



Ref: SSFL/Stock Exchange/2023-24/030

Date: May 09, 2023

To  
BSE Limited,  
Department of Corporate Services  
P. J. Towers, 25<sup>th</sup> Floor,  
Dalal Street,  
Mumbai - 400001  
Scrip Code: 542759

To  
National Stock Exchange of India Limited,  
Listing Department  
Exchange Plaza, C-1, Block G  
BandraKurla Complex, Bandra (E)  
Mumbai - 400051  
Symbol: SPANDANA

Dear Sir,

**Subject: Transcript of conference call held on Tuesday, May 02, 2023**

**Ref: Letter No.: Ref: SSFL/Stock Exchange/2022-23/016 dated April 21, 2023**

In furtherance to our above-mentioned letter, please find enclosed the transcript of the conference call held on Tuesday, May 02, 2023, to discuss the financial and operational performance of the Company for Q4 FY23.

The aforesaid information shall also be made available on the website of the Company at [www.spandanasphoorty.com](http://www.spandanasphoorty.com).

Kindly take the above on record.

Thanking you.

Yours sincerely,  
For Spandana Sphoorty Financial Limited

Ramesh Periasamy  
Company Secretary and Chief Compliance Officer

*Encl: As Above*

Spandana Sphoorty Financial Limited

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“Spandana Sphoorty Financial Limited  
Q4 FY '23 Earnings Conference Call”

May 02, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 02<sup>nd</sup> May 2023 will prevail.



**MANAGEMENT:** **MR. SHALABH SAXENA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SPANDANA SPHOORTY FINANCIAL LIMITED**  
**MR. ASHISH DAMANI – PRESIDENT AND CHIEF FINANCIAL OFFICER – SPANDANA SPHOORTY FINANCIAL LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Spandana Sphoorty Financial Limited Q4 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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, 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. Shalabh Saxena, MD and CEO of Spandana Sphoorty Financial Limited. Thank you, and over to you, sir.

**Shalabh Saxena:** Thank you, Darwin. Good evening to all of you. Thank you for taking time out to attend our call. This is the fifth result, which we are presenting post the management transition. Our journey in Spandana has been professionally exciting and challenging. Over the past four quarters, we've got very good support, advice, and suggestions from all the stakeholders, including you all. We, as a management team, are indeed extremely thankful and grateful for that. Ever since taking over, I have been highlighting the need to strengthen the company at the senior and middle management levels in the areas of governance, risk management, control, compliance, audit, distribution and technology.

We had identified 13 key positions at CXO and CXO minus 1, which had to be filled when we started our journey. As we speak, I'm happy to inform that the positions have been filled. All the team members have taken charge and have been working diligently towards the Vision 2025 that we had articulated on the 11th of July 2022. The people priority, hence, has been successfully completed. The wisdom and experience of the team will take the company forward.

Now to present the results of quarter 4 of financial year '23. The challenge during the year for all of us was to work on multiple priorities of business, that is people, disbursement, portfolio quality, distribution, process, customer proposition and technology. We have made progress in each of the areas. This is a journey, and we will continue the march towards the goal.

Now to present the financial results of quarter 4. The results were uploaded about a couple of hours back. I'm sure you would have had the opportunity to go through it. Nevertheless, I'll just give a very high-level summary. On the disbursement side, we disbursed during the quarter, INR3,054 crores, which was a growth of about 30% over the previous quarter. The disbursement for the year was INR8,125 crores, which was 141% higher than INR3,373 crores which was disbursed in the last financial year FY '22. The numbers have to be looked at in context and there's a base effect in the play. So, 141% has to be looked at in that context.

On the AUM side, we ended the year at an AUM of INR8,511 crores, an all-time high for Spandana. This was a growth of 24.2% over the previous quarter and 29% growth over INR6,581 crores that was reported for March 2022, which was last year. We've been highlighting ever since we presented the Vision 2025 that our growth will be led by customer acquisition. We're happy to report that in the quarter, our customer acquisition was 4.3 lakh new customers, which was a 95% growth over the previous quarter. Overall, for the year, we have acquired 8.8 lakh new customers, which is a growth of 166% over 3.3 lakh new customers acquired in the previous year. Once again, the similar caveat applies on the 166%.

A very key element of the company that all of us run is the borrowing side. The quarter has seen a total borrowing of INR2,402 crores, which is up 12% from the previous quarter. During the year, we borrowed in total about INR5,775 crores from our lenders, which is up 208% over the previous year of INR1,875 crores. Our marginal cost of borrowing was 12.55%. We added eight new lenders during the quarter, thus taking our total lender relationship base to 48. We opened our account with a public sector bank with a DA transaction of INR500 crores during the quarter. Our focus for this year on the borrowing side will be threefold: continue to reach out to like-minded vendors who are still not associated with us; increase the relationship depth with the existing lenders; and most importantly, to work on decreasing the cost for incremental borrowings.

On the write-backs, all of you are aware that we had written-off about INR700 crores in the quarter 1 of last financial year. So, this question keeps on getting asked to us during the year. During the year, we made a total recovery of about INR70 crores from the write-offs and the ARC pool. We will continue to reach out to our borrowers and educate them on the benefits of repayment of their outstanding dues. This is a journey, and we'll keep moving on this.

On the portfolio quality, which is one of the key elements of any lending business, our portfolio quality continues to improve over the quarters. The standard, which is the current book, is at 96.6%, an improvement of upwards of 4.5% over the previous quarter and a marked improvement from 68.4%, which it was in Q4 of last financial year. So, our journey has been 68.4% to 96.6%. We are not done yet. And we are still pushing it for a higher limit and higher levels. The one to 90 bucket. I will repeat the one to 90 bucket is 1.5% now in totality. This was 2.6% in the previous quarter. Of the one to 90 book, about 40% is in one to 30 bucket. So, this is the one instalment outstanding.

The old book, all of you remember when we came -- when we presented the first result, we had compartmentalized the book into a pre-April '21 sourcing and post. So, the old book is what I'm referring to is now only 2%, thus practically ensuring that this was the COVID sourcing. So, the 2% is what is left of it, practically ensuring that the slightly stressed book sourced during COVID times has run off now. This book constitutes about 45% of our GNPA, this is just to give you a context. The GNPA end of quarter 4 now is 2.07% and the NNPA is 0.64% on the back of improved quality and higher provisioning, which I'll cover in a bit.

A very important element of looking at how the portfolio is behaving is to see the flows. Our flows over the quarters have improved decently. Our flows into SME 0 have moderated to 0.58% in absolute terms, about INR47 crores in Q4 FY '23, which is this quarter as against 8.3% in the last year, which is the Q4 of FY '22 which was a total and absolute terms of INR509 crores. So, the journey has been from 8.3% to 0.58% over the past 4 quarters.

On the collection efficiency, the gross collection efficiency for the quarter has been stable at around 102.45%. The net collection efficiency, and this is what we track as an organization, and these collection efficiencies are not caveated. It's very important for all of us to know that we are presenting as is. The net collection efficiency for the period was 97.57%, which is 3.05% up from Q3, which was the previous quarter, thus reinforcing the statement made earlier on improving portfolio quality. More-and-more customers are paying on time, which is a healthy sign. This is a factor of the general macroeconomic environment and the way it is evolving, plus the efforts put on ground by the teams.

On financials for quarter 4, I forgot an important point, which was the PCR. So, this quarter, we've taken our PCR at 70%. We were 55%, as you would know. The last quarter when we presented, we were at 55%. We had taken the 50%, which was the PCR in Q2 to 55% in Q3. From a 55%, we've taken it up to 70% on the unsecured portfolio. All of you are aware, we have a book on the secured side as well. It is a small book, but nevertheless, the provisioning criteria are slightly different and hence, at a consolidated level, we are -- our PCR at 69.1%. So be it the disbursement story, be it the flows, be it the collection efficiency, be it the member acquisition, be it the provisioning, we've tried to address each of these issues, which normally anyone would when you run a NBFC, or you are into a lending business.

Coming back to the financials. In continuation of our narrative over the quarters of increasing provisions when required, I've already covered this. Our NNPA, while I did give the high-level number. NNPA, because of the provisioning has hence reduced to 0.64%. The numbers for the previous quarter was 2.52%. The GNPA is 2.07% against 5.31%, which was there in the Q3 of the financial year. Our normalized yield on the portfolio has improved to 22.8% from 21.2% in quarter 3. Normalized NIM has improved to 13.86%. That is up 38 basis points over last quarter. The reason why I'm repeating the normalized is, there are transactions which were done like DA, etcetera, we've tried to normalize it and not include it while calculating the various ratios so that all of us are clear in terms of what is a steady state number that we are looking at.

Total income for the quarter increased 42% to INR533 crores versus INR375 crores in quarter 3. Net interest income was up 51% to INR384 crores for the quarter versus INR254 crores in quarter 3. PPOP, which is an important metric to track, for the quarter was INR261 crores, up 85% over INR141 crores reported for previous quarter. Profit before tax for the quarter was INR139 crores, after tax of INR106 crores, which is an increase of about 48%.

Financials for FY '23, which is the full year. The total income from operations during the year was INR1,477 crores, which was almost flat compared to the previous year of INR1,480 crores. Given the INR702 crores write-off that was taken in Q1 of FY '23 and all of us are aware that

Q1 was when we had done that write-off, the total income for the year was muted. The annual PAT for the year, hence, is INR12 crores. This is a decrease of 82% over the previous year. However, as I said in the previous point, I'm repeating, this was more to do with the onetime write-off that we took of INR702 crores. The quarter 4 numbers, we've gone into the details.

To summarize, ladies and gentlemen, the year FY '23 or financial year '23 has been enriching period for the new management. We presented the Vision 2025 document on the 11th of July, where we had articulated the path for the company for the next three years. Over the year FY '23, we've taken all the steps to ensure we lay a strong foundation and then progress on the key fundamental blocks. During the quarter 3 earnings call, I had informed that we are now stepping up expansion of business as most of the building blocks were in place.

Happy to announce now that during the quarter, and if you remember, I had said that we are going to, or we are planning to open about 100 branches. We have preponed the growth story from a Q1 of FY '24 to Q4 of FY '23. So happy to announce now that during the quarter, we have opened about 112 branches. Our target now is to have about 1,500 operational branches by the end of this year. Although if you recall, in our Vision '25, we had very clearly said that by end of FY '25, we'll have 1,500 branches, but we will open all those branches this year so that the next year, we have a runway of the full 12 months for the 1,500 branches to perform.

We plan to end this year, FY '24 with an AUM of about INR11,500 crores, which will once again be slightly backloaded because there are a few agendas that we have to do in quarter 1 and quarter 2. We paced the innings the last time around, and we kind of delivered. There are things that need to be done a few distribution initiatives, etcetera, to be done, which we will in this quarter and the next.

JLG, and this is very, very critical. JLG is the mainstay of our model, and we are taking steps to ensure that we drive the execution of the model in an effective manner. We've already relaunched the Home Improvement/LAP business. During the year, we will be launching the Nano Enterprise or the bottom of the pyramid MSME loan product as well.

FY '24, ladies and gentlemen, is all about optimization and bringing in efficiencies in our operations. The building blocks were laid last year. FY '24 will be about refinement and continuous improvement. Our focus on people, which is both retention and acquisition, will continue. Focusing on their benefits, welfare, up-skilling and well-being was and will remain the core of our approach. The opportunities for growth that microfinance provides has us quite optimistic about the future of our company. Our endeavour is to be a technology-led micro-financier, delivering loans that fulfil aspirations of an emerging rural India. FY '23 marked the beginning of this growth pivot and there is more to follow.

Lastly, I thank all the stakeholders of Spandana, the Board, our lenders and our colleagues in Spandana who pooled in their energies during the year. A special note of thanks to all the branch staff, our loan officers, branch managers and the entire field staff and the head office staff who slogged hard to deliver the results as we envisaged at the beginning of the year.

Thank you very much to all of you on the call. You've been a constant source of encouragement by giving us positive advice, feedback and, of course, support during the year. We look forward to receiving similar encouragement in future.

With this, I now end the update. We have the entire management team, all the 13 people that I spoke about at the beginning of the commentary with us, and we are ready to take questions. Thank you very much.

**Moderator:** Thank you. The first question is from the line of Shreepal Doshi from Equirus. Please go ahead.

**Shreepal Doshi:** Hello, sir. Good evening. And congratulations to you and the entire team for a great quarter. So, my first question was related to your new product launches. So, what is the thought process with respect to the kind of mix that you see in FY '24 -- by FY '24 end or in FY '25 with respect to, say, the others like except for JLG-based lending at?

**Shalabh Saxena:** So Shreepal, thank you very much for that question. If you go back to our Vision 2025 document, we had articulated a total INR18,000 crores AUM for our company by end of FY '25, of which the mix would be JLG INR15,000 crores and about INR2,000 crores to INR3,000 crores is what we had indicated on the two businesses, one is the loan against property and the second one was the Nano MSME enterprise business that I spoke about. The first one is obviously a secured line, which should be in the range of about INR1,500 crores to INR1,700 crores. The Nano MSME, it is unsecured loan. Non-JLG business, it will be in the range of about -- similar about INR1,500, INR1,600 crores to about INR1,800 crores. So that's the mix that we are looking at.

As we speak, we have launched the new LAP business, as I may say, on a completely new LMS and LOS. We were waiting for the entire system to kind of be tested fully. So, all of that is done now. So, you will start seeing the numbers from now. As I said, we will be very cautious in the first two quarters on the LAP business. And in parallel, end of quarter 2 or beginning of quarter 3, we will launch the MSME business. This is apart from JLG and for the benefit of everyone, the two businesses, I mean, the LAP business and Nano MSME business is completely separate from the JLG. People are separate, branches are separate, hierarchy is different, and this is led by a completely different Chief Business Officer. That is how we are to kind of...

**Shreepal Doshi:** But this is the branch -- the operations from the -- it would be from the same branch, right, with respect to operations, or do they have a separate branch network also?

**Shalabh Saxena:** No. So that's exactly what I said. Separate branch, separate geography, separate people, separate business, separate credit, everything is separate. We don't want to mix up the two. There's no question of fungibility. We are absolutely clear that JLG in its purest form of implementation has to be delivered as a model to the industry and to the company, and that is why we will not kind of build any bridge between the two.

**Shreepal Doshi:** Got it. Secondly, the question was with respect to new customer acquisition. So commendable job during the quarter. Wanted to understand what is the first cycle and second cycle disbursement ticket size that we really have as a strategy?

**Shalabh Saxena:** So, the first cycle -- so two answers to your question, and good that you asked Shreepal. This whole debate about ticket size, in my view, has to be looked at in a slight, with a different coloured lens. What one should look at is the average indebtedness at a customer level rather than the ticket size. I can do a ticket size of INR40,000 and not give a loan to the customer for two years vis-a-vis offering a ticket size of INR20,000 and give a loan once in six months. So average indebtedness level is what we track. And our indebtedness level is roughly about 90%, 95% of the industry, we are at about INR31,000, INR32,000 type of number at a customer level.

Now to your specific answer to the question that you asked, the customers that we are onboarding in the weekly model, our ticket size is in INR35,000 and that is where -- so we muted the ticket sizes typically in an existing branch, which has been running for some time. We, as an organization, were offering INR42,000 as a ticket size for the first loan. But in the new branches that we have started, we are offering the INR35,000 and slowly we'll kind of spread this around. So as a philosophy and direction, we will slide downwards on the ticket sizes. We are more bullish about getting more customers rather than playing the dollar game.

**Shreepal Doshi:** So, what is the indebtedness that we are comfortable with at the customer level?

**Shalabh Saxena:** We would be comfortable with a sub 90% of the industry, which is -- we are currently at about INR32,000 anywhere with the inflationary rate of about 6% to 7%, INR32,000 to INR35,000 is a good enough number. And by design, it will come down, Shreepal, because we are opening in the seven states that we had clearly identified where we are going to grow. We will be low on ticket sizes. So, either way is going to come down. So, we are comfortable to answer your question between 32 to 34, 34.5. So, at every given point in time, we are very watchful of the ticket size, and we'll continue to monitor it.

**Shreepal Doshi:** Got it. Last question with respect to the pricing. So, what is the rate range that or what is the yield range that we have for our customers currently?

**Shalabh Saxena:** So, the yield for -- we have a normalized yield of 22.8%.

**Ashish Damani:** Presently, it is 22.8% in terms of the yield, Shreepal. However, if you would have recalled, we have changed to 25% as our interest rate starting October, we charge 25% interest rate, plus 1% as processing fee. That's the product pricing. As we have a refresh in terms of the loan cycle, the yield should start getting closer to that number. So there has been an improvement in the last quarter. We'll continue to see this improvement as the new loans kind of become higher in terms of percentage on the balance sheet.

**Shalabh Saxena:** Shreepal, I don't know if you got the chance to read the presentation. Slide number 13 has both the yield and the NIMs clearly articulated. What I said in my commentary, I'm just repeating, we've normalized the yield to take out the onetime spikes so that it's a reasonable and a balanced, calibrated approach. We are comfortable in the range that we are operating. And as Ashish mentioned, as the portfolio shifts more towards the recency because these are all short-tenured

loans, you will see the yields going up by virtue of the change in the framework and design of the portfolio, which is moving towards higher interest rates.

**Shreepal Doshi:** I just wanted to understand that part only, the yield that we are charging to our customers. Got it. Thank you so much. And good luck for the next quarter. Thank you.

**Shalabh Saxena:** Thanks, Shreepal.

**Moderator:** Thank you. We have the next question from the line of Renish from ICICI. Please go ahead.

**Renish:** Yes, hi. Sir, congrats on a good set of numbers. So just two questions. So, one is on our ECL methodology. So, we have mentioned that we have changed some I think ECL policy, which has sort of led to this higher PCR this quarter. So essentially, what we have changed in ECL model?

**Ashish Damani:** Hi Renish, this is Ashish this side. Basically, we have looked at the model a little differently. We wanted to increase the PCR in any case. So -- and this is continuing from the thought process or the approach which we laid out in the last quarter. If you recall, we have moved from 50% to 55% last quarter. This quarter, again, we have tweaked the model to ensure that 70% kind of coverage is there. So, we have increased the PDs as well as the flows, the LGD consideration in the model itself, whereby the 70% has started kind of playing out on the portfolio.

**Renish Bhuva:** Got it. So, Ashish, so if we go by the current ECL methodology, what should be the credit cost because will it be in-line with the BAU guidance, at that, your ECL methodology would have been different versus now. So, any comment on that?

**Ashish Damani:** Yes, sure. Renish, we have talked about and again, going back to what we have said. In a BAU, we have budgeted for a 2% kind of a credit cost. However, if I have to look at the flows from the new book, the flows would be in the range of 1.2% to 1.3% only, including the delinquent portfolio. So, this 2% is a very well -- I mean, sufficient in my mind from a credit cost standpoint.

**Shalabh Saxena:** It's a cushioned number, Renish. But as a prudent financier, it is appropriate that we kind of take this position because it's early days yet, and it's always good to kind of measure yourself maybe after three or four quarters. So, after four quarters, we'd relook at this 2% assumption. But as of now, we will go by it.

**Renish Bhuva:** Got it. And the change in ECL methodology will not impact our steady-state credit cost of 2% is what I wanted to reconfirm?

**Ashish Damani:** Yes. So, the ECL methodology will deal with, anyways, the flows. I think what we have -- the team has been done a splendid job on is curtailing the flows itself, Renish and that's what we're focusing on. I think with that playing out, we -- ECL should not be a challenge in terms of the credit cost.

**Renish Bhuva:** Got it. And my next question is to Shalabh. So, if you look at the total outstanding borrower base, which sort of remain flat at around 2.26 million. And when we arrive at our ticket size, it's

actually up by 23% sequentially from INR30,000 to INR37,000 this quarter. Of course, I mean, this is adjusted -- not adjusted for the write-off borrower. But practically, if we look at the current borrower base, the outstanding AUM per borrower is at 37.5. So how one should read this data? I mean, can you just explain whatever we are missing here?

**Shalabh Saxena:**

So, this was a onetime impact, Renish. And while it is good to kind of monitor and keep the eyes on the ball every quarter, I am giving directionally a view on what the position the end of FY '25. When we take a position and if you go back to the commentary that I made when we began our stint, I had said that we will look at reducing the ticket sizes, which is what we've already started doing in the weekly branches that we started. We have about 100 of them now. Over a period of time, we will start getting these down. What is my comfort on our indebtedness level, I gave the number 32 to 35. That is what it is going to be. Nothing wrong in kind of evaluating at this point in time, what is the number, but then you to normalize it over three quarters, four quarters, you will see the number that I have quoted. We are comfortable not playing the ticket size game. We are comfortable in playing the customer acquisitions game. The 2.2 million is post the write-offs that we've taken. I mean, the INR700 crores was about 2.85 lakh customers that we wrote-off.

And this quarter, another 2.4 - 2.5 that we've written-off. So, if we add all of that, it comes to some 2.8 million. But not -- but anyway, the point I'm trying to make is, directionally, this is where we are going. Four quarters back, we directionally told you which way we will go. Another -- we have eight quarters to go, but you will start seeing the downward slide starting third quarter, fourth quarter. Because Renish, we run an enterprise where a customer is used to a particular way of how the company behaves in terms of the ticket sizes. We have to calibrate this whole thing. Overnight we can't really and hence, the 35,000 on the first loan we started in branches, which were absolutely new. So, somebody who is used to a particular level, you can't really crash that level. So, we're just moderating it so as to not kind of give any knee-jerk reaction. But directionally, that is how we are going to play -- that is how the game is going to be played.

**Renish Bhuva:**

Got it. So maybe in other words, this outstanding per borrower at current level is sort of peaked out at least in near term?

**Shalabh Saxena:**

No, 100%. That is what we are going to do, and that is what we are doing. So directionally, we had a job to do, which we did. Obviously, we have to take -- we didn't want to do anything which was knee-jerk. We are moderating this whole thing. I'm repeating what I said, but we are moderating it. We -- the last four quarters, we've calibrated multiple things, not just this. And it has kind of given us the results. You need a customer buy-in; you need an employee buy-in for the kind of initiatives that I've been talking about. And that is what I think we'll be kind of pursuing.

**Renish Bhuva:**

Got it, sir. That's very helpful, sir. Thank you. And best of luck, sir.

**Shalabh Saxena:**

Yes. Thank you.

**Moderator:** Thank you. The next question is from the line of Manuj Oberoi from YES Securities. Please go ahead.

**Manuj Oberoi:** Sure. Hi, good evening. Congrats on very strong performance. So, first question is on the ECL coverage on the current portfolio, that has gone up in percentage terms. So, what is the thought process behind that? And also sir, a related question is on building a countercyclical buffer because when you look at the required credit costs in the coming quarters, so that credit cost, if you go by the flows from the current bucket right now, which are negligible or marginal and even when you look at the State 1, Stage 3 buckets, which have significantly come down and significantly provided for then the required credit costs going into FY '24 will be much lower. So, what is the overall view on building a countercyclical buffer?

**Ashish Damani:** So, I think your question one and question two are interlinked. I mean, the thought process is to have some kind of a buffer. So, increasing the provisioning on the current is an effort to address that conservatism in the entire provisioning. That is how we have ensured that higher provisioning even on the current bucket is maintained. If the flows and the performance continues to be in line with what we are seeing, probably, we may look at reducing this percentages that we are holding on the current portfolio. But as of now, I think we feel very comfortable with this kind of levels, or the percentage is being maintained.

**Manuj Oberoi:** Yes. So, when you guide for a 2% credit cost, Ashish, that seems to be having some more conservatism being built-in given the current portfolio construct and given the current flow rates.

**Ashish Damani:** Yes. The point we are trying to drive here is 2% is what is budgeted. However, if you have to go by the current numbers, it should be stabilizing around 1.2%, 1.3% around, right. But 2% should be kept because there are always pockets in microfinance, where in a particular period or in a particular geography, there may be elevated credit cost in a short term, which you need to address. But over a long term, I think we believe that 2% is sufficiently conservative, and we should be doing something below 1.5% for sure.

**Shalabh Saxena:** Either way, I will repeat what I said, we are comfortable with this. We'll continue with this because we don't know what we don't know. Another four quarters, six quarters, there's a lot of fluidity in the macro, so macroeconomic environment, either which ways as Ashish mentioned, the specific pockets you never know. It's always good to err on the right side. So that's what we'll continue to do, and then we'll evaluate or relook at our position maybe four quarters from now.

**Manuj Oberoi:** Got it. And now with this very strong profitability delivered in fourth quarter and you ending the year with significantly moderated NPAs and buckets, how would this position influence your funding cost of the future? Because I already see your marginal cost of borrowing flattening out at 12.5. What kind of funding cost benefits irrespective of the rate cycle, can we get from the current performance?

**Ashish Damani:** Yes, Manuj. So, if you really look some of the benefits have already translated even during the interest rate rise cycle, if you see for Spandana, the rates or the premium that we were paying

has been coming down quarter-after-quarter. Now it has largely stabilized at 12.5. We still have a little way to go to bring down the borrowing costs further. As the banks start playing out, the public sector primarily, our costs are likely to start rationalizing further. We have seen the participation start in the last quarter, but it has to be a dominant kind of play out from the public sector, which will help us rationalize the costs further. I think in two quarters from now, you should see more benefits accruing from this particular vector.

**Shalabh Saxena:**

So, if I may just add, we borrowed about INR5,775-odd crores last year. What we were missing were the big public sector banks. Obviously, each one had their own position, which I presume now we are sufficiently engaged, or we were sufficiently engaged with them for the past two quarters. Once that line keeps coming in, obviously, it will open a new line -- a new -- I mean, it will be a completely new area for all of us. So that is what -- in my commentary, I have said that what we have to or what we will be looking at is to work on decreasing the cost one. But however, most importantly, ensure that we get an entry into all these public sector banks so that, that is where our supply or our demand will kind of be addressed from a supply from their side. So that is one area, which I think, as Ashish mentioned, two quarters to three quarters, I think that should start flowing in.

**Manuj Oberoi:**

Got it. And Ashish, with regards to provision on the ARC sale that you have done in Q3 and Q4, there is no pending provision, right? Whatever was required has been fully taken in respective quarters. There is nothing which will come and hit us in the future on that?

**Ashish Damani:**

So, let me explain the transaction, Manuj to you. The way the transaction on the ARC happens is you first have to charge the portfolio on your balance sheet, if it is being done from the GNPA. The last quarter when we did in Q4 when we did the transaction, we had about INR136 crores out of INR372 crores coming out from GNPA, which was fully charged to the balance sheet. The balance was anyway from the write-off pool. So, there was nothing more to be taken on the balance sheet as such.

What happens is, yes, the sale consideration comes in into the P&L as a positive. We do have 85% coming in as SR. The SRs will be evaluated based on the performance of the portfolio in the future. If there is a decline, then probably we may have to look at provisioning at that time. Having said that, the performance has been very strong for the ARC that was done in Q3. And that's why if you see the percentage sale consideration that we have got in the transaction for Q4 has been higher than what we have got in Q3. So, I think so far, the experience on the valuations that we have got, we have been performing better than that. I think if this continues, there is no reason for us to relook at taking any provisioning or anything on the SRs that are there on the balance sheet.

**Manuj Oberoi:**

Got it, Ashish. Just two house keeping questions on the average duration of the portfolio.

**Moderator:**

Sorry to interrupt. We request you to please rejoin the queue if you have any further questions.

**Manuj Oberoi:**

No issue. Thank you.

**Moderator:** The next question is from the line of Sameer Bhise from JM Financial Limited. Please go ahead.

**Sameer Bhise:** Yes, hi. Thanks for the opportunity and congrats on a good quarter and a swift turnaround. Just wanted to get a sense on the new borrower additions as well as the outstanding borrowers. Any sense on what is the exclusive to Spandana share or, say, one borrower, one lender or two lender kind of a mix there?

**Shalabh Saxena:** Yes. So, thanks, Sameer, for the question. 36% is single lender relationship, which is Spandana. 36-plus 28 is 1-plus 1, so which is let me do the math. So, 65% adds up to 1-plus 1, which is Spandana-plus 1 more. If I add 1-plus 2, it comes to 85.8% and add another 1-plus 3, it is 93-point. So, Spandana-plus 3 is another 10%. I'll repeat the number so that we don't end up confusing single lender relationships Spandana only 36% -- 36.7% to be precise. Spandana plus 1 is 28.7% more. So cumulatively, it was 65.3%. Spandana plus 2 is 65.3% plus 20.4%. So that's 85.8%. Spandana plus 3 is another 10%, and then there is greater 3, some 4%. So if you go back to the earnings call, I think it was a first call or the quarter 4 call or maybe the first quarter call, I had given an indication at that time, we were at 33% single lender, 38% or 39% was the -- 37% or 38%, I had said that single and 1 plus 1, we should be at about 80%. We are at 65.3%, another eight quarters to go, reasonably confident that we'll be there.

**Sameer Bhise:** Great. This is helpful. And secondly, on the newer products, I mean, would it be a bit prudent to kind of see how the existing book kind of shapes up and then really push the pedal on the newer one? Or you think we are in a quite a steady state in terms of the existing business and it is the right time to scale up? Just wanted some thoughts given that it remains quite a competed space and currently, probably industry is also in a benign credit environment. So, would it be okay to kind of start a new line of products?

**Shalabh Saxena:** So, Sameer, you cannot take the eyes off the ball at any given point in time. So, should you press the -- so what are the options available? Either you go and source new customers or you kind of deep dive into your existing base. A combination is always advisable, number one. And yes, I go back to the presentation. 29% of the loans in the quarter have gone to the seven states that we had identified. So, the -- and we are deep rural. So, we don't operate in any of these urban areas. So, the more deep you get, you will land up with a decent number of fresh new to credit -- sorry, not new to credit. It will be a combination of either new to credit or a single lender relationship. So, we are happy with it. But at the same time, we'll keep monitoring like always.

In the past, we have done many studies on this. Only Spandana or only financier or a 1 plus 1 from a quality point of view is okay. There is a clear correlation between the -- and it is inversely proportional, the quality is inversely proportional to the number of lenders. So, you add more, it doesn't help. So you to kind of ensure that you are in the range of the 1 plus 1 ideally one, I mean, which is one single lender, at best go to 1 plus 1, 1 plus 2 grudgingly yes, but try to kind of skirt away from the plus 3, plus 4, but we are operating in an imperfect market. So, we will continue to operate in the single plus 1 and add thus plus 2. So, we keep on calibrating, there is no straight answer to this that we will choose this or that. It is just that you to keep on monitoring the geographies and the portfolio, the quality that gets delivered.

- Sameer Bhise:** Great. This is helpful. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.
- Sarvesh Gupta:** Thank you, sir. And congratulations on a good set of numbers. Just one question. Most of the questions have already been answered. But on the credit cost side, from a P&L perspective, when do we sort of target to reach this 2% annualized guidance?
- Ashish Damani:** Yes. Sarvesh, good evening. And yes, the way we are looking at it is by end of this financial year, we should be in that range of 2% kind of credit cost. Given that the new book has already been performing well and most of the provisioning has been done for the flows that we have seen in the past are coming from the COVID period, I do believe that for the full year, we should be in that 2% kind of our business.
- Sarvesh Gupta:** So, FY '24, you would aim to be, let's say, 2% of whatever INR10,000-odd crores average AUM or something around that?
- Ashish Damani:** That's right.
- Sarvesh Gupta:** Okay. And this 70% PCR, is there a -- I mean, is this it given how we view the portfolio and the macro, or do you want to further increase? Is there an aspirational number for PCR as well?
- Ashish Damani:** So, this is a journey, and you have to keep evaluating this at every stage. Presently, we feel very comfortable with 70%. But we'll keep evaluating. And look at a higher number, if need be. We have already moved to having a policy on a technical write-off, where we will be writing off loans, which will be anywhere in 365 from the GNPA. So that has already been done. So, we keep calibrating in terms of what is required from a prudence perspective. And as and when need be, we will step up the numbers as well.
- Sarvesh Gupta:** Understood. Your NIMs, how do you see that stabilizing at? Because you said 25-plus 1 we are giving for the new loans and then you would see some reduction in your cost of funds also going forward, hopefully. So where can that -- the NIMs or maybe the spreads where can that stabilize?
- Ashish Damani:** So, we have targeted a 13.5% kind of NIM. We are already there. There may be a slight improvement from what we are targeting. But I think 13.5% will be something that one can take as a BAU or a stabilized kind of a NIM.
- Sarvesh Gupta:** Thank you and all the best.
- Ashish Damani:** Thank you so much Sarvesh.
- Moderator:** Thank you. The next question is from the line of Jignesh Shial from InCred Capital. Please go ahead.

**Jignesh Shial:** Yes, hi. Thanks. Congrats for a very strong set of numbers. Just mostly the questions have been answered. I just wanted two things. One, Shalabh you already indicated that there would be a more branch opening, it would be basically front-loaded. So, do you see that basically opex might see a spike probably in FY '24, or you think the revenue should also flow in and things should be more or less normal and should tend to go downwards only? What's your view on that?

**Shalabh Saxena:** Yes. So yes, so we will see a bit of a spike, but then it will normalize as we progress during the quarter and the year. This is a standard flow. A typical microfinance branch takes about five months to breakeven on its own and 11 months to come into a full black. So that's the reason why Jignesh, we are trying to open the branches as early as possible so that we have a clear runway. So, answer to your question is yes, we will see a bit of an uptick in the -- or a spike in the cost, but then it will normalize as we progress during the year.

**Ashish Damani:** Jignesh, just one more addendum to what Shalabh said. For the full year, it should more or less be flat.

**Jignesh Shial:** Understood. That's helpful. And secondly, you're talking about starting with this LAP business and then gradually into micro enterprise loans. So, a little bit more colour on it? I mean what kind of customers are you targeting or what would be the average ticket size, yields on it, some bit of colour on it would be really helpful? At least on LAP side, if you give some idea about how we are planning to shape it up in the next at least two quarters to four quarters and then gradually how market base loans will be gradually coming in? So, any more colour which areas are you looking into it, ticket size and yield and all, or any more colour on it? Thanks.

**Shalabh Saxena:** Yes, sure. So Jignesh, thanks for the question, and thanks for the interest. So, I will start, and then I'll hand over to Sushanta, who is the Chief Business Officer, looking after this business. We, as a company, we will continue our journey into the rural / in the case of LAP, slightly a level below the semi-urban geographies that we are talking about. So that's what we will penetrate. That's number one.

Number two is we will always remain the bottom of the pyramid even on ticket sizes -- on the ticket size, not on the customer profile because this is not a microfinance customer who's kind of being upsold LAP or whatever. Yes, there will be about 5%, 7%, but not -- I mean, that's not the mainstay of the model. So, what we will do is that our ticket size, our anticipations will be in the range of about INR4 lakhs to INR6 lakhs and ideal is about INR3 lakhs to INR5 lakhs. So that's number two.

Number three is we've got a completely new system, Jignesh. We had an option to kind of -- we already had -- when we took over, we had a book of INR125 crores, but we allowed it to sort of -- we did not walk into -- we just were doing the collections. We did not restart the business because we wanted a new system. As we speak, the new system is live. We will now have -- we have brand new LMS and LOS, where we'll operate the Nano Enterprise and the LAP business. So the geographies are rural, number one, the ticket sizes will always be a INR3 lakhs to INR5

lakhs, that's our sweet spot. We'll kind of get into it. Number two, completely different set of people who and the set of branches who are going to look at it with a credit focus. This has nothing to do with JLG and hence completely separate. There is a market for this particular segment.

I hand over to Sushanta, who is leading this business to kind of...

**Sushanta Tripathy:** This is Sushanta this side. So happy to share that the LAP business, we have re-launched during the quarter. And we have a decent book of INR125 crores at the peak level. But now because of the lack of the dedicated software solution, we kind of were not disbursing for a long time. So now we have taken a new software solution on LOS-LMS integrated. It's a fully digital on-boarding journey is there. So that is up and running. So, we have started in one branch. Now we are entering into different states. For example, we are starting in Rajasthan as the state we have taken. And there, we have identified 10 branches and staff on-boarding all the things are going on. So, this quarter, Q1, you will be finding a lot of traction on this.

And as Shalabh mentioned, we are targeting little less ticket size and unlike the market practice of INR7 lakh to INR10 lakh, we will be having in the range of INR3 lakh to INR4 lakh kind of ticket size to start with. And gradually, once we have the good experience, we'll progress toward that. And maybe next two quarters is very critical for us. As I mentioned, we have selected Rajasthan as a state, we'll go a little deep, understand the market and enter into three, four new states that we have identified during the financial year. And typical our LTV, it will be like 40% to 50%, 55%. So, we'll be very, very conservative in that. And it's the semi-urban a little bit of rural pocket. And some of our existing microfinance customer maybe eligible to that eligibility criteria, and we will upgrade them to that level. That's the journey.

**Shalabh Saxena:** So Jignesh, we are testing waters. We will be very cautious and conservative like other things, and we will progress on this. We'll keep everyone updated on this.

**Jignesh Shial:** Yes. So just to add to it, it won't be kind of cross lending. Completely new set of customers that you're targeting as a new product -- and you -- I mean, probably same geographies, but basically, it will be a completely different set of product or even target but it won't be a cross-sell kind of way?

**Shalabh Saxena:** Yes. So, if it is the same geography, it will be coincidental, not as a part of design.

**Jignesh Shial:** Understood. So, this basically should be your...

**Moderator:** Sorry to interrupt, we request you to please re-join the queue if you have any follow-up questions.

**Jignesh Shial:** Thanks, Shalabh. Thanks, Sushanta.

**Shalabh Saxena:** Thank you, Jignesh.

**Jignesh Shial:** All the best.

**Moderator:** The next question is from the line of M.B. Mahesh from Kotak Securities. Please go ahead.

**M.B. Mahesh:** Good evening. Just one question, if you could just kind of highlight which of the states are now dominating your disbursements for the quarter and also as a portion of your overall loan book?

**Shalabh Saxena:** So, the Top 3 states are Madhya Pradesh, Odisha and Andhra Pradesh. This is the current situation. However, when we came out with our Vision '25, we had identified seven states, Mahesh, where we will focus where we have a market share of less than 0.5%. 30% of the loans this quarter have gone to those -- into those seven states and as we progressively keep on moving ahead. End of this year, the total share of these seven states will be about 22%, 23%. End of FY '25, we should be in these seven states, about 40% of our AUM. So that's how we're planning to scale up. So that one, we ease on the concentration norms at a state level and at a geography level. And two is obviously increase our market share in areas and regions which are definitely good for the industry as well. So, it's a calibrated approach over the next eight quarters, you'll see the whole story panning out the first quarter, which was the last quarter was the start.

**M.B. Mahesh:** And in all these states, would you -- actually the competition levels have come back to pre-COVID levels, as you may have seen in the past?

**Shalabh Saxena:** Yes. So, see, this is -- you always have to -- as I said, the third time in the call, I'm mentioning that this -- you have to keep on -- you cannot afford to take the eyes off the ball. The competition levels for when you are at 0.5%, 0.6% kind of market share, the first 1%, 1.5% will never -- I'm not saying nothing is easy in the world, but then it's not -- your challenge will be post 15,000, how do you kind of scale up. So, until now, until the 15,000 number that we are talking about, I think with our experience and whatever understanding of the market that we have, I think we should be good both on quality and quantity deliverables.

**M.B. Mahesh:** Okay. The second question is on your cost of funds. Would you say that the increase that you have seen in your cost of borrowings has been relatively sharper than what we have seen on some of the other NBFCs, because we've not seen such a high jump of about 160 basis points in about four quarters in some of the other NIMs, or are we missing something here?

**Ashish Damani:** So, if you look at marginal cost, yes, maybe we will be higher by 25 to 50 basis points due to various reasons, one. Two, I think this is something that we've been kind of talking about, Mahesh, that our sources of borrowings is very dominant on the capital market side, which is relatively an expensive source of borrowing as the participation from the public sector banks kind of step-up, this should start getting rationalized and whatever the higher cost that you see should then be in line with the market. I mean the benchmarks or the comparisons that you are doing, they will have a very high dominance of the public sector banks or private sector banks in terms of their funding mix and that kind of drives the lower cost. It should start playing out for us as well in this financial year. Mahesh, you there?

**Shalabh Saxena:** Mahesh, we can't hear you.

**M.B. Mahesh:** I'm done with my questions. Thank you.

**Shalabh Saxena:** Yes, sure. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

**Vignesh Iyer:** Congratulations on good set of numbers. Just one question -- most of my questions are answered. Just one question from my side. What is the stabilized ROA? Are we looking at most probably FY '24, '25? So, you have guided for AUM for FY '24 and FY '25, I mean, what's your internal estimate, if you could?

**Ashish Damani:** So, we've talked about the BAU ROA in the past, Vignesh, and I think we're sticking to that. 4.5% should be the BAU ROA for us. And we are very positive that by the last quarter, for sure, it should start stabilizing at the 4.5% ROA.

**Vignesh Iyer:** Okay. Nice. That's all from my side. All the best.

**Ashish Damani:** Thank you so much.

**Moderator:** Thank you. Ladies and gentlemen, that will be our last question for today. I would now like to hand the conference over to Mr. Shalabh Saxena for closing comments. Over to you, sir.

**Shalabh Saxena:** Thank you very much to all of you for listening to us. We laid out a plan about four quarters back, we will stick to the plan. It was a three-year plan, of which we are 1/3 down, which is one year out of three years gone. Overall, I think we are in line from an execution point of view, we are in line. Thanks to all of you, and there are two vote of thanks that I would mention or want to mention.

One is the entire -- all our shareholders and all the stakeholders, which is our lenders, etcetera, one. And two is our team, both at the head office and the branches, which have kind of pulled up and really delivered what one would have wanted to probably a quarter ahead is what I would say. Finally, I would want to thank all of you who are on the call. We get gems of advice from all of you in a very, very innocent and innocuous manner.

Please keep on giving us those pieces of advice because we are here to learn. For every step that we take, we'll reach out to you in case we need and otherwise, happy to kind of engage with any of you who would want to have a chat with us. Thank you very much for joining the call. Thank you very much.

**Moderator:** Thank you. On behalf of Spandana Sphoorty Financial Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.