Date: 31st October, 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 Sir/Madam,

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 28th October, 2024.

The transcript of the earnings conference call is also being uploaded on the website of the Company at https://www.sbfc.com/investors under the section 'Investor Presentation – Call Transcripts'.

You are requested to take the above on record.

Thanking you,

Yours faithfully,
For **SBFC Finance Limited**

NAMRATA SAJNANI
Digitally signed by NAMRATA SAJNANI
Date: 2024.10.31 14:42:05 +05'30'

SBFC Finance Limited MUMBAI

Namrata Sajnani
Company Secretary & Chief Compliance Officer

Encl: as above

"SBFC Finance Limited Q2 FY25 Earnings Conference Call"

October 28, 2024

MANAGEMENT:	**MR. ASEEM DHRU** – MD & CEO **MR. MAHESH DAYANI** – CHIEF BUSINESS OFFICER **MR. NARAYAN BARASIA** – CHIEF FINANCIAL OFFICER **MR. PANKAJ PODDAR** – CHIEF RISK OFFICER **MR. SANKET AGRAWAL** – CHIEF STRATEGY OFFICER
MODERATOR:	**MR. RENISH BHUVA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to SBFC Finance Limited Q2 FY25 Earnings Conference Call hosted by ICICI Securities 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 "*," then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Renish Bhuva: Thank you, neha. Good morning, everyone. I will now hand over the call to Sanket for "Management Briefing." Over to you, Sanket.

Sanket Agrawal: Thank you, Renish. Good morning everyone, and welcome to the Q2 FY25 Conference Call of SBFC Finance. Thank you for joining early in the morning.

Along with me I have the management of SBFC, Mr. Aseem Dhru - MD and CEO; Mr. Mahesh Dayani – CBO; Mr. Narayan Barasia - CFO and Mr. Pankaj Poddar – CRO.

We will start with the Opening Remarks from Aseem followed up financial detailing from Narayan and then we will open the floor for questions.

Over to you Aseem.

Aseem Dhru: Good morning everyone, and never a dull moment in Financial Services, is there?

So, there are times when the ball nicely comes on to the bat, the pitch is flat, the bounce is even. Those points in time, the scoreboard keeps kicking along. Then there are pitches that test the batter's mettle. If you go back to our con-calls in April and July, you'll remember that I had mentioned that the industry will have three challenges:

1. Slowing growth.
2. Compressed margins due to the rising cost of funds.
3. Rising credit cost.

If you see the results that have come out so far from cement to FMCG, paints to retail. Consumption growth is slowing, and this is an outcome of three things:

1. A "K" shaped post-pandemic recovery.
2. Inflation taking a bite into consumer wallets.
3. EMI's of loans biting even deeper into that wallet.

It is the proverbial tide going out showing us who was swimming with what trunks on.

We just declared our 2nd Quarter FY25 Results. Growth has been slightly above our guided range of 5% to 7%. Reduction of costs have been above the guided range of 50 basis points for the full year and credit costs have been at the upper end of our guided range of 80 to 100 basis points. In these times of rising cost of funds, we have managed to increase our spreads by 14 basis points. Even as leverage increased, we have preserved our ROA at 4.56% while increasing our ROE by 37 basis points. We've added six branches during the quarter.

In a Finance business, we aren't paid to manage growth, anyone can do that. We are paid to manage the risks that come visiting in cycles. At this moment, there are 4 clear and present risk that the industry is battling with:

1. Credit cycle is at our door and managing this is going to be our challenge.
2. We have tightened our credit underwriting since February and finding lendable customers has become that much more of a challenge.
3. Our base case is that we aren't likely to see a rate cut anytime soon, and even if that does happen, as long as banks scramble for deposits, MCLR leakages will keep pushing up our cost of funds.
4. The regulator has a zero tolerance policy, and as a regulated entity we have to tighten our belts and clean up any process weaknesses we have to behave in line with the letter and spirit of the regulation.

While we recognize these challenges, I also think, like what happens in the stock market, we often move from irrational exuberance to overblown fears. At SBFC, no matter what is the weather outside, we are always cautiously optimistic. In good times, we told you the same thing we are telling you now. We will endeavor to grow at 5% to 7% quarter-on-quarter. As economies of scale built, our cost to income ratio will keep dropping by 50 basis points annually and credit costs will largely remain contained in the 80 to 100 basis point range, although there could be a quarter where it may brush above it marginally.

We finance small businesses in small towns and have to balance their interest with ours. Ask any batter which innings he remembers, and chances are it will be the one he played against all odds. As a banker, I'm excited that this pitch is going to test us, but then that is the point of the whole thing, isn't it? A good surfer doesn't fight the waves, he rides them and that's what is our ask.

With this, I turn it over to Narayan for taking us through the numbers.

Narayan Barasia: Thank you Aseem. Very good morning to you. I will take you through the Financials of the Quarter Ended September 2024.

Our AUM as of September '24 is Rs. 7,715 crore with a reported growth of 33% on a YoY basis and 8% on a QoQ basis. 99% of our book is secured by properties and gold.

We added 6 branches during the quarter with total branch count now at 192 as of September 2024. Our borrowing cost has reduced marginally to 9.32% for Q2 FY 24-25, which is similar to Q2 FY 23-24, in spite of rising MCLR by Banks.

The yields and spreads continue to remain stable at 17.69% and 8.37% respectively for the quarter.

Our OPEX continued to reduce and is at 4.6% for the quarter due to improved operating leverage, while we continue to increase our investments in branch network. Our return on average AUM for the quarter is 4.56% and return on average equity further improves to 12.67%.

In terms of Asset Quality – our GNPA has inched up slightly by 9 basis points in Q2 for FY 24-25 to 2.69%.

Our 1+ DPD, however, for secured MSME declined marginally during this quarter by 4 basis points to 6.33%. Our credit cost is slightly above 1% to 1.03% for the quarter. We maintain a very healthy PCR of 40.17% as of September 2024.

Our capital adequacy ratio is 38.6%. Our tangible net worth is Rs. 2707 crore as of September '24. We reported a profit after tax of Rs. 84 crores for the quarter, thereby reporting a growth of 60% on a YoY basis and 7% on a QoQ basis.

With this, we open the floor for question and answer.

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 Phillip Capital. Please go ahead.

Shubhranshu Mishra: Two questions. The first one is any signs of stress that we are seeing in unsecured business loans, especially in the ticket size of maybe 5 to 15 lakhs, and if so then from what kind of industries? The second is, are we seeing customers coming and pledging their gold to fulfill their due for unsecured loans, they may have outstanding somewhere else? Thanks.

Aseem Dhru: Thanks, this is not applicable to us. We don't do unsecured lending.

Shubhranshu Mishra: Right, the second one.

Aseem Dhru: Your second question is that do people pledge gold to pay an unsecured loan, but since we don't do that it doesn't happen. But it could happen that people have pledged gold to pay EMI somewhere else. That could happen, that we would not be able to exactly know.

Moderator: Thank you. The next question is from the line of Anaga Rana from E91 partners. Please go ahead.

Anaga Rana: I just wanted to understand the bounce rate for this quarter and just how have we seen that move over the last two to three quarters maybe?

Pankaj Poddar: So, in our segment actually we track 0+, 90+ and collection efficiency data and the data of the same has been provided. This segment according to us that is the key for us to track and we are watchful of the same in the current environment.

Anaga Rana: But would you be able to maybe give some color on what the bounce rate has been like?

Aseem Dhru: What has happened in this environment is that the bounce rate isn't going up. The bounce rate has been pretty steady all through. In fact, in some cases there is marginal decline. So, the challenge isn't the bounce rates going up, but the challenge has been once the customer, slips to bring the customer back has become that much extra difficult. The way we look at it is that the environment has become tighter and now in the current market environment usually what happens is that when unsecured lenders tighten the belts, the secured lenders do face some impact which naturally comes thereafter. So, what we are likely to see and what we'll have to watch for is that the bounce rate may not change, but the difficulty to bring the customer back once slip, once he goes to 60 DPD then he keeps being stable, but we find it difficult to bring him back to normalcy which was a little easier earlier. So, that curve got inclined a little but nothing really material is changing. See these are the cycles of the economy that that they keep playing. It's a slightly more inclined curve right now, but nothing really material or dramatic and which is why we are not changing our credit cost guidance for the year. We are not seeing anything that is really concerning us to that level. But yes, we are watchful, the environment is elevated risk and therefore we would be watchful.

Moderator: Thank you. The next question is from the line of Nishchint Chawathe from Kotak Institutional Equities. Please go ahead.

Nishchint Chawathe: I think the first one, just data keeping one is if you could share the interest on co-originated loans, we've been giving in the call for last two quarters.

Narayan Barasia: So, we don't give out individual interest rate. So, our strategy has been to maintain the co-origination book at 20% of our total book and we have been doing co-origination with CLM-1 which is very rare in the in the market. People have generally tended to use CLM-2 which is assignment post-disbursement. We have used CLM-1, which we believe is a far superior product in terms of delivery and execution.

Nishchint Chawathe: No, just the interest income broken up into it because it just helps us to kind of calculate things a little more accurately, which is what we've done in the last quarter.

Sanket Agrawal: So, that's roughly 40-45 bps as we discussed in the March con-call. So, the yield of 17.7 would have 45 basis point of co-origination fee income that goes at the top line.

Nishchint Chawathe: The other thing is that I believe we are not changing the credit cost guidance for the year, but going forward on the growth rate, I know you have been delivering better than what you have guided, but do you see the overall growth momentum changing or, I know you have already tightened the screen, but beyond that do you see the growth momentum really changing for the year?

Mahesh Dayani: So, overall, if you look at our overall guidance, what we've been giving is close to around 5% to 7% and for a moment, even if you were to look at the lower end, which is close to between 5% to 6%. And if we continue with the current momentum and it doesn't drop, we will be in the guided range at least through this particular financial year. So, what we've been talking about despite probably tightening and the current disbursal momentum which is there, you would see us delivering on the same growth pattern that we've been guiding for.

Nishchint Chawathe: And you also mentioned about your cost of funding going up, which is fair, but incrementally are we able to really pass it on to customers because I think in the 1st Phase of the rate hike you are able to maintain your spreads very well. Do you see that incrementally while the cost is going up, it's a challenge to pass it on.

Mahesh Dayani: So Nishchint what typically happens is that we have a category of customers which range anything between 5 lakhs to 30-odd lakhs, and towards the higher end of the ticket sizes and for the higher end is 15 lakhs and above, we tend to co-originate those loans, which effectively means that only 20% of those loans are with us and 80% is with the co-originating partner. And then you have enough flexibility to move in the way that you would want your yields to move. So, if you look at even our current quarter you would see co-origination as a percentage is at 17%-odd and the balance is on the SBFC book so you would see a positive impact there. So, it's just the way that we are now managing our spreads, are managing our yields and as we've been maintaining that and largely the book is on a variable rate so our ability to pass on is extremely high on the book.

Narayan Barasia: So, Nishchint one clarification our cost of borrowing has been very steady. If you look at the cost of borrowing of Q2 last year and Q2 this year it is absolutely flat so it has been at the same level.

Nishchint Chawathe: But I believe that as banks are raising their benchmarks for their MCLRs, it is bound to increase

Aseem Dhru: SBI has raised, for example, in the last four months their MCLR 3 times, but even during that quarter where all banks raised their MCLR, our spreads have gone up by 17 basis points, so that sort of answers the question that even when we have not technically done a rate increase, we have been able to maximize yields. Is that a challenge going forward, yes. And again, going back to the three challenges that I have outlaid several times over the last one year that maintaining margins is going to be a key challenge and as bank's NIMs come under pressure, NBFC NIMs will also come under pressure. Our ability to manage is what will get tested.

Nishchint Chawathe: No, the point is that if banks NIMs come under pressure and they pass on rate hikes to NBFCs or their MSME borrowers then to that extent you can also pass it on to your borrowers, right?

Aseem Dhru: That is of course an option available, we have a variable portfolio. But we also have to be cognizant of the fact that we deal with customers who are vulnerable to EMI increases. So, we don't want to do it as much as possible. We will do it if we have to. But as much as possible, we would rather find innovative ways to reduce our cost of fund. So, we have diversified our holding away from banks, we have been continuously dropping our percentage borrowing from banks and we have gone to the NCD market which is giving us a better yield. We are now going to raise it from multilateral financial institutions shortly. So, we have to find ways to battle it. But yes, the pressure on the cost of funds will come. Two ways to do it – one is to just take it and pass it on, but that's lazy banking. I would rather that we work harder to reduce or keep our cost of funds flat even in an inclining environment. But if we cannot keep it flat then we have no choice but to pass it on.

Nishchint Chawathe: Got it. And just one last thing is the regulator has been talking about end use monitoring on especially asset classes like LAP. Are you able to do that or are there any changes being made to be able to do that.

Aseem Dhru: So, yes, this is a requirement that we have to be in compliance with. We have devised ways in which we will be achieving the same. So, again as I said in my call earlier that regulatory asks have gone up and we have to be in compliance with both the letter and spirit. We have devised the plan to actually fall in line and ensure that we have end-use monitoring, though for an NBFC it is a lot more challenging because we don't have view on the customers' bank transactions unlike a bank. But we'll have to be in compliance, and we have devised a method by which we will fall in line with what is asked. It is not going to be easy.

Nishchint Chawathe: Any other points made by the regulator, not necessarily for you, but for the industry which probably we need to be work on?

Aseem Dhru: No. So, see the ask is very clear. One is that the "Customer Fair Practice Code" is prime on the agenda that all lenders will have to ensure that whatever practices you are following from lending to interest rate to collection, etc., have to be fair and the disclosure to the customer has to be transparent. And there can be no hidden charges inside whatever you are charging. So, one is "Customer Fair Practice Code.", in that a lot of things that changed of last in terms of at what point of time your interest gets booked, etc., that you only book interest once you have given the money out to the customer and not when you sanction the loan. So, one is "Customer Fair Practice Code." The second is the governance and compliance is within the organization and ensuring that your liquidity management is correct, high quality cash requirement is appropriate, ensuring that you are following all the processes that have been laid out for lenders to follow. And third is how you are managing your risk, because the regulator has also been guiding that growth has to be in line with all the risk governance and operating practices at the NBFC or the bank, and we have to ensure that our risk management frameworks are in line with the growth that we are seeking, and that we are not growing at the cost of everything else. So, ultimately, what they are driving is prudent practices, and we have to be compliant of what is the ask.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Aionios Alpha Investment Advisors. Please go ahead.

Pranav Gupta: Just a couple of questions. Firstly you mentioned that while bounce rates are not going up, but once a customer slips, it's becoming more and more difficult to cure the customer even though the customer remains stable in the bucket that they are present in. Just wanted to get a qualitative sense on that statement. What I am trying to understand is, is it because of the inflation that has been eating up into the customer surplus or is it very anecdotal in terms of specific business impacts that they might face? What is the trend that we are seeing in these buckets and why are these customers not able to pull back? That's the first question.

Aseem Dhru: It's not that there is a whole hoard of customers that have fallen in, it is just that the regular customers who used to bounce and pay, their the ability to collect has declined to some extent, only within that cohort of customers. And when two EMIs pile up, it becomes a little difficult for the customer to pay 2 EMIs because, of course, see, the post-pandemic inflation has been quite substantial, and the incomes haven't really kept pace. So, it's very logical, and we are not dealing with the top-end of customers in the space, we are dealing with customers who are managing to keep their ends meet. So, there is a demand on their incomes, more than what their incomes are in line.

Also, see, small businesses have their own challenges. As India gets more organized, some of the small businesses find the competitive intensity quite a lot. And today, if you see corporate results, they show pain of growth. Now, obviously, that same growth is also affecting the small businesses. It's just that they don't come in newspapers, and there is no data readily available as to what impact they have.

So, nothing really dramatic. It is just that a slight slowdown in their income or a slight increase in their cost, they find it a little difficult to service, but these come back. These are cycles. They will be brought back. It will take some time, but they will all be brought back.

Pranav Gupta: I appreciate that. Just a follow-up on that. Like you mentioned, I think like most lenders have mentioned in the past couple of quarters that obviously inflation has creeped up and incomes haven't kept pace. Is it then logical to assume that our rejection rates have been going up steadily over the last couple of years given that more and more customers would probably breach the FOIR requirements that we would have?

Aseem Dhru: So, I think you missed the opening comments that I made. I covered all of this in the opening comments.

Pranav Gupta: I am sorry about that.

Aseem Dhru: Yes, it's been covered that, yes, the rejection rate has gone up.

Pranav Gupta: Will you be able to quantify that, say, maybe now versus two years ago, if that's possible?

Pankaj Poddar: Yes, around 5% to 7%.

Pranav Gupta: So, just one last question. You know, you mentioned again in the opening remarks that as the AUM scales up logically you will see operating efficiencies kick in, and we will see the cost to average assets come off. Do you have any number in mind where you believe that this can settle in the long term, say, 3, 4, 5 years down the line? You mentioned 50 basis points is what we can see in terms of benefit every year. Where do we settle eventually given that our business model is going to remain a high touch, feet on street different business models? So, where do we see this settling in the longer term?

Aseem Dhru: In the long run, everybody is dead. Nobody can play the full 18-hole golf course at the same time. You play it a hole at a time. At this moment, we are confident that we can keep reducing this cost by 50 basis points. Somewhere around when we get to an AUM of about 3.5% is where, till then scale efficiency will kick in, after that we will have to get operating efficiencies to come in. So, scale will give us that advantage to get to those numbers. At the moment, we are operating at a 40% cost-to-income ratio. We would like to see it get to the 30s. After that, we would like to see it get to the 20s. But that plan we don't have right now. But that's our job. We will work towards making that happen.

Moderator: Thank you. The next question is from the line of Divyansh Gupta from Latent Advisors. Please go ahead.

Divyansh Gupta: Couple of data point questions. So, what would be our write-off during this quarter? And if you can split it between, let's say, gold and MSME?

Pankaj Poddar: So, we have not done any write-off in this quarter.

Divyansh Gupta: And the Stage-3 AUM, if you can break it between MSME and gold?

Sanket Agrawal: We don't call out the number between the products. We holistically disclose it. If you look at the holistic numbers, the Stage-3 has gone up from 2.6% to 2.69%. That's the marginal increase that has happened. We don't disclose the separate numbers for the products.

Divyansh Gupta: One clarification question on the collection efficiency that we mentioned. So, we mentioned this is the standard secured MSME collection efficiency. So, is it fair to assume it is the DPD 0 at the start of the month and that is the collection efficiency that we are reporting?

Pankaj Poddar: So, this is non-NPA, non-NPA collection efficiency, standard efficiency.

Divyansh Gupta: And what would be our overall collection efficiency?

Pankaj Poddar: So, that is largely stable and range bound. So, we are not seeing any further deterioration there.

Sanket Agrawal: See, we don't look at the collection efficiencies of NPA assets. There you actually go and look at the absolute recoveries. The collection efficiency is more on the denominator effect of 0 bucket, and then obviously 1 and 2 from 0 to 89 is what we look at. And there it's been stable around 97% to 98% across quarters. NPAs we generally look at the absolute recoveries that we do and the gross flows against that, that has happened.

Divyansh Gupta: And just one last question. So, if I look at our borrowings to our AUM ratio, right, so that has largely remained similar in the range of 65, and actually it has been coming down, so 65%, 66%, 67%, 65.7%. Given that we are underleveraged, my assumption or expectation would have been that all of the growth in AUM should have been funded through debt and therefore this number should have been going up. But the number is actually flattish or going down. So, are we seeing any challenges in raising liability?

Narayan Barasia: No, so liabilities are more than plenty. I don't think there is any challenge of liabilities in the market. Also, if you see, while the MCLRs are going up and the cost of borrowing in the markets are going up, but we have been able to maintain our cost of borrowing. So, that also in a way says that since we have enough liquidity, our ability to negotiate and bargain a good price is there. So, I think there is no problem from a liquidity point of view.

For your other question as to in terms of leverage, you are absolutely right. As we go along, the entire growth is going to be funded through debt till the time we achieve a respectable leverage. The reason you are seeing sometimes in a quarter-to-quarter basis is there is a profit which also kicks in, which adds to the net worth of the company. And that's the reason the leverage sometimes may look optically similar. But all the growth is getting funded through debt.

Aseem Dhru: We are sitting on a lot more cash than we need to, just to ensure that we have a good night's sleep. So, we are sitting on excess liquidity. So, that also is a factor.

Divyansh Gupta: And just one last question. Given that RBI has declined our housing loan application or HFC application, so is there a next step that we are thinking of doing secured housing in the NBFC or anything else?

Aseem Dhru: No. At the moment, no such plans. If we had got the housing finance license, we would have, within this, there are several disadvantages. So, competing with the housing finance companies would be tough without having access to NHB finance, without having access to SARFAESI, without having access to the risk weights that they have. So, there is a regulatory arbitrage that is there and we had sought the license.

However, the regulator has taken a view that they do not want to approve any regulated entity under a regulated entity. So, that's the principal call they have taken. So, it's not nothing to do with SBFC, it is the policy level decision that has been taken. And to that extent, that's a business that at the moment we won't be addressing.

Moderator: Thank you. The next question is from the line of Sonal Minhas from Prescient Cap Investment Advisors. Please go ahead.

Sonal Minhas: Sir, I am new to this call basically. So, there will be some questions which I want to just understand the nuts and bolts of the business. I wanted to understand like what percentage of your portfolio or in absolute terms you would have written off in the last three years. And if you could add that to your disclosure going further, or you do, I will be happy to understand that.

Sanket Agrawal: See, in secured assets, overall in the last three years, we have just written off around 10, 12 crores. So, it's immaterial to that extent. In unsecured portfolio, we would have done some write-offs, but that's a rundown portfolio, now only 55 crores is left. So, from an overall perspective, there has been hardly any write-offs, and we will do the disclosures as required going forward.

Sonal Minhas: Also wanted to understand the average tenure of your MSME loan would be what? Because on your website, it says 15 years, but roughly, what is the weighted average at the portfolio level if we are talking about as we see it right now?

Sanket Agrawal: See, at the portfolio level it is 10.2 years contractually the average tenure and the behavioral tenure should be around 6 years.

Sonal Minhas: And sir, from a maturity profile of the asset quality, the peak NPAs or the peak behavior in terms of bad asset quality starts hitting the numbers after 2-3 years. Is that a fair assumption?

Pankaj Poddar: So, yes, for a mortgage business, typically the maturity happens between 24 to 36 months.

Sonal Minhas: So, if I were to understand, let's say, the NPA profile of your business, if hypothetically, let's say, the NPAs right now are 2.7%, basically if I do a T-3 years kind of book, which is maybe half of your book or even lower, that would be a good way to understand what if Rs. 100 you have lent out back then, then maybe 2.7x into 2 or thereafter basically would be your GNPA from that maturity profile. So, I am just trying to understand after 2-3 years, your peak NPAs of a portfolio would be 5%-5.5% or thereabouts?

Pankaj Poddar: So, see, there are a lot of moving parts and since we are talking in terms of portfolio level, our model basically we have baked in that from a model standpoint, we have seen, let's say, NPA at any given point in time is what we are baking in sub 3% and the credit cost should be in the range which we have guided. So, that comes from the model and then based on the maturity of books and the growth and other things, there are different moving parts which then drive the numbers from a portfolio standpoint.

Sonal Minhas: No, I understand that, sir, but that's why I was trying to understand from a maturity profile. Let's say, when you said 24 to 36 months, what is the NPA basically number which the portfolio hits at when the portfolio is maturing? Because the current numbers as we see right now would have a very high denominator.

Pankaj Poddar: No, so to your point, post COVID, in fact, the majority has already hit in. So, what you are seeing right now is the portfolio which already has baked in more than 24 months of books which have already kicked in post-COVID growth. So, largely, if you look at some of the maturity aspects are already baked in, in the portfolio, which you are seeing since last quarter. So, that's the reason one of the factors which you are seeing across portfolio is the maturity curve hitting in the portfolios from a growth standpoint.

Aseem Dhru: Logically, if you technically stop this disbursing, roughly it would be double of what you are right now that would be a lifetime kind of a number.

Sonal Minhas: Yes, not picking the number, but just want to understand that and that is why I was coming to that. This is helpful. The second question also is just to understand that if you have let's say 100 clients, how many of them would you have given more than one loans?

Pankaj Poddar: So, we see we look at portfolio in a manner that 85% of the customers typically, we would say have not taken any commercial loans or mortgage loans in our business and in our customer segment because they would not have more than a single property and all. Only 15% to 20% typically you would have mortgage or some decent commercial loans outside of us.

Aseem Dhru: One of the challenges of our segment is that we don't cross-sell to these customers because when you cross-sell, you actually give more loans out and that's not something that is recommended for our segment. So, generally we don't do more than one loan and even while taking the customer in, if he already has loans taken from others the income simply won't qualify for a loan from us. This is what we are watchful off, which is why our portfolio is on civil watch if any customer tries to take a loan after we have given a loan. So, that's something that we proactively watch for and try and act before it hits.

Sonal Minhas: And just on a strategic perspective. There are some other MSME listed, small scale banks and other companies as well, MSME has come out of a period of stagnation where the asset quality was not something which encouraged bankers to actually lend aggressively or grow aggressively and I think the situation has improved over the last 8-9 months. Since this is my first call with you, I just wanted to understand that between growth and asset quality, as you said going forward you will be more cautious, if there is a position where you see the quality of customers or the asset quality in the market basically deteriorating, would you be okay to just basically on an outside case, I won't grow the business for one year and this is what is my business call. Just trying to understand the way you think, the way you behave as a team to know you more.

Aseem Dhru: We have covered this earlier that since February, we have tightened our credit standards, which has basically has led to a 5% to 7% reduction in approval rates. So, you don't really take a call based on what you see, you take calls of tightening credit norms and improving the gates of entry. So, the exam to get in becomes tougher as the market environment becomes tougher, so in fact if the environment becomes tougher, that is why you end up writing good credit in bad times and bad ones in good times. So, sometimes it is good that the environment allows you to be a little more watchful because growth hides a lot of mistakes. So, even as an organization where you often are in the thick of things, it's very easy to lose sight of what you are doing. So, it's good that in between some hiccups come which help us ensure that we tighten any processes that we have left loose.

Sonal Minhas: Sir, your origination, and collection team is the same, just trying to understand that from an operations perspective.

Pankaj Poddar: So, we have a separate dedicated collection team.

Sonal Minhas: So, separate origination and then collection team basically?

Aseem Dhru: Yes, origination, credit collections, audit, fraud control, these are all separate teams.

Sonal Minhas: And does it help to have some overlap between origination and the collection because you are industry veteran just trying to understand this from your perspective, how you do see this?

Aseem Dhru: People have taken different routes. We all come from the stable of banks and in banks, traditionally we have believed that this risk should be kept separate. Because intermingling of risks leads to behavioral problems inadvertently. So, I mean, of course it pushes up your cost and when you keep your team separate. So, cost-wise, keeping teams separate is inefficient, but we believe in the longer run, it is better risk management, that's a point of view. I mean, somebody could argue it differently as well. I don't know. I mean, it's to whatever whoever thinks is right, they can follow that path. We have chosen the path of separating all risks.

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

Lakshminarayanan: I think at start of the call you made an interesting statement saying that you are afraid for risk management and less of growth. Very apt and nice to hear that. A few questions. First is that you talked about you not giving loans to people who already have loans, but we also hear that once people take loans from you, they may end up taking more loans subsequently. Do you have a mechanism that actually raises some flags at your end? If so, how have you changed it? Do you see this? Because this is what we hear, that there is excess loan being taken subsequently after a loan is given. I just want to understand what your tracking mechanism there?

Mahesh Dayani: Most of our customers, almost 85% of our customers are actually borrowing against the property for the first time, although they may have small loans, but the serious loan is something that they do with us for the first time. What also tends to happen is once we onboard the customer, there is a watch on the customer that if he goes and does some additional borrowing, an alert comes to us. So, we look at what is the intensity of the borrowing, the small and marginal borrowing or a wheel borrowing or something more than what he is borrowing. We try to go ahead and address it. If we can't address it, then we find ways to move out, considering that the leverage is beyond our thresholds that we set out.

Lakshminarayanan: Is this thing, incidents increasing in the last couple of months?

Mahesh Dayani: Yes, so if you look at the opening remark that Aseem mentioned, that one of the key reasons for the rejections to inch up has largely also been on account of the leverage moving up. So, we see that trend emerging. And if you would have looked at the Bureau Scores or the Bureau Table which was published in March or in April, it also recommended the same that a lot of these CIBIL scores were deteriorating on account of higher loans and leverage.

Lakshminarayanan: Second question is that one of the USPs of some of the NBFCs, especially in your segment, is the faster turnaround rate. That's in 24 hours or within 36 hours or 48 hours, you need to give a yes or no. Now, has that cycle time increased now? How is it? Are you still keeping those patch the same?

Mahesh Dayani: In fact, I will be very worried if someone wants me to say a yes or no in 24 hours. So, by default, probably my answer is going to be no. So, we really don't want to lend up in a hurry and then take a long time collecting it. So, in secured, there are multiple things that go in before we decision it. While a financial decision is relatively easy provided he has all the documents together, but that seldom happens for an average 10 lakh customer. The second part that the time taking part is the property details, which is respect to legal or title. So, thereabout, we would take close to around 10 working days to 12 working days to finally decision and hand out the money to the customer. So, unlike unsecured, secured does go through a bit of detailing before we hand out the money to the customer.

Lakshminarayanan: And finally, on the fee income, does it include insurance related premium as well as processing and foreclosures? What are the things that it includes?

Mahesh Dayani: We don't have insurance. What we include in our fee component is the asset processing fee that we charge from the customers and some component of other things.

Lakshminarayanan: Okay, but I was told that in several cases, NBFCs do insist on buying insurance, just to ensure that there is a safety net, if something happens to the borrower. Do you also insist on insurance and if so, do you actually have a premium commission that is coming to you?

Mahesh Dayani: That's independent to the customer's choice, although we would prefer that the customers actually take insurance and it's obviously beneficial for them. But it's completely dependent upon the customer. So, if there are customers who already have health insurance or a life cover, that's good enough for us, then obviously we really don't insist on anyone undertaking that. But really to push it through, the answer would be no. So, it's an independent call that the customers would have to take.

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

Nidhesh Jain: The first question is on employee attrition. I think employee attrition has been pretty high at 50% for us and I think that is an industry phenomenon also. But do you see that this could be a hindrance to the scalability of our business model? And what are the steps we are taking to reduce employee attrition?

Aseem Dhru: When you have a direct sales model, this unfortunately is a bugbear that you have to bear. Does it hurt? Yes, it hurts. What can we do about it? A lot, and a lot of measures are underway. Hopefully, we will see the results. And ultimately, it's about hiring and engaging people better. But it's hard work. You are going door to door to really seek business. And at the front end, when this is a little far for the course to some extent. But is there a scope of improvement? Yes. Are we working towards making this happen? Yes, we will have to wait for a couple of quarters to see how successful we are. But yes, it's a combination of what is the reality of our business. If you are doing it through DSAs, your employee attrition goes down because then the attrition goes on to the DSAs books but if you are doing direct origination, then to some extent, this is a cross we have to bear. But yes, we are seeing how we can improve that.

Nidhesh Jain: Secondly, on the BT out rate, how are the trends there and what is the BT out rate for the staff?

Sanket Agrawal: Overall, the rundown is around 14%. 6% of this would be the EMI rundown and 6%-8% would be the BT out rate.

Nidhesh Jain: On an annualized basis?

Sanket Agrawal: On an annualized basis, yes.

Nidhesh Jain: And the third, what is the share of gold loans in our overall AUM?

Sanket Agrawal: It should be 16%. So, 84% is MSME and 16% is gold loan.

Nidhesh Jain: And the last question is on any other products that you plan to add over next, let's say, 3 to 5 years. Any other lending products that you plan to add over the next 3 to 5 years?

Aseem Dhru: Yes, at the moment, we'll stay focused with the two products that we are doing. We still have a lot of room of improvement of doing these two well. Once we get these two on the right track, where we want to see that, then ultimately the ambition is to reach out to the customer segment that we have chosen and offer more products to the customer. But until we have a right to win in a customer segment, we don't wish to enter. So, we will take it slowly. At this stage, we'll stay focused on the two products that we are doing.

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

Chinmay: So, a couple of questions from my side. Firstly, on the collateral, so could you give some color on, just trying to understand some specifics here. So, what kind of land ownership records do you look at? How much do you go back into the history of the ownership and in terms of valuation, do you look at the government rate in the area or what is your valuation process? Just trying to understand the nuts and bolts of underwriting in that aspect.

Pankaj Poddar: Yes, so we get into the explanation it can take a whole day because the collateral subject if you look at in our country, it is very vast and while things are changing, but this right now is state level subject. So, what we have done as a process is we have state level policy processes which we have devised in detail. Largely we look at 13-year chain documents as a process and it is standard industry practice. And we have our empanel lawyers at state and location level who help us in ensuring that our collateral processes and the documentations are checked as part of the underwriting process. In terms of valuation, we have approved guidelines under which we operate. That in fact takes into account one regulatory and guideline rates and also the operating rates which are prevalent in each micro market for which we have expertise, specialized vendors, and partners whom we have empaneled. And based on the processes and guidelines, they provide us the valuation which also then later on is reviewed and verified at our underwriting level by credit managers. We also visit collateral as part of the process. So, we have detailed collateral assessment process, which also takes into account other factors in terms of verification, verifying other details as a process for us to onboard. And that's the reason Mahesh was saying that it takes time for us to ensure that the collateral process is intact before we go ahead and take a transaction.

Chinmay: And do you also require additional guarantors?

Pankaj Poddar: So, what we do as a process, we take at least one family member as co-applicant. And largely, if you look at it one of the female members in the family also comes in the loan structure. And 100% of the transaction, we will have one additional co-applicant as a process. All the property owners, we do take as part of loan structure.

Chinmay: And secondly on the post disbursal mechanisms, I know you said that this is typically the first property-backed loan a typical customers of yours would be taking. To understand on the process side do you do regular bureau scrubs or is there a mechanism in place to check for over-leveraging?

Pankaj Poddar: Yes, so we do regular bureau scrub. And since we are in retail business once you do scrub, based on our analysis, we find that we classify customers into various types of future risk and based on that we drive our cross-sell and collection strategies. Because we are in retail mortgage, you practically cannot recall your loans, but future actions in terms of upsell, cross-sell and collection is what we drive through that.

Chinmay: And thirdly on the employee profile, could you give me some sense around, and where this question is coming from, I think in some of the unsecured businesses that we look at, one of the key challenges is the subjectivity in assessment of the employee income, which is the customer income, which is a big source of trouble, which only comes into light when all the over-leveraging has happened and when it's too late. Just trying to understand when you look at the customers that you lend to, what degree of subjectivity is involved in their income assessment? If you could give some sense around, what's the typical turnover of a customer? What percentage of your customers file ITR or have GST certificates? Just trying to understand your conservativeness in that aspect?

Mahesh Dayani: So, you are asking me to give out a Coke formula literally, but I will probably try and address it. So, one of the key things what we do is that there is no subjectivity of the credit officers on the ground to assess, because then you will obviously not have a homogeneous form of underwriting. So, that's something that we avoid. We'd like to see something what is cited in terms of the income coming through. And currently in the form of UPI, I guess you can cite every little transaction that the entrepreneur is making. So, from subjectivity, there is very little room for subjectivity. What we see, what we cite, is what we assess and based on that, the loan amount, the EMI, and serviceability of the customer is established and delivered. So, we have certain norms which are laid out depending upon the customer's profile, the size of the business based on which financial eligibility is arrived. Just to also calm your nerves with respect to the collaterals and the kind of collaterals that we take which I think was a part of your earlier question - all our associate partners, which are largely the legal and the valuation is the same set of vendors that ICICI uses who is our co-originating partner and obviously once they pass all the collaterals and it passes their master. So, just to give you a sense of comfort that the collaterals that pass through are something which is also acceptable at bank level and bank standards and which are among the top four banks in the country.

Chinmay: And my last question is on the co-origination piece. So, could you give some sense around does the asset quality differ on your co-origination book versus the book which is sourced in house? And in extension to that, your co-origination partners, just trying to understand what is their incentive to partner with you? I mean, is it primarily driven by business growth or is it driven by they are looking for their exposure to priority sector lending? Just trying to understand what's the basis for this partnership.

Mahesh Dayani: Yes, so I think post-COVID there has been a structural shift. If you would have noticed that a lot of NBFCs have found their moat in lending to small businesses which are away from the main metros. They seem to have done a better job there. And from the other side, you have moved towards prime customers and that's what they do a brilliant job there. And both institutions co-exist and there might be a little bit of overlap here or there, but largely post-COVID you have a very formal structure of play for both kinds of institutions, whether it's the banking or the NBFCs. Now where do they complement each other? Obviously from a liquidity perspective, and someone was speaking about the borrowing question, almost 20% of our AUM is in the form of co-origination. So, it gives us a fresh lead of liquidity for NBFC, and especially extremely helpful in times where rates are inching up. And in time, the banks depend on these sectors. Also it helps them distribute the spread. So, it's a win-win for both, for both NBFCs and for banks and that's the reason you see a lot of emphasis on the co-origination that's coming. The only difference is that we are a part of co-origination 1 which effectively means that the disbursals happened on a live basis where 20% is retained by us and 80% is disbursed by the co-originating partner at the point of sale.

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

Sanket Agrawal: Thank you so much for joining the call. Thank you so much for all the questions. If there is anything left, you can reach out to us separately. Happy festive season. Thank you so much.

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.