agrawal:** I'll have to get back, Nischint.
- Aseem Dhru:** Front-end is the majority. So, it will be around 40%, for sure.
- Nischint Chawathe:** Okay, got it. So, those were my questions. Thank you very much.
- Moderator:** Thank you. The next follow-up question is from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.
- Shubhranshu Mishra:** Hi, thanks for the opportunity for follow-up. Just wanted a bit of details on the gold loans. What kind of ticket sizes are we doing? The average ticket sizes. What's the behavioural tenor on the balance sheet? And what is the customer segment split between self-employed and salaried? Or maybe if you can give a split between salaried and micro-SMEs. Thanks.

- Mahesh Dayani:** So, the ticket sizes are slightly above a lakh. And largely because the ticket sizes are slightly larger than most of the traditional gold loan companies. Most of the customers actually fit into the self-employed bucket. Your third question related to the average tenor. The average tenor is between three to four months is what they hold up.
- Shubhranshu Mishra:** And any benefit of one of the players having a regulatory restriction and anything that has had a detrimental impact because of the disbursement regulation for anything more than 20,000?
- Mahesh Dayani:** So, in fact, it's worked the other way for us. Because there was these cash disbursements and restrictions on cash disbursement. If you probably see the gold disbursal numbers, not only for this quarter, but even for the previous quarter, they were slightly up. Some benefit, yes, it does come in, which is there. But I would say if you were to split our growth, the split in growth was also on account of the gold price momentum that we got and obviously, some part of it, almost a 50-50 split between the volume and the value.
- Shubhranshu Mishra:** Got it. Thank you.
- Aseem Dhru:** Cash is actually a headache for us. So I would wish the regulator makes it zero.
- Shubhranshu Mishra:** Sure. This was very helpful.
- Moderator:** Thank you. The next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.
- Lakshminarayanan:** Thank you. If I just look at your IT expenses, it has almost gone up 50% last year, FY24 over FY23. I just want to understand, do you expect the kind of momentum to continue? What is the budget for IT and where exactly is it being spent?
- Aseem Dhru:** So last year, we upgraded our new LOS, we upgraded a new LMS and we invested in data warehouse, as well as build a DR/BCP, etc. And we went for ISO certification and that had its own set of investments to do. So it was a year where we beefed up hardware, software, as well as security infrastructure. We also moved on the data protection side on Sentinel, which is what we use for data protection as well. So, we upgraded our infrastructure last year majorly. Now it is business as usual. So, there are no immediate further investments that we are looking at, material ones. Maintenance and health investments will continue. So we will be near about where we are now.
- Lakshminarayanan:** All right. There has been a fluctuation in gold prices due to the custom duty reduction. What does it entails to gold borrowers in general and particularly you? Did you adjust the LTV, or have you actually called for more capital?
- Mahesh Dayani:** So largely what tends to happen is we follow a daily MTM process. And clearly while at the time of origination, you are expected to maintain a 75% LTV all through. In case there is a variance in the value, we do call on to the customers to either put in extra gold and with some bit of time lag, then we put up the gold for auction.



So clearly from a gold price perspective, we are not really in a business of looking at the gold price and then speculating how this is going to unfold or probably project that it is going to give us a higher margin of safety. We work on a real-time basis, on a daily basis. If there is any fluctuation on it, we would go ahead and take the right appropriate steps to maintain our margins.

If you look at our overall delinquency numbers and 90+ in particular, we have a very strict norm of ensuring that those auctions get conducted the moment the MTM breaches happen. And that now is consistently being followed on a Q-o-Q basis.

Aseem Dhru: Also, we knew that gold prices were a little overheated, so we were pricing it lower to start with. We were not giving market rates in the lead-up to the budget. To that extent, our customers are also are in better shape, thanks to that.

Lakshminarayanan: Got it. That was very helpful. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take this as the last question. I would now like to hand the conference over to the management for closing comments.

Sanket Agrawal: Thank you for joining the call. We will continue to engage Q-o-Q. Thank you.

Moderator: Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.