SG Finserve Limited

October 23, 2024

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

Scrip Code: 539199

Sub: Transcript of the Conference Call held on October 17, 2024.

Dear Sir/ Madam,

With reference to our letter dated 14th October 2024 intimating you about the conference call with Analysts and Investors held on October 17, 2024, please find attached the transcript of the aforesaid conference call.

This above information is available on the website of the Company. We request you to kindly take the above information on your record.

Thanking you.

For SG Finserve Limited
(Formerly known as Moongipa Securities Limited)

RITU NAGPAL Digitally signed by RITU NAGPAL Date: 2024.10.23 13:15:58 +05'30'

Ritu Nagpal
Compliance Officer
M. No. A38318

"SG Finserve Limited

Q2- H1FY '25 Earnings Conference Call"

October 17, 2024

MANAGEMENT: MR. SORABH DHAWAN – CHIEF EXECUTIVE OFFICER – SG FINSERVE LIMITED
MR. SAHIL SIKKA – CHIEF OPERATING OFFICER AND CHIEF FINANCIAL OFFICER – SG FINSERVE LIMITED
MR. ANUBHAV GUPTA – GROUP CHIEF STRATEGY OFFICER
MR. ABHISHEK MAHAJAN – CHIEF RISK OFFICER – SG FINSERVE LIMITED
MR. ANKUSH AGGARWAL – CHIEF INFORMATION SECURITY OFFICER AND CHIEF EXPERIENCE OFFICER – SG FINSERVE LIMITED
MR. VIVEKANAND TIWARI – CHIEF COMPLIANCE OFFICER – SG FINSERVE LIMITED
MS. RENU RAI – CHIEF PEOPLE OFFICER, HEADING HR AND ADMIN DEPARTMENT – SG FINSERVE LIMITED
MS. RITU NAGPAL – COMPANY SECRETARY AND COMPLIANCE OFFICER – SG FINSERVE LIMITED

MODERATOR: MR. RAGHAV KHEMANI – MOTILAL OSWAL

Moderator: Ladies and gentlemen, good day and welcome to SG Finserve Limited Ltd. Q2-H1FY25 Earnings Conference Call hosted by Motilal Oswal. As a reminder, all participant lines should 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 this conference is being recorded.

I now hand the conference over to Mr. Raghav Khemani from Motilal Oswal. Thank you and over to you, Mr. Khemani.

Raghav Khemani: Thank you. Good morning, everyone. Thank you so much for joining in to discuss the earnings, I'm pleased to welcome the senior management team represented by Mr. Sorabh Dhawan, Chief Executive Officer, Mr. Sahil Sikka, Chief Operating Officer and Chief Financial Officer, Mr. Anubhav Gupta, Group Chief Strategy Officer. We will have the opening remarks from the management followed by Q&A.

Now I hand over the call to Mr. Anubhav Gupta, Group Chief Strategy Officer, to take the proceedings forward. Thank you and over to you, sir.

Anubhav Gupta: Thanks, Raghav. Good morning, everyone, and thanks to everyone for joining on this Q2 FY '25 Earnings Call for SG Finserve. This is the first ever Investor Call which we are hosting for SG Finserve and I would like to thank Motilal Oswal to host us for this.

As this is our first call, I would also like to introduce the key team from SG Finserve as we start the call. So, I'd like to introduce Sorabh Dhawan, who is the CEO of SG Finserve. He has 18 years of corporate lending experience and he has worked with renowned banking firms like Kotak and Aditya Birla Finance.

Sahil Sikka, who is the Chief Operating Officer and the CFO, he also has more than one and a half decade experience and has worked with renowned firms like Kotak, Aditya Birla and HDFC Bank. Abhishek Mahajan, the Chief Risk Officer, having worked with IDBI, ICICI and Kotak Bank. Ankush Aggarwal, who is the CISO and Chief Experience Officer, heading Automation and Technology.

Vivekanand Tiwari, who is the Chief Compliance Officer. Renu Rai, who is the Chief People Officer, heading HR and Admin Department and Ritu Nagpal, who is the Company Secretary and the Compliance Officer.

As we start the call, I would like to highlight why our Group, APL Apollo, got into this business around two years back and what we have done in the last two years and what is the vision on the table for the next two and a half, three years. So, as you all know, the APL Apollo Group has a massive experience in the manufacturing sector. We run two manufacturing companies, Apollo Tubes in the steel pipe business and Apollo Pipes in the PVC pipe business.

We deal with a large number of distributors who are our direct channel partners. In Apollo Tubes, we have around 800 direct selling partners and in Apollo Pipes, we have more than 600 direct selling partners. So, we thought that having worked with these partners, we identified a massive gap in the industry, which is the lack of working capital for these SME traders, which restrict these SME traders from growing their business rapidly or at the same pace of the brand or anchor with whom they are associated with.

So, we thought of starting SG Finserve as a one-stop supply chain funding company and in October 2022, we raised INR 720 crores as a pure equity, wherein the promoters infused 50% of this and the rest 50% came from the external investors. This was pure equity, which we raised without any instrument and then we started the lending business. So, the initial target was to address the Group channel partners associated with Apollo Tubes and Apollo Pipes and we were of the clear view that once we introduce this product in the market, we will be able to attract other large or equal size of other anchors and other brands, other corporates.

I'm glad to share that today apart from Apollo Group set of distributors, we are working with renowned groups like JSW, Vedanta, Tata Group, Oppo Mobile, Nivea Cream, Kajaria, Havel, etc. And we were fairly confident that this business model should work because as everyone understands that there are big set of banks which are addressing this market, but there is a big gap what we see and this got, I mean, we became more confident during the COVID 2021 financial year. I'll tell you how.

During COVID, APL Apollo moved to 200% cash and carry business, right? We stopped giving or offering credit to our distributors from April of 2020. And against that, we increased the cash discount from 1% to 2% for our distributors. So that was like an incentive for them to move to cash and carry.

In Apollo Tubes, our distributor normally turns his capital seven to eight times in a year. So, if he gets 2% cash discount, he will be able to earn at least 15% to 16% extra by the end of the year. And for him, the borrowing cost could be 9%, 10%, 11%, 12%. So still, he would end up making 3%, 4% extra profit, right? If he moves to 100% cash and carry as per APL Apollo policy.

So, most of our distributors switched to this model. And as we all know that Apollo's debtors, they reduced from 25, 30 days to 5, 6 days. And it was going pretty smooth. But what happened during those initial one, one and a half years was that some of our distributors were leaving this 2% cash discount. So that came like a surprise to us because how can anyone leave 15%, 16% discount, right, in 12 months? So that means he was not able to raise money from banks or NBFCs, so-called fintechs, even at 12%, 13%.

So that's where we saw a big gap in the industry. And these were the distributors whom we have been dealing for the last 20, 30 years. We have not seen even $1 of default from them. But banks were not ready to fund them, right? So that's where our belief became stronger that there is a big gap in the industry. And we should address this.

So that's how the idea of Finserve came into picture. And we capitalized the company with INR720 crores of equity with AA rating, which the credit rating agencies gave to us. And in October 2022, we started disbursing the loans.

To our own surprise, from October 2022 to like April 2024, our loan book expanded to almost INR2,000 crores. And we almost disbursed INR30,000 crores of gross loans during this year with average repayment cycle of 25, 30 days. And all other large anchors, large groups, large corporates, large brands, they kind of welcomed our solution. And that's how we grew our loan book.

So the focus is that we should be able to grow this loan book to around INR6,000 crores by FY'27 with targeted ROA of 4% plus and ROE of 18% to 20% with NIMs of around 6% to 6.5%. And here the universe is, number one, the group's own channel partners, right, which could be doing 25%, 30% of the business. Then other large opportunity what we see is the retailers who are associated with our distributors.

So our distributors do business of around INR50,000, INR60,000 crores in a year. And one month credit cycle with their retailers is around INR5,000, INR6,000 crores. So our distributors have given INR5,000, INR6,000 crores of loans to their retailers, right, in the Tier 2 value chain. And this also we can address because these retailers are associated with our distributors for a decade now selling steel pipes or PVC pipes. And we will switch from distributors to their retailers where the interest rates will also be higher.

Right now, we are at around 12.5% to 13% on an average. But once we move in the Tier 2 chain, the interest rates will also become higher. Plus, we will, as the team is working day and night to get large anchors enrolled on our book, for example, Vedanta, Tata, JSW, Jindal Group, all such large groups have also given their appreciable approval wherein we can do business with their distributors and vendors.

So all-in-all, we are pretty bullish on this business as a group. That's why we also infused another INR450 crores last month in form of warrants. So as the company grows its loan book, the money will come in form of capital and will infuse further growth. So the current net worth of the company is INR856 crores, out of which INR716 crores was the capital infused initially. And with INR450 crores coming in over the next 18 months with the net worth increasing on the back of accumulated profits, we see around INR1,500 crores of net worth by FY'27.

And doing 2.5x leverage on this net worth, we should be able to increase our loan book to INR6,000 crores by March '27. And we are confident that we will be able to achieve our desired ROE of 4% plus, ROE of 18% to 20% with NIMs of around 6% to 6.5%. And out of the INR6,000 crores, the group exposure will not be more than 35%, 40%. The rest 60% will be outside group, the other large or equal size of anchors and conglomerates. So that's it for me.

And now I would like to invite Sorabh to give details about the business model. Over to you, Sorabh.

Sorabh Dhawan: Thank you, Anubhav. Good morning, everyone. And thanks for joining today's investor call. It is an extreme pleasure to address you today as the company grows from strength to strength. As rightly mentioned by Anubhav, APL has given us the runway to set the way forward. With the new anchors joining our hands, we look forward for a bright future.

At the outset, I would like to start with what do we do? Our financing solutions are crafted to benefit both large corporates and the MSMEs. For the MSMEs, we all are aware that it is a struggle to access formal credit. Only 10% of them have access to formal credit. So we help them get financing. B, for the large corporates, we help them to make the balance sheets more leaner by reducing their debtors.

How do we operate? We identify the large corporate, get into a discussion with them, sign up an MOU, which carries all the broad terms and conditions. Once the terms and conditions are carried, we get qualified leads of the dealers through them. The dealers are approached, they are onboarded. The terms are fixed with the large corporates. It is all technology-based solutions that we provide.We will get into the SAP of the large corporates and all the invoices will flow from the SAP of the anchor to us. And we will be sending direct financing to the large corporate only. We do not send out any funds to the dealer. So this helps us to control the end use of funds, which is key aspect.

If I highlight what is our niche in the banking landscape, what is our right to win here? The large banks who work in the space of 9% to 11%, and their risk appetites are a little lower. They are looking for lower risk profiles. Large NBFCs, namely Aditya Birla, Hero FinCorp, Tata Capital, which operate in the supply chain financing, or Cholamandalam, they have interest rates in the range of 11% to 13%. But in terms of technology, in terms of appetite, it is still limited.

New-age NBFCs and FinTechs operate 13% and upwards. For us, it makes thespace very clear that we operate between 11% to 13% of ROIs when it comes to distributors and dealers. So we have found our niche space in the entire supply chain financing field.

Very importantly, we have the right team in place. All the departments are created, which is always key for a long-term outlook of any company. So our existing employee strength is about 61 individuals spread across 14 states. So we have coverage in all major states of the country.

The key focus remains on technology. So we have already implemented a fully integrated loan origination system and loan management system that significantly enhances our operational efficiency. The systems are connected to income tax portal and the GST portal, allowing us to obtain crucial information to support our credit decision-making process.

Additionally, our LOS and LMS is now integrated with banks like HDFC, Axis, Yes Bank, ensuring real-time updates on collections and automated payments. Further, we are developing certain proprietary softwares in-house, which include scoring and rating model, which helps us to upgrade the credit assessment on new customers.

This model provides us insights into financial health of prospective borrowers and is customized based on the specific requirements of each anchor. So it is anchor-specific rating that is done. Then we have AI-based monitoring tool, which is linked with the GST portal.It is under development wherein we will be monitoring the operational nuances of the borrowers on day-in, day-out basis.

Number three, we plan to launch our 24*7 banking from the next calendar year onwards. That means we will be operating 24*7 and even at 2 a.m. in the night if the invoice is created in the large corporate's factory, we will be sending them money by 2.30 a.m. We want to be one of the first NBFCs to have 24*7 banking.

These technological advancements position us to operate efficiently while delivering enhanced services to our customers, reinforcing our commitment to innovation and excellence in supply chain financing, which has been the key focus of our company.

I would request Sahil to take us through the detailed insights on our target performance for future fees. Sahil, over to you.

1. **Sahil Sikka:** Thank you, Sorabh, for the insightful overview of the company and its vision for a promising future. Good morning and a warm welcome to everyone to discuss the future prospects for SG Finserve Limited. We closed our H1 FY25 financial year at INR822 crores. Currently, our loan book stands at INR1,100 crores. We expect to close the financial year with a loan book of INR2,500 crores and achievement of the same will be strategized through. Addition of new anchors i.e. the large corporates with whom we formalize the MOUs and penetration of existing anchors. We have already established partnerships with marquee large corporates including Tata Group, ArcelorMittal, Vedanta, Ashok Leyland, JSW, MG Motors, APL Apollo, Adani and OPPO etc.

So, we are majorly covering all the important sectors that are there in the market. These are all market leaders in their respective fields. We have strategically chosen to focus on fast-moving items from well-known brands and large corporates to support our growth for next three years. In this segment, systems are more formalized ensuring greater capital security for us.

Secondly, Some of the large names have been added in last six months. Thus, new business from these new anchors recently added by us like Adani, Ashok Leyland, ArcelorMittal and MG Motors etc.

And lastly, growth is also envisaged from the existing borrowers being a working capital nature of product. So, growth is envisaged from existing borrowers as well.

Additionally, we have also strengthened our Boards. Our current Board constitutes of three Directors Mr. Kamath, ex-ED of Canara Bank, Mr. Dukhabandhu Rath ex-CGM, SBI and Mrs. Asha Agarwal, ex-Principal Chief Commissioner, Income Tax. In our last Board meeting, we have appointed two new Senior Directors to further strengthen our Board. Mr. Jaganmohan Rao, ex-Principal CGM of RBI with 33 years experience having worked with RBI, ex-Director of Poonawalla FinCorp and currently Director with Sammaan Capital, India Bulls Company. Mr. Shekhar Mosur, ex-Chief Risk Officer of Aditya Birla Finance and currently Director with Standard Chartered Capital Limited. The strengthening of our board will ensure that regular guidance in maintaining highest quality of compliances and lay a robust path for future growth of the organization.

Now, when all the cogs in the wheel are aligned for us, what is the way ahead? We target to achieve a loan book of INR2,500 crores in FY25, INR4,000 crores in the year after and 6,000 crores in FY27 with a target ROA and ROE of around 4% and 18% respectively and NIM of around 6%.

With the expected ramp up of our loan book in Q3 and Q4 of current financial year, we are expecting a much higher run rate for the way forward. Now, I would like to open the floor for any questions you may have and we would be happy to address the same. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. Anyone wishes to ask a question?

Anubhav Gupta: Operator, Anubhav here. Just two additional points I'd like to highlight before we open the floor. One is that since it's a third business in our group after Apollo Tubes and Apollo Pipes, we started this business as a listed company because from day one, we wanted to maintain highest governance standards.

This company, when we started, it had a great set of investors who had funded this venture initially along with the promoter family and it had its own independent Board, independent management, separate office. And Apollo Pipes, none of the group companies have given any corporate guarantee or anything to start this business. And secondly, for the distributors, SG Finserve is like a fifth option.

Right now, the distributors would be doing business with either nationalised banks, private banks, or they would be doing business with the NBFCs. Then there are fintechs who are also in the market. So SG Finserve offers a unique solution in terms of convenience, in terms of the interest rates, in terms of the technology which we are providing.

So for our group distributors, SG Finserve is just like a lender. And it's on their discretion to decide whether they want to do business with SG Finserve based on interest rates, based on the convenience, based on the technology platform which SG Finserve offers. So, it's a fair play in the lending business for our distributors.

Now, Mr. Moderator, let's open Q&A. Thanks.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes on the line of Souresh Pal with KRSP Capital. Please go ahead.

Souresh Pal: Thanks for the opportunity. Sir, my question is, sir, what we will be doing to ensure our asset quality? Because in lending business, asset quality is the main thing. Because in lending business, growth is very easy to show. But what is important is asset quality. So, that's my question, sir.

Sorabh Dhawan: Thanks, Souresh. Asset quality is extremely important for us and any financial institution. We completely agree with this. Till date, we have onboarded almost 700 plus customers and disbursed about 30,000 crores through our counters. And we run with a track record of nil NPA. What do we do to ensure it?

A, at the time of onboarding, we've already built our rating and scoring software, which helps us to easily identify which cases to do or not to do.

B, we also keep a lot of focus on monitoring tool, which is also under development. And right now, we monitor all the customers manually.

So the focus of the team is to build a robust, long-term quality book. Each of our borrowers have paid us at least 8 to 12 times over the last two years. So, we have seen that all the loans which have been disbursed have come back to our counter and been disbursed again at least 8 to 12 times for each of the borrower, being the nature of this business.

I think the asset quality over the last two years speaks well of the kind of book and the kind of work that is happening in the company. Thank you.

Moderator: The next question comes from the line of Narendra from Robocapital. Please go ahead.

Narendra: Thanks for the opportunity. So, just wanted to understand, what gives us the confidence of growing six times from this case in the next two or three years? So, do we have a kind of pipeline in mind? And just to understand that, also another follow up question. How many anchors do we have right now? And how many do we plan to onboard in the next two years?

Sorabh Dhawan: Thanks, Narendra, for your question. Two questions. A is the confidence that the team has to grow from 1000 crores to 6000 crores and what is the number of anchors? Both the questions I will address together because our confidence is backed by the anchors that have been onboarded till date. As we mentioned, this includes names like JSW-MG Motor, Tata Group, Adani Group. So, we are one of the first NBFCs to be onboarded for Adani Copper Kutch, which is coming out with a 5 lac tonnes facility of copper. Then we've got Ashok Leyland, APL.

A very important aspect, the differentiator between supply chain financing business and other NBFCs business is that our business is working capital in nature. We do not have repayments. So, we do not have a reduction in books. If the industry is going to grow by 20%, if today our book is 1000 crores, on steady state basis, if the industry grows by 10% to 15%, our book is going to increase to INR1,150 crores to INR1,200 crores. That means there will be no repayments happening in our book. It is going to keep growing as the industry grows.

The number of anchors that we have onboarded today is about 37 anchors. We have a target list of about 35-40 very large names in the industry. And the existing ones are also running supply chain financing programs of thousands of crores. For example, Tata Motors in itself runs a supply chain finance program of about INR6,000 crores to INR7000 crores. And we've just started with 150. The scope for us is pretty large, even if we are able to do 5% to 7% penetration in that anchor. And similarly for Vedanta or Adani. So, that is the reason that we have laid down the roadmaps, we have put in place targets to the team, which makes us confident that we are going to do INR6,000 crores by FY27.

Narendra: Sir, any target on how many more anchors do we plan to add?

Sorabh Dhawan: So, by FY27, we should be about 75 odd anchors.

Narendra: From the current 37 anchors.

Sorabh Dhawan: From the current 37 anchors. But the focus is going to be on the large corporates, because we are going to be focusing on fast moving goods and the companies which hold leadership position in the industry, one or two only.

Narendra: Thank you, sir. And regarding the current book is small in size, but as we grow, do we see this kind of asset quality being maintained or do we see some somewhat here and there as far as asset quality is concerned?

Sorabh Dhawan: Yes, Narendra, asset quality is key. As we mentioned, we already were at a book of INR2,000 crores at peak levels. And we've done disbursements of INR30,000 crores, which is a large number and 700 borrowers. So, asset quality, we will continue to maintain at similar levels only.

So, one very key aspect to be noted here in supply chain financing is that all our borrowers are onboarded through a top-down approach. We do not have a single borrower, which is onboarded without a memorandum of understanding with the parent.

So firstly, we will go to a Tata Motors, Vedanta, sign up an MOU, take their recommendation for that particular dealer, and then only onboard any of our borrower. So, for all of our borrowers, we will have a recommendation letter from the anchor, and an agreement with the anchor, that in case this dealer distributor delays or defaults, then they will not make any supplies to this borrower in future. So, understand that it is the livelihood of that dealer distributor, which is dependent on that anchor. And if he delays/defaults with us, he will not get goods any longer. That means his livelihood will come to a halt. That is the key that we hold, and that is present for each and every borrower of ours.

Sahil Sikka: In addition to that, as already mentioned, we are also in process of developing an AI-based monitoring tool, which will help us in assessing the borrower for their continued creditworthiness and financial performance. In this industry, a very key aspect for the borrowers or the distributors or dealers is diversion of funds. We monitor that very keenly in the sense that whenever we do our assessment, wherever there is excess funding or sufficient funding with borrowers, we do not shy away from rejecting and do not go ahead with onboarding that particular customer. Because being traders, the diversion of funds in this industry is very common.

Anubhav Gupta: So, our group is very clear that we want to be in business of lending, not collection. And the asset quality remains the number one priority before we disburse even $1 of the loan. And in the last 24 months, the performance that we have seen of INR30,000 crores worth of disbursements without any NPA, so this gives us more confidence of our practices and protocols which we have set. And same we shall follow when we triple our loan book.

Narendra: So, if I have understood right, you mean to say that if the borrower defaults, the anchor stops doing business with that guy, right?

Sorabh Dhawan: Yes. That is a stop supply agreement that is there with us for each and every borrower.

Anubhav Gupta: Plus the relationship should be at least five years old between the anchor and the distributor. And more than 50% of his business should be coming from that anchor.

Moderator: Thank you. The next question comes from the line of Harshit with Premji Invest. Please go ahead.

Harshit: One question continuing from the previous one, that these kind of arrangements with the prime vendors, I think a lot of our asset quality comfort is driven by the large corporate with whom are lined up. Now, many of them have their own financing arms also. And what stops this becoming a very competitive model so that any other player does not come in?

And second is, what would be the incentive for these large players for having such terms and conditions in the contract? And the second point is that, as you said, that the relationship should be five years old. Now, that stops many of the newer relationships which they are having from having access to financing from us itself.

So, if we can throw some more light on what is the competitive mode we have as a lender with respect to these arrangements? And second, if I may just ask, is there any security per se on contractual terms in these contracts? Security in the sense, security of the borrower or these would be more of unsecured loan natures? I mean, just technically, will there be a security attached to it or not?

Sorabh Dhawan: Thanks Harshit. So three points are do these large corporates have their own financing arm? Answer is yes. A lot of them do and a lot of them don't. So there is space available for other financial institutions and it is competitive. As we explained the landscape, the banks operate at 9% to 11%, but on lower risk profiles we operate at 11% to 13% which is right next to them and 13 upwards is all Fintechs and the smaller NBFCs. So do we have our space?

The requirement of, as I said, Tata Motors itself runs a supply chain financing program of about INR7,000 crores to INR8,000 crores. When an SBI has also done about INR700 crores to INR800 crores only or maybe INR1,000 crores. There is a limitation of risk appetite with every financial institution then there is space available for us and that is the reason we've been able to penetrate and get into agreement with all these guys.

Yes, new relationships there is a hindrance, because we at least look at a track record of 5 years, in some cases at least 3 years. Track record happens to be very key whenever we're doing our assessment. And 3 years is minimum that we keep. Third is security. Yes, majority of our exposure about 85% plus of our exposure is security backed. Do we take collaterals? Answer is in some cases, yes, we take collaterals. B, it is mandatory that we will keep charge on the assets which are funded by us and receivables generated thereon.

3, we will have personal guarantees of all promoters. And in case it's a proprietorship, we will take personal guarantees of wife, kids involved in the business. 4, we will have security cheques available with us for the entire facility we've given. So section 138 becomes key there, & personal guarantees are there. Overall, we've seen the MSMEs if the intention is okay, they do not want to jeopardize their livelihood by defaulting with us.

And the churning is about 30 days, 35 days. So the amount of limit that we have equivalent to the kind of turnover that they're doing is quite small. So that is the reason that was one of the reasons that we found that they do not want to default. They're cognizant and they operate supply chain financing sincerely.

Sahil Sikka: In addition to that, I would like to point out that this industry, supply chain industry is divided into mainly three categories. One is, first comes the banks. The banks are in the – the banks lent in the range of around 9% to 10.5% whereas when a particular larger bank approaches a client they usually offer multiple range of products. A single a bank such as Kotak, etc. with a large loan book of INR4.5 lakh crores would not have a pure focus on supply chain finance. So we are able to compete in that sense with some of the banks, wherever there is multiple banking in terms of supply, in terms of channel finance arrangement.

Secondly, next comes the larger NBFCs such as Tata Capital, Aditya Birla Finance with whom we are able to compete in the sense that we have a pure play focus on supply chain finance with a lot of innovation on the kind of platform that we have built and the flexibility that we are able to offer. Thirdly, then comes the commercial front.

We are not too far and are able to compete on the commercial front as well with the larger NBFCs, but then later on comes the other bracket which offer the NBFCs which offer in the range of 13, 14 and above, with whom on the commercial front we are able to compete.

Harshit: Sir, if I can just ask one more question on the economics part of it. So one, you said that we lend at say 12%, 13%. Right now we don't have any leverage on balance sheets, but when you say 4% ROA, I guess you mentioned that we would be more like a INR2,500 crores net worth and INR6,000 crores balance sheet at that point of time. If you can explain that, how do you get that 18% ROE, 4% ROA when you say?

The cost part of it, if there are any payouts or basically any linkage to the large corporate through whom we are lending or basically who become the nodal point. And at that point of time, see, even for a 4% ROA, I mean, we would be more like a two-time leverage, two-and-a-half-time leverage. So how does that 18% ROE comes up? So those two questions on that ROE and the other part is the 4% ROE, if you can just break down the key cost which you assume?

Anubhav Gupta: 4% ROA was calculated on the assumption of INR1,500 crores net worth. And we found leverage on that net worth which will give us INR4,500 crores of loans from the banks. So INR4,500 crores of loans and INR1,500 crores of net worth. So that's how INR6,000 crores will come. On INR1,500 crores, we shall be earning 13% direct. On INR4,500 crores we shall be earning around 5% spreads and if you sum these up, so the ROA will come around 4% plus with ROE of 18%.

Harshit: And sir any cost, I mean, more in terms of so we operate in a very lean structure with you as you said that we don't have any collection team because we will not need that collection, but what would be the major cost in this model apart from finance cost? Is there a distribution fee which keeps that large corporate incentivized? So will there be any major cost structure if I look at it below the NIMS line item?

Sorabh Dhawan: So no, there are no such costs. We do not have any distribution channel nor there are any incentives or any payouts given to the anchor. It is all direct sourcing and I think after this employee and tech costs will be the only major costs after finance cost.

Sahil Sikka: So usually apart from finance cost, other costs are controlled in a very well- manner because of the business model in which we operate. The business team is divided in a manner that there is an anchor team or the large corporate team which approaches the anchor and signs up MOU with them. That team is composed of a couple of individuals.

And then there is another set of business team which approaches the prospective borrowers or the qualified leads that we get from those anchors. That part of the business team is responsible mainly for the execution. So that is why our costs are controlled in a well-mannered manner.

Moderator: Thank you. Mr. Harshit, please rejoin the queue for more questions. The next question comes on the line of Aditya Lathe with Akshita Capital. Please go ahead.

Aditya Lathe: Hi. Sorabh first of all congratulations on strengthening the Board. So it's heartening to note that we've got two additional Independent Directors, Mr. Shekhar Mosur and Mr. Jagamohan. So good to see that we have now five Independent Directors on the board. So my question, I have two questions pertaining to the book. So the first question is we had a book of around INR1600 crores in March end which has come down to INR800 crores in September. So if you could just elaborate on that.

And the second question pertains to the provision of INR5.6 crores that we've done in this quarter and half year September. So if you could just explain, give us more details on that. So is it a vendor discounting or a dealer discounting? Is it secured, unsecured and the length of relationship with the customer that we have? So those are my questions?

Anubhav Gupta: So coming to the first question on the trimming down of book, that was because of we were in process of getting type II license from RBI. During that process, we had to trim it down. So now the license is in place and it will ramp up to INR2,500 crores by March '25. And Sorabh, can you take second question?

Sorabh Dhawan: Yeah. So we've done additional provision. There is absolutely no dent on the book right now. We've taken additional provision because we had run down the book. So that is the only reason of keeping that provision. And majority of that provision is against standard assets. All this provision is against standard assets only and expecting a loan book of reaching INR2,500 crores in this financial year. So we've taken a higher provision in this quarter. Thank you.

Aditya Lathe: Okay. So as I understood from the discussion, it was for one particular customer. So that is okay.

Sorabh Dhawan: So there is no such particular customer.

Aditya Lathe: Okay. Fine, that's it. Thank you.

Moderator: Thank you. Next question comes from the line of Chinmay Nema with Prescient Capital. Please go ahead.

Chinmay Nema: Hi, sir. Good morning. Two questions from my side. Firstly, could you give some sense around what kind of retailers or dealers you work with in terms of their revenue turnover or inventory churn? Are there some kind of thresholds that you look at? And secondly, if you could give more color on the operations from underwriting and collection standpoint, what kind of documents do you collect?

Do you have a feet-on-street team? Do you visit these dealers? Basically, what kind of credit assessment happens?

Sorabh Dhawan: Chinmay, what kind of documents we take? We have access to the ITR and GST portals. We take complete access and the credit risk assessment note is prepared from the ITR and GST portals. Do we meet these customers? Each and every dealer distributor that is onboarded is met by our team in person before any penny goes out. There is a full-fledged report that is submitted and this is the field report. only then any disbursement happens. As we initially also mentioned, there is a comfort that is there from the anchor. The recommendation letter is already in place from the anchor.

Chinmay Nema: Sir, about collection, do you have an outsourced collection team?

Sorabh Dhawan: Our collections team is in-house only. We have a business team who is responsible for collections as well and a specific collections team as well, which is doing collections from borrower to borrower. Otherwise, our collections are all timely. Very, very small negligible over dues happen. So, that is why as we said that we are into business of financing and not business of collections. So, everything right now is extremely under control by the existing team itself.

Chinmay Nema: Sir, would it be possible for you to share the team strength of the underwriting and the collections team? How many people are there?

Sorabh Dhawan: So, in the underwriting team, there are about 12 people. In collections, there are four people and business team is about 22 people. The total strength of the company is about 61 people as on take and it is expanding further. And we are also opening up new locations and adding business people also as we are ramping up our business.

Chinmay Nema: Got it, sir. Thank you so much.

Moderator: Thank you. Next question comes from the line of Rakesh Khosla with Dhanishth Investments. Please go ahead.

Rakesh Khosla: Hi, good morning. Thank you for the chance. So, I have seen your earnings presentation. It tells you the way the loan book is going till 2027. But if you go two pages before that, it says we aim to maintain a debt-to-equity ratio at a decent level. You have answered some part of it, but if you can just directly answer what is the debt-to-equity ratio? What is your perspective on it? How are you going to take it forward? Thank you. That's my only question.

Sahil Sikka: So, going forward, we aim to maintain our debt-to- equity ratio at three is 3:1 level.

Rakesh Khosla: Okay. So, as of now, it is not. So, when will we get that?

Sahil Sikka: As of now, our entire book is funded by the equity, whereas we will be leveraging the book going forward. We had a rating of double AA previously. However the same, we had to withdraw the same. However, we have initiated the same again, and we'll be getting the rating soon.

Sorabh Dhawan: So, Rakesh, INR6,000 crores of book, INR1,500 crores of equity, and INR4,500 crores of debt. So, that is the plan for the next two and a half years.

Rakesh Khosla: You have given, as I said, you have given some flavor. Okay. Thanks. Best of luck.

Sorabh Dhawan: Thank you.

Moderator: Thank you. Next question comes from the line of Yash Modi with Ashika Group. Please go ahead.

Yash Modi: Yeah. Good morning, sir. Thank you for taking my question. My first question was with respect to this Type 2 license. So, in the beginning of the call, Anubhav mentioned that we are shifting from a dealer-based model to a retailer-based model. Is it because we are going to launch our app, and where are we in terms of launching our app, that we'll be able to do this? That was my first question.

Anubhav Gupta: So, I guess we shall start this in April 2025, right, now that we have the license and we got the company further capitalized, plus we have the limit sanctions from the banks. So, that we will start in April 2025. But we have mapped the universe, which is around INR6,000 crores of loans, which the distributors have disbursed to their retailers. And assuming that we pick the cream out of it, which could be like 20% of that. So, INR1,000 crores is what we can build the in the next two to three years.

Yash Modi: Sure. And secondly, because we had an initial credit rating of AA, I think AA or AA+. So, we don't expect any, the rating should be similar, right? Because earlier, we had not taken any loan, but the rating...

Anubhav Gupta: It shall come back. Yeah, it shall come back. It was just withdrawn during the period of getting the license. So, it shall come back. Yes.

Yash Modi: Sure. Those are my two questions. Thank you so much.

Anubhav Gupta: Moderator, we still have long queue. Can we request the participants to ask one question and then we will have a follow-up. I mean, we are all reachable after this call as well. So, let's speed up, please. Thank you. Sure.

Moderator: A reminder to all the participants, please restrict yourself to one question. Next question comes from the line of Rohan Mehta from Ficom Family Office, please go ahead.

Rohan Mehta: Hello, sir. Thank you so much for taking my question. Yeah. So with a target of INR2,500 crores in loan book by FY25, what kind of a quarterly disbursal run rate you're looking at, considering you're also moving now into long duration products? So, what do you think that number can be by Q3 and Q4?

Sorabh Dhawan: So, right now, we're doing about INR4,000 crores per quarter. And if we have to add another INR2,500 crores -- we have to add another INR1,500 crores, it will be close to about INR5,000 odd crores per quarter. That is the disbursement run rate.

Rohan Mehta: All right. All right. Got it. Correct. And if, by your permission, can I ask one more question?

Anubhav Gupta: Rohan, sorry, there are other investors in the queue.

Rohan Mehta: Sure, sure. No worries. Thank you. Thank you so much.

Moderator: Thank you. Next question comes from the line of Moksha Shah with Agility Advises. Please go ahead.

Moksha Shah: Yes. So, my question is, how is the loan book distributed between the top five anchor clients and the rest? Could you share a percentage split or a concentration rate can be?

Sorabh Dhawan: So distribution, if you talk about top five anchors, it will be about 50% to 60% and balances in the other anchors. But there is a regional aspect also involved, and the distributors do different products also of the different anchors. So, it is quite well distributed. And if we remove Apollo Group out of it, then the distribution will quite well spread.

Anubhav Gupta: And it will be equally distributed.

Sorabh Dhawan: Yeah.

Moksha Shah: If I am not wrong, you just mentioned that the Apollo Group is around 25% to 30% is the share of the group business, right?

Sorabh Dhawan: Yes.

Moksha Shah: Okay. Thank you so much, sir.

Moderator: Thank you. Next question comes from the line of Anukul Agarwal with Inved. Please go ahead.

Anukul Agarwal: Yeah, my questions are being answered.

Sorabh Dhawan: Thank you, Anukul.

Moderator: Thank you. Next question comes from the line of Vinit Agarwal with Aditya Birla Money. Please go ahead.

Vinit Agarwal: Thank you for the opportunity. So, just one question, like quarter two numbers was a bit muted. So, is it because of margin pressure or a seasonal nature kind of thing or how should we read this?

Anubhav Gupta: No, this was only because of the trimming of the loan book as we were in process of getting the type two license.

Vinit Agarwal: Okay. Thank you.

Moderator: Thank you.

Anubhav Gupta: So, just to add that Q3, the run rate will go back to like previous quarters run rate. All right. Next question, please.

Moderator: Thank you. Due to time constraints, we have reached the end of question and answer session. I would now like to hand the conference over to Abhijit.

Raghav Khemani: You can take one question, one last question.

Moderator: All right. Sure. The next question comes from the line of Meet Shah, an Individual Investor. Please go ahead.

Mit Shah: Okay. First of all, thanks for giving me the opportunity. So, I have only one question. We have seen Sanjay Guptaji as massive scaler and great capital allocator. As you can see, this company is professionally managed. So, can we expect similar growth trajectory as we have seen in the past from this group?

Anubhav Gupta: Yes, that's the vision. That's why we capitalized the company well enough to reach INR6000 crores scale, right? By FY '27. The same values are in this company, like we were discussing on the lean cost structure, etc. And with the support of the Investors, we shall be able to achieve similar heights which our other group companies have done.

Mit Shah: Thank you. And best wishes for your future.

Anubhav Gupta: Thank you so much.

Moderator: Thank you. It's time. Shall we go ahead and close it?

Anubhav Gupta: Yes. Thanks so much, everyone. If there are any unanswered questions, we request each one of you to reach out to our team. The contact details are in the presentation, and we shall be happy to address. Thanks so much.

Moderator: Thank you. We'll also hand over to Abhijit Tibrewal for closing comments.

Abhijit Tibrewal: Yeah. Thanks, Sanju. On behalf of the Team at Motilal Oswal, we would like to thank the Management at SG Finserve for giving us this opportunity to host their first Earnings Call. We look forward to remain associated with it. Thank you so much, Investors for adding into this call.

Moderator: Thank you. On behalf of SG Finserve Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.