

February 7, 2019

To,
The Manager,
National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra East, Mumbai-400051

The Manager
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400023

Scrip Code: SATIN

Scrip Code: 539404

Dear Sir/Madam,

Sub: Update on Conference Call held on February 5, 2019;

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in furtherance to our letter dated February 4, 2019 with respect to Conference Call held on February 5, 2019, we hereby submit the transcript of such conference call with this letter as an **Annexure-1**.

We request you make this updates public by disclosing the same at your website.

Thanking You,

Yours Sincerely,
For **Satin Creditcare Network Limited**

(Choudhary Runveer Krishanan)
Company Secretary & Compliance Officer

Encl: a/a



**“Satin Creditcare Network Ltd Q3FY19 Earnings
Conference Call”**

February 5, 2019



MANAGEMENT: **MR. HP SINGH – CMD, SATIN CREDITCARE NETWORK LIMITED**
MR. JUGAL KATRIA – CFO, SATIN CREDITCARE NETWORK LIMITED
MR. DEV VERMA – COO, SATIN CREDITCARE NETWORK LIMITED
MS. ADITI SINGH – HEAD CAPITAL MARKETS AND INVESTOR RELATIONS, SATIN CREDITCARE NETWORK LIMITED

MODERATOR: **MR. ALOK SHAH – CENTRUM BROKING**



*Satin Creditcare Network Ltd
February 5, 2019*

Moderator: Ladies and gentlemen, good day and welcome to the Satin Creditcare Network Ltd Q3FY19 Earnings Conference Call hosted by Centrum Broking Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Aalok Shah from Centrum Broking Limited. Thank you and over to you sir.

Aalok Shah: Thanks Janice. Good morning all on behalf of Centrum Broking. We welcome you for Satin Creditcare's Q3 FY19 results update and an update on the business. From the management's end today we have Mr. HP Singh – CMD, Mr. Jugal Katria – CFO, Mr. Dev Verma – COO and Ms. Aditi Singh – Head Capital Markets and Investor Relations. Without taking much of your time I would hand over the call to Singh Sir, post which we can take up questions and answer session. Thank you and over to you sir.

HP Singh: Thank you Alok. Good morning everyone. Presenting to you the key highlights of our performance in the last quarter.

In terms of our geographical expansion – we have started our footprints in south thereby taking the number of states where we operate now the states and the union territory is about 23, serving about 35 lakh customers. We started operations in Tamil Nadu, Karnataka and Pondicherry in Quarter 3 of FY19.

On a consolidated basis our AUM has reached Rs. 6,208 crores, an increase of about 27% YoY. We have added 52 new branches through the quarter taking the total number of branches to 1,118 and we have added 123 branches in the last 9 months. The PAT has registered a YoY growth of 49% and a QoQ growth of about 56% to Rs. 71 crores for Q3 FY19. Our 9 months PAT stood at Rs. 145 crores against the FY19 guidance of Rs. 165 crores. It is up by 290% YoY. The company has registered an ROA of 4.2% and ROE of 27.6% for the quarter. 9 months ROA stood at 3% and ROE at 19.6%. And ROE for one of our subsidiary companies, Taraashna, stood at 26.02% for the period ended December 2018. The net worth stood at about Rs. 1,071 crores with a capital adequacy of 30.1%. The company's cost to income ratio for the quarter stood at 46.2% as compared to 54% in the last quarter.

The managed portfolio under the tie-up with IndusInd Bank is now at Rs. 407 crores. It is up from Rs. 215 crores from the last quarter. The Gross NPA of the company is at 3.2% and provisions are at about 2% for this quarter. Collection efficiency for loans disbursed after January 2018 is at 99.5% which is thereby signaling a return to the normalized collection levels pre-demon.



*Satin Creditcare Network Ltd
February 5, 2019*

Our blended collection efficiency is nearing 99% and just to mention that we have had a recovery of close to about Rs. 11.5 crores from the write-off in the last 9 months. The draw-downs have witnessed a YoY increase of 65% to Rs. 3,829 crores for the period ending December 2018 including securitization and assignment transactions of Rs. 1,301 crores.

Our funding mix is very balanced with the right mix of term loan, NCDs and DA. We do not have dependence on CPs or Mutual Funds. The share of NBFCs in the category of our lenders has come down to 15% from 24% in the last quarter. We are one of the first MFIs to launch into fintech with an app called Loan Dost. It is a digital lending platform and we are looking at some traction in that application also. We have received our NBFC license for Satin Finserve Limited, to build an MSME book tapping the huge distribution outreach of Satin. And MSME as well as housing finance businesses are taking good shape with very good portfolio quality.

Thank you so much and I open the floor for question and answers.

- Moderator** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Piyush Chhada from Serendip. Please go ahead.
- Piyush Chhada:** Just had one query on the assignment we have done this quarter, we have done roughly Rs. 890 crores of loan assignments. How do we recognize income on this? Is it upfronted or is it amortized over the life of the loan?
- Management:** We have done Rs. 755 crores of assignment during this quarter. As per IND AS the income has to be recognized at the time of selling the portfolio, so we have done the same.
- Piyush Chhada:** So, it is an upfront recognition, thanks a lot.
- Moderator:** We will take the next question from the line of Agastya Dave from CAO Capital. Please go ahead.
- Agastya Dave:** Could you talk us through Slide #21 and #22 and I for one am still hardwired to the old accounting of NPAs and am still like struck with standard asset provisioning and all that. So, can you just talk us through this how is the transitioning happening? In future first of all because of the business realities what kind of provisions and credit costs we can expect and second is what is a good number going to be like because it seems like you can have a very low NPAs for a long time and then there could be a spike for the company. So, how is this credit cost going to pan out over a period of time from the accounting point of view? The second thing is the same question from a business point of view, what are you seeing on the ground? Are you seeing any threat of slippages because of the political environment? Any commentary on that? And finally,



*Satin Creditcare Network Ltd
February 5, 2019*

sir, on the securitization and assignment side, if you can just tell us about the yields at which these are done?

Management:

I would probably start with Slide #20. We have tried to explain that how the collection efficiency or the portfolio that we generated before January 2018 and after January 2018 has panned out. So, the portfolio that we have created from January 2018 to December 2018 which is representing 78% of the portfolio is yielding 99.5% cumulative collection efficiency. And the portfolio before January 2018 that is yielding 98-point collection efficiency. There again there is an improvement if you see in the previous quarter the collection efficiency on the portfolio that we created from January 2017 to December 2017 was 97.7%. There also there is an increase, it is about 98.2%. If I go to Slide #21, there again if you see overall the collection across buckets have improved, the PAR has improved, the gross buckets from March 2017 to December 2018. So, PAR1, PAR30, PAR90 all buckets are showing improvement. The gross NPA is about 3.2% and we have made an ECL provision according to the trends for about 2%. And we feel that we still have an overdue of about Rs. 85 crores which is more than 90 days. So, as against Rs. 85 crores of overdue we still have provision of about Rs. 114 crores. We are getting some recovery out of the amount that we have already written off, so have collected about Rs. 11.4 crores out of the amount that have already been written off. So, all the efforts on the grounds are yielding results and we are focusing totally on the portfolio quality rather than focusing on growth for some time, so that it is at the pre-demon level.

Management:

And taking a cue from there I think you asked me a question that how is it on the ground. On the ground whatever is happening across I think with loan waivers and everything you know elections and all that stuff, the moot point is that if you look at the collection efficiency of the new portfolio, it is at about 99.5%. So, nothing probably is destabilizing anything onto the ground and this is how it is going to go further. Just a small point to add onto that – even in this scenario we as a company we have been able to recovery about Rs. 12 crores worth of write-off amounts, speak of how probably the ground is also looking at PAN India wherever we are operating especially these impacted territories wherever they are. So, that is the cue which you can probably look at.

Agastya Dave:

Sir, some of the banks are very worried about SME and MSME loans and also, we keep on hearing slightly worrying thing about Mudra Loans, so are you seeing any trends on the SME and MSME side? You are just about starting the business I believe, right?

Management:

That is right. I think we are just starting our business, so one of the very fine prints which we want to develop as we go forward that is we are going to capitalize on our distribution outreach of microfinance. So, what we are looking at is probably the missing mid-lane, not typically the SME which I think here a lot of SME players do it. Since we have a distribution outreach, we will be looking at maybe majorly the rural SME piece where the loan amount would probably



*Satin Creditcare Network Ltd
February 5, 2019*

be slightly lesser than what normally is given out on SME. So, we are looking at one of the products which probably would be rolled out between about 1 lakhs to about 5 lakhs for this kind of SME. This could also be a graduation of a lot of our customers who now probably require more amounts in terms of their income generating activities as compared to what microfinance. So, for us we are on a different platform altogether and what we are looking at in terms of our future for SME also, I think a lot of it is going to hinge upon this piece also as a product.

Agastya Dave:

Sir the securitization rate and also your cost of funds other than securitization.

Management:

Sir blended cost of borrowing is close to about marginal cost is about 11.5%. There are a few lenders who have increased the rate a little bit but considering our comfortable capital position, ALM position etc. thankfully we are getting funding. As far as rates are concerned assignment securitization, we are getting roughly 1.25% to about 1.5% higher margin than what we get roughly around 9.75 to 10% on our on-book portfolio.

Moderator:

Next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal:

My question is on we are expanding our operations in the southern region also, so (a) there are already very strong MFI in those regions and secondly, how we will be competing because our cost of funds is higher than those players? So, could you throw some light what is the strategy behind getting into those markets where things are very strong and MFI operating and cost of fund advantage will not be there for us?

Management:

I think we have a different view. Firstly, after demonetization I think one of the lessons learned is that technically you will have to diversify your geographical presence. Having said that, it is just been starting of the operations but there is still a lot of territory left in these markets also where MFIs have probably not taken a deep dive into the geography as such. So, we are getting demand from there which is probably looked at by the credit bureaus also. So, it has been there. The other is I think the credit bureau works very well across for MFIs. Definitely there is no this thing. There is still a lot of penetration which has to be done in the Southern territories. So, for us our whole focus is to probably be geographically diversified and have a PAN India operation. In terms of our cost of funds, I think we have been stable in spite of the fact that we have opened up so many branches across over there. Also is the fact that we have added more manpower to go forward and look for how we are able to get back our write off amounts back. So, all that taken into queue our OPEX ratio is being stable for the last two quarters. So, we feel that once we are probably be able to able to realize the benefits of a deep dive into the southern markets, our OPEX will definitely take somewhat of a downturn from there. So, having said that, having operations over the last 3-4 months, the major peak of probably our branch expansion has taken shape. So, I think it will probably be better in terms of OPEX ratios from hereon.



*Satin Creditcare Network Ltd
February 5, 2019*

Manish Ostwal: The second question on the growth side, what is our growth outlook going ahead given the tight security in the system and secondly, we have already got the SME license for SME financing business, so what are the plans over there?

Management: I think of the SME I just said in the last question that we are looking at probably rural SME because of our distribution outreach. One of the products which we are seriously considering to look at is our microfinance borrows who have had 6 to 8 cycles with us and they want to upgrade their income generating activities. They need a higher loan. That is probably one of the best markets, we can look at SMEs once we start our operations in the SME company. The second point which you said I think liquidity has not been a problem ever. So, for us what we are looking at is not because of liquidity or anything, we wanted to do more of portfolio quality work for the last quarter as such given the way the market was panning out to be. We have enough liquidity for us to grow technically on a reasonable level of about 25-30% year on year. That is what our whole theme is all about. That is not a challenge.

Moderator: Next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: This is with respect to the assignment transaction, when we compute the upfront fees, upfront income, so in that whatever is OPEX that we would intend in the future that thing is also adjusted in that calculation. Is that correct?

Management: No, I do not think that is permitted. We discussed that internally, should we make a provision against that. I do not think the standard allows that.

Management: It is a normal OPEX which we do in terms of how our collection pans out. That is the normal OPEX which is going to come over there.

Rohan Mandora: So, that OPEX expense we would incur in future and there is no corresponding income against that.

Management: Yes, that is going to happen because that is what the standard says means if we do not have flexibility to make some provision for the future expenses right now.

Moderator: Next question is from the line of Sameer Dalal from Natwarlal & Sons. Please go ahead.

Sameer Dalal: My question is in regards to the fact that you will, put 40% of your current branches towards IndusInd Bank for the banking correspondence and the work. So, your capital requirement is going to start coming down because you are not going to have these zones in your book. So, does that mean at least that going forward we would not see as many equity dilutions that we have seen in the past, the fund raising as we have seen in the past?



*Satin Creditcare Network Ltd
February 5, 2019*

- Management:** Do you want to take it on the positive side?
- Sameer Dalal:** I think so. Is that a fair assumption or would you require more capital for the SME book and the MSME book? And the second question is how do you want to take that as a percentage of your overall loans? Like when we look at your company say 2-3 years down the line, where do you think the balance between the housing loans, the microfinance loans and SME loans how would it look at company as overall?
- Management:** Let me get back to your first question which sounded a little bit more positive in terms of how our capital adequacy will take shape. Yes, you are right, I think the tie-up was also done based on how do we strengthen our balance sheet, how we go forward plus how do we have on-tap funding whenever things like these liquidity crisis arise. I think if we really look at it we are probably the best ones to address this liquidity overhang at any point of time moving forward. So, that is how we are trying to look at it from our standpoint. Dilution will be yes, probably it will be less but I think dilution might happen at some stage where we feel that it is proper to infuse more funds in our subsidiaries for MSME as well as for housing. Having said that, I think how we are trying to really look at the mix, how it will probably do at – we are building up from scratch the books of MSME as well as for housing. Housing today stands at about Rs. 45 crores. We feel that I think 3 years is not a proper time to really look at it but if I give you maybe an insight into how 5 years down the line how will it look, with an increase of about 25-30% on our microfinance portfolio, I think we will have a mix of about 2/3rd and 1/3rd microfinance and non-microfinance. So, non-microfinance would probably be 1/3rd of our total AUM 5 years down the line.
- Sameer Dalal:** Also any additional tie-ups planned like similar to, IndusInd, I know that IDFC First Bank had invested in your company, so any possible tie-ups with someone like them for further banking correspondence work or would you like to grow some of your microfinance book also on your own books?
- Management:** I think we are happy with IndusInd Bank and they have taken the major share. We would also like to grow our own book. So, for us we have an exclusive contract arrangement with IndusInd Bank and Satin. So, I think that will work. But having said that I think we are probably not averse to any kind of a major tieup happening in our subsidiary company Taraashna which probably can take shape at some point of time. We are evaluating a few things in Taraashna also. Let us see when and how these things materialize.
- Moderator:** Next question is from the line of Kaustav Bubna from Rare Enterprise. Please go ahead.
- Kaustav Bubna:** As we move into 2019 and further what are the risks and concerns in your mind as management with the industry and as you carry forward business everyday?



*Satin Creditcare Network Ltd
February 5, 2019*

Management: I think the biggest what we have handled is demonetization and then we have followed up with liquidity crisis and everything. But my own sense is I think we are probably becoming veterans in handling crisis across wherever you come from. So, my own sense is that election, loan waivers, liquidity overhangs, IL&FS, demonetization, everything. We have had so much in plenty and still we have been able to survive, we have been able to grow, we have been able to increase our profitability. It speaks well of how we are able to address crisis for us. So, our own sense is, it makes us stronger and as a management team I think we hope we are able to address anything which comes over. But we will take it how it goes and we are well used and adapted to maybe navigate all these things coming in the future.

Moderator: Next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Now that we are normalizing post all these crisis, what would be your sense on the credit cost going forward? You gave me some breakup of everything and I understood most of it but going forward what would be the natural level of credit cost that you expect? What will be the credit cost approach? Which numbers are good to pencil down?

Management: I think we did speak about this when we were hit by demonetization and to be honest we were probably the worst hit amongst all the MFIs. We have still maintained at that point of time that yes, we will bounce back and we have done fairly very strongly in terms of our comparable peers as such. Having said that I think what we are focusing now, since the last 2-2.5 years, is majorly on the portfolio quality. And our own sense is I think this collection efficiency of 99.5% which typically would give you a credit cost of 0.5-0.75%. I think we are looking at this collection efficiency moving forward. Now if this collection efficiency, the way we have handled it in the last 1.5 years as such, after disbursement from January 2018, I think if that holds true, your credit cost numbers probably will come out from there. So, it will be within that range where our collection efficiency is there 99.5% and it hopes to remain over there. So, that is how we are looking at the future. So, credit cost will fairly be very-very insignificant as compared to what it was earlier when we had these huge hits coming in.

Agastya Dave: Have your loan rejection rates gone up post all these? Have you tightened your underwriting standards? What are the changes that you have done?

Management: There have been a slight increase, definitely yes in the rejection rates, it has been there. Our processes are very well tightened with technology taking the major face of how we operate in our geographies. We have got a very strong risk team which is working definitely whenever we are starting operations. Like the way we started operations in South, we had a full-blown survey done by our risk team and everything across with it. Processes yes, are getting more technologically efficient which would thereby definitely lead in terms of a portfolio quality which the way I have earlier said are panning out to be. So, that definitely is there.



*Satin Creditcare Network Ltd
February 5, 2019*

Agastya Dave: Sir you have a lot of capacity on the balance sheet size because of the high capital adequacy but on the P&L side given the level of OPEX that you are incurring every year, at that level what kind of portfolio can you sustain? I mean your physical capacity of disbursing loans for a year, what is the maximum capacity given the current level of investments you have on the ground?

Management: I do not get your question, how the capacity is working out to be.

Agastya Dave: So, you talk about x number of branches, how many of them have saturated their business potential? How many of them are operating at 100% utilization in terms of loan disbursements; that beyond this point they cannot disburse any further loans because then like they have penetrated catchment area completely.

Management: I think we will have to probably understand how this whole operates. Probably major of our branches were in the impacted territories where demonetization took a hit. If I give you just maybe a simple answer to it we are present in half the districts in UP. So, today technically we have so much of room for increase in our scalability growth that it does not hurt us. The other thing is what you are trying to say that how many branches are saturated. Whenever this thing happens across, there is a simple phenomenon, you actually split those branches. So, saturation at any point of time does not affect our OPEX or our room of scaling of growth. So, that is not a point of concern for us at any point of time.

Agastya Dave: Final question sir, you have started cashless disbursements I saw in the presentation. How far away are we from cashless collections?

Management: I cannot diverse too many things right now but yes, we are looking at a few pilots which might give us an answer to how cashless collections would probably be done. And based on our technological digital lending platform I think we are looking at a couple of things more besides that. So, let us see, we might have an answer pretty soon onto that.

Moderator: Next question is from the line of Rajeev Mehta from Yes Securities. Please go ahead.

Rajeev Mehta: A few questions in terms of – just wanted your comments in terms of how the group discipline is behaving in some of the existing geographies where we are there in terms of possible attendance levels out there and secondly on the process of group formation in the new geography that we have entered, and in particular the southern regions. Is it just that we are kind of booking people based on the gains or you are also trying to ensure that the social connect so that the JLG model can withstand any form of challenge?

Management: I think JLD has – I think the baseline is always the social connect when we do JLD operations. Having said that, probably if we look at how the credit culture has moved after demonetization and everything, I think there were hiccups after demonetization for a certain period of time but



*Satin Creditcare Network Ltd
February 5, 2019*

I think the whole culture has come back now. We are also looking at a few products where we are able to build up this rapport with our existing borrowers. I think that is probably also been one of the things where attendances have now gone up significantly even in the impacted territories. Having said that I think our South foray definitely yes, the connect has always been our mainstay. We definitely would keep on doing that in terms of our operations in South. And I believe I think I have done 30 years of my life now into all this. I believe probably as a business model Joint Liability Group, the JLG model is probably one of the most better ones in terms of retail rural financial services at any point of time. We still believe in that.

- Rajeev Mehta:** What will be the central meeting attendance levels in some of the existing geographies?
- Management:** An abstract figure which I can give you is, 80% of our centers are averaging about (+85%) attendance.
- Rajeev Mehta:** And just lastly in terms of provisioning whereas we can see that your holding book provision overdue a month, are we thinking of creating a buffer for the future, unexpected risks which can come in or are we also kind of falling back on some of the expected recoveries from the written-off pool which is why we are not trying to create a slightly larger buffer?
- Management:** I think Rajeev two things which you will have to keep in mind. Definitely yes, as compared to I do not know how the figures are panning out for other players but we definitely feel that we have done significant efforts and there has probably been somewhere we feel that the advantage of having write-off recovery is coming, have been pretty significant in terms of our case. And we look forward towards just looking at this because we feel that once the culture dies down you really also have to go back to the borrowers as such, so that nobody can probably take our money to them. That is what our feeling is. That is something which we are looking at and that is a bonus whatever is coming in because people definitely do not do anything write-off. We still work on it. So, that is a bonus which will come. The other thing I think what we are trying to build up also and which I probably said earlier is also our tie-ups with IndusInd Bank and our levels of DA and securitization and everything which is happening across. We are building that buffer through our profitability, our increased margins coming from there. And if our requirements, that is a reserve which we are trying to build up in terms of our way forward. So, these are the few things which we are trying to really look at.
- Rajeev Mehta:** Would you want to guide us through FY20 expected ROA-ROE considering a normalized securitization or assignment levels what are we targeting from FY20?
- Management:** I cannot give you exact figures but definitely yes, a large improvement from where we are.
- Moderator:** We will take the next question from the line of Riddesh Gandhi from Discovery Capital. Please go ahead.



*Satin Creditcare Network Ltd
February 5, 2019*

Riddesh Gandhi: Just had a question with regards to the risks you perceive with IndusInd becoming a larger percentage of your book and any potential conflict of interest with recent closure of the acquisition of financial and if you are kind of considering or diversifying the relationship with a few other executive banks as well.

Management: I think if I answer your question, whatever I think is there it has been all there in the contract with IndusInd Bank and both the managements of IndusInd Banks as well as Satin, we have had a clear understanding of our way forward and that is the reason why this was probably one of the things which was captured in the contract between the two managements. Our tie-up with IndusInd Bank came after their acquisition of Bharat Financials. So, I think it is very clear that the reasons why we are looking at both the managements getting together is again growth, even after having acquired Bharat Financials, so I think that is there. The other thing which we also have, since we have IndusInd in Satin but we have a BC company Taraashna so we have a couple of partners across over there. We will definitely try and leverage that balance sheet also in terms of how we increase probably our tie-ups in that company which will lead to maybe an extra growth even in that company which will indirectly benefit Satin also.

Riddesh Gandhi: And with regards to your actual release – fine that you guys are close to achieving I think in the nine months your entire FY19 guidance, is there any revision on how much you would be looking to do because I mean typically in Q4 ends up being the strongest quarter.

Management: We didn't revise it because we know that we will surpass that, that is very clear but we have not given a guidance so let us see how this quarter pans out and you are right I think what you said, the last quarter is always probably one of the strongest quarters, so we want people to really keep on seeing where we land up from here on.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for the closing comments.

Management: Thank you so much.

Moderator: Sure, thank you very much. Ladies and gentlemen, on behalf of Centrum Broking Limited we conclude today's conference call. Thank you all for joining us. You may disconnect your lines now. Thank you.