CSL Finance Limited

CIN: L74899DL1992PLC051462

May 21, 2024

National Stock Exchange of India Limited Exchange Plaza, C-1, Block-G, Bandra Kurla Complex, Bandra (E), Mumbai - 400051 **NSE Symbol: CSLFINANCE**	**BSE Limited** Corporate Relationship Department, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400001 **BSE Scrip Code: 530067**

Dear Sir/Ma'am,

Sub: <u>Transcript of the Conference Call held on May 16, 2024</u>

With reference to our letter dated May 09, 2024, intimating you about the conference call for Analysts and Investors held on May 16, 2024, please find attached the transcript of the aforesaid conference call.

The above information shall be made available on the website of the Company viz. www.cslfinance.in.

We request you to kindly take the above information on your record.

Thanking you

Yours Faithfully,
For **CSL Finance Limited**

ROHIT GUPTA
Digitally signed by ROHIT GUPTA
Date: 2024.05.21 12:35:56 +05'30'

Rohit Gupta
Managing Director
(DIN: 00045077)

Encl: A/a

CSL Finance Limited
Q4 FY24 Earnings Conference Call
May 16, 2024

Moderator: Ladies and gentlemen, good day and welcome to the CSL Finance Limited Q4 and FY24 Earnings Conference Call hosted by TIL Advisors Private Limited.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing *, then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sayam Pokharna from TIL Advisors Private Limited. Thank you and over to you, sir.

Sayam Pokharna: Thank you. Good afternoon, everyone. We appreciate you taking the time to join us today on this call. As a reminder, our Q4 and FY24 results along with the investor presentation have been filed with the Stock Exchange and are available on our company website. For those not on the mailing list, please feel free to reach out to us and we will email you future updates regarding the company.

Joining us today to discuss our results and provide an overview of the business and the outlook for the future, we have members of the management team. I will just name them out. Mr. Rohit Gupta - Managing Director; Mr. Amit Ranjan - Chief Operating Officer; Mr. Naresh Chandra Varshney – Chief Financial Officer; Mr. Chandan Kumar – Credit Head; Ms. Rachita Gupta – Whole-Time Director and Mr. Atul Agrawal - President, Finance and Treasury.

We will begin with a brief overview of the quarter and the whole year from Ms. Rachita Gupta, followed by a Q&A session. Please note that any forward-looking statements made during this call should be considered in conjunction with the risks and uncertainties that are outlined in our annual report.

With that, I will hand over the call to Rachita. Over to you.

Rachita Gupta: Thank you, Sayam. Good afternoon, everyone and thank you for joining us today. I am pleased to share with you the highlights of our company's performance in quarter 4 and FY24. Overall, as you can see, it has been a very good year for the company with an all-round performance in all key metrics.

To begin with, our AUM has shown robust growth of 9% quarter-on-quarter and 38% year-on-year, reaching a total of Rs. 1,030 crore of an AUM. Subsequently, our loan book has reached Rs. 926 crores as on Financial Year '24. With this, we have delivered on our AUM target of Rs. 1,000 crores for FY24. A significant portion of our incremental growth has been driven by our SME retail vertical, thus a shift in AUM mix further in favor of SME retail. Currently, the SME retail and the wholesale AUM mix stands at 44 to 56 in FY24 wherein we have seen a shift of 4% in the favor of SME retail over FY23.

Disbursements across the entire year have been robust, while wholesale disbursement tends to be a little lumpy. Overall, we have seen significant improvement in this number. We have made cumulative disbursements of a total of Rs. 1,052 crores in FY24 registering a 39% growth over the previous year. Going forward, we will focus more on the SME retail vertical, which will also make the disbursements less lumpy and in the wholesale vertical our focus will be to generate off-book AUM for co-lending, direct assignment and down selling models. Overall, growth will be seen in both on-book and off-book AUM.

Now, we come to our asset quality, which has remained robust with a further improvement in GNPA and NNPA, which stood lowered by 17 bps and 10 bps respectively over the previous financial year. Further, we are prudently provisioning a flat 1% of our loan book as opposed to the regulatory requirement of 0.4%. We are following a conservative accounting policy and are maintaining a provision coverage ratio of 270%. Furthermore, we have also witnessed decent tractions on the recovery front. In FY24, we have recovered a sum total of Rs. 2.34 crores from our earlier write off. I would like to reiterate that within our NPAs and return of accounts, we have a very strong mechanism in place to follow through on recovery. We have a very robust team that works on our NPA recovery through various legal and collection teams and platforms. Our bad debt recovery has been strong with more than 65% to 70% of the same has been recovered in the SME segment. And if you talk about our wholesale segment, there has been no NPAs.

Despite a 3% quarter-on-quarter growth in total income for quarter 4, we experienced a 4% decrease in net interest income in Q4 due to higher liquidity and negative interest carry on the same. This was primarily due to sanctioned receipt towards the end of the quarter, which could not be deployed immediately at quarter closing. However, our net profitability improved significantly with 11% quarter-on-quarter increase and 57% increase year-on-year. For the full financial year, our net interest income is up by 38%, reaching Rs. 120 crores and a net profit for FY24 stood at Rs. 63 crores, registering significant growth of 39% over FY23. Our yields have remained robust in both the verticals and the majority of our portfolio has been repriced according to the prevailing interest rates over the last financial year.

Given our healthy and profitable growth, I am pleased to announce that the board has recommended a dividend of Rs. 2.5 per equity share. CSL Finance continues with its dividend paying policy, demonstrating our commitment to fair value creation for all our stakeholders.

We are pleased to announce that we have added two new lending partners this quarter, DCB Bank and Indian Overseas Bank in the quarter 4 and our total lending partners at the end of the year stands at a total of 23, which was earlier in FY23 it was a total of 15 lenders. Another crucial update from last quarter has been the credit rating upgrade to A- table from Acuite Ratings & Research. We surged from erstwhile BBB+. This was a very important development as the A rating allows us to access more funds at competitive rates. It will allow us to access more funds from public sector banks and help optimize over weighted average cost of borrowing. Additionally, our leverage ratio is very comfortable right now and there is decent scope to leverage our books from existing ~1.0 debt to equity to ~2.5 times over the coming two years. This will further aid our RoE.

Improving employee and branch level efficiency remains an ongoing activity and a key area of focus. Our AUM per branch has improved significantly in FY24 and as you can see from our presentation, aiding to branch level profitability and overall profit contribution from the SME retail vertical. Subject to market conditions, we are looking to add significantly more branches in FY24. We will increase our branch count by 50% in FY25 and look to double the branch network in the next two years. A lot of improvements have happened in our existing branches as well with respect to teams, systems, infrastructures and locations. As communicated earlier, we are working towards our off-book AUM, towards growing our off-book AUM in both wholesale and SME retail through direct assignment, co-lending and down-sell models to generate a sustainable fee based income. This will help leverage our domain expertise and improve overall RoEs of the company. So far we have accumulated a total of Rs. 104 crores off-book AUM and we expect this to increase recently in the coming year. We have the potential to generate an annual fee income of up to 2% of the AUM under direct assignment and co-lending without any legal recourse.

I would also like to provide an update on the new Suvidha loan product that we have been working on for the last couple of quarters. Firstly, we experienced a slowdown in disbursements and collections for this product during quarter 4 as we encountered several on ground challenges with how the product and the loan accounts were behaving during this period. Furthermore, the festive month of Ramadan also led to a slowdown in both disbursements and collections for this product. Based on these learnings, we are currently reengineering our systems and the Suvidha loan product itself. Once these improvements are implemented, we will roll out the product again. Additionally, the rollout of a dedicated new loan origination and disbursement platform as Suvidha has been delayed due to significant complexities involved in developing and implementing this unique and one of its kind platform, which involves a mixture of personal loan and supply chain. However, we are in the final stages of concluding this task and expect the rollout to happen in quarter 2 of the new financial year. I want to reiterate that our utmost focus is on first establishing robust production systems, followed by growth. We do not want to lend loosely, especially given that this is our first unsecured product offering.

Finally, our outlook for the coming year remains robust with an AUM aspiration of up to Rs. 1,450 crores for FY25. This is subject to a conducive macro environment on both fund raise front and end general business environment, but we are fairly confident in achieving our AUM targets. Further, we aim to achieve an AUM mix of 55 to 45 SME retail to wholesale in the coming years. As we scale up in the coming 2 years, we expect our ROEs to improve further and be in the range of 15% to 16% which has already started to happen on a quarterly basis as of Q4.

In conclusion, we are excited about the progress we have made in the fourth quarter and the full financial year 23-24. We remain committed to delivering value to our stakeholders and driving sustainable growth in the years to come. Thank you everyone.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: So, my first question was on the rating upgrade and its impact on our overall borrowing profile, so with this A- rating, we will be able to access more PSU banks and our cost of borrowing is also expected to come down. So, if you can highlight what kind of advantages do we see in terms of our overall borrowing cost as well as new banks being added in our lender, so if you can talk about that first?

Rohit Gupta: This is Rohit Gupta. So, definitely, this rating upgrade we were looking for last I would say few a quarters and this has come in the fag-end of this quarter in the March. And the rating definitely will help us on the PSU front, especially because certain banks have put a threshold of A-. In spite of that, they were keen to lend us and that was one limitation for us and with this coming first, a lot of PSUs will get open for us and secondly the size which you can get from the PSUs are sometimes not available from the small finance bank or the larger NBFCs. So, in terms of size and new openings from PSU banks that will be there and definitely the cost of borrowing will come down over a period of time. The incremental cost will come down from all lenders and specifically from the PSU front, maybe in the range of initially 50 bps to 75 bps initially, and going forward, we will be able to leverage ourselves more.

Ankit Gupta: So, before the rating upgrade? Have we added further lenders in our borrowing profile?

Rohit Gupta: Yes, definitely we can, right now we have only 3 PSU lenders, even those they have taken a special approval to fund as A-. But with this coming, the focus going forward will be on the PSU banks and the larger private sector banks. So, definitely it will help us both in terms of the size which we are able to get from these lenders and in terms of cost of borrowing and we see that they will be on the weighted average will be lower 50 bps to 75 bps, I would say the immediate 2-3 quarters and going forward as our overall cost keep on going down with the new borrowing cost, we will have more bargaining power with the lenders at that time.

Ankit Gupta: Sir, my second question was on team strength. We have seen a significant jump in the number of team members from 421 people by the end of FY24 compared to 257 which were there last year and we had just added 3 branches last year. So, what has led to this significant jump in our teams and despite opening hardly 3 branches last year?

Rohit Gupta: As we said, the focus was to make the existing branches more productive and to increase their, I would say the geography. So, the focus was to keep more salespeople, add more salespeople there in the listing branches and strengthen our middle level team in having our cluster heads and both in terms of sales, collections and on the credit side. So, those strengthening of the middle level and senior people at the branches have been done and with this strengthening, now we did not add people at the middle and senior level with the expansion which we have planned in next two years and we are planning an aggressive suspension. This is what we have done in the last three years. So, we are thinking of opening 50% more branches, which may be in the range of 16 to 20 branches in this financial year and the same number the next financial year. That was required. Because of those parameters in addition to that, we opened our new quasi unsecured fabricated division which also where around 40 people were deployed. So, that was also one of the reasons which we got two quarters back.

Ankit Gupta: So, how do you see the employee cost which had jumped significantly last year? Will we continue to see 30%-40% growth in our employee cost given the new branches that we are planning to launch over the next 2 years?

Rohit Gupta: I would say now we are in the middle of appraisal also. Appraisal will also add some portion of the cost and I wouldn't say that this 30% rise because now we only require people at the branch. We don't require people at the middle level, at the regional level or at the HO level. So, the cost, I think, should not go beyond 20% to 25% in this financial year.

Ankit Gupta: And my last question was on the Suvidha loans. So, we have been working on this for close to a year now and there has been some tinkering that you have mentioned in the presentation regarding the platform and the changes that we are making. But you would have been able to evaluate the kind of opportunity and the risk which exist in the segment, so let us say when we are starting with this rollout of our new platform next year, how do you see this segment scaling up for us over the next 2-3 years. Currently, it is hardly contributing anything to our AUM. So, how do you see this segment going for us and what kind of risks are associated with this segment?

Amit Ranjan: Basically, you have rightly highlighted that in the last year we have started this product and in the first quarter as is the presentation it is given that we are soft on Suvidha because whatever learnings which we have taken from the last 8-9 months, we are incorporating into the system and once we relaunch it in the month of July, it will be totally on the digital platform and the idea is take it to the next level because we have seen there is a pull in the market that this kind of product is nobody is selling and we have been able to onboard around 1500 to 1600 clients out of which, active is around 900 clients as of today and we don't see any challenges in scaling up. Once the digital platform is ready and the team is also there, so primarily, if you see the cost will come only on the RM/RO side, because this is the product where mainly RM/RO is required to source the business. So, we are very confident that this will be another good product for the company as well as for the population also. So, that is the idea and that is the reason we are plugging all the shortcomings which were there in the earlier product and maybe from July 1st we will be able to relaunch it.

Rohit Gupta: I will just like to add, initially when we started, we started as a kind of a term loan with a lot of credit checks and all those. And as we thought that let us scale up, a lot of things were a little bit loosened and secondly to be very frankly, this segment in the North is a community dominated with Muslims 82%-85%, and so in Ramadan we saw a slowdown in both collections & disbursements. And thirdly, I would say we are certain things with the learning which have come in terms of making that e-way bill must be captured. Sometimes the account goes into DPD, the same address or co-applicant is not disbursed. Our MIS should come live at all times in terms of collections and how the disbursements are happening that needs to be reduced. So, all those things which we made the system there, but there were certain practical learnings from that and where we have to now thought of in-building the retailer into it also, keeping some kind of, I would say kind of annuity income to in and the looping in the total system so as to have a better control over the borrower and to have a better authenticity and it is going for the supply chain finance only. So, we thought we had been as you know. We always think that we must have complete domain knowledge and it has helped us to have, I would say, a 360-degree view in terms of learning from all angles. Now, focus is to build the new model and we are building a little, some changes in the team is also helping and at the same time we are focusing at the existing team to focus on collection and the fresh business is not the way we were doing it earlier and we will do it with more aggression in the month of July, with everything coming on board. And the system which we were developing and the tweaking which were happening, so even the service provider was also taking time because the learning was giving us more tweaking at every time and that is why that system which we dwell needs to be little changed keeping in view of all those things.

Ankit Gupta: So, how big do you think this segment can be for us over the next 2-3 years and in addition to that we have started this product with just one company APL targeting fabricator, do you think we can also expand it to other segments and other companies?

Rohit Gupta: Yes, definitely we thought that now to make it a little more, I would say to increase the size we thought that we will go beyond the APL. With APL, the subvention was coming. Those will be funded with the interest cost, and we have also thought that we will increase, we were doing it with around 20 to 22%. We will increase our interest rates to take care on the front cost side also. And then we can leverage further, I would say, the other items and all those. Apart from sales, we can look at others, but yes initially the focus was after relaunch for 9 months to 12 months, we will be on this segment plus doing for other manufacturers where the subvention will not be there and we will be charging interest from day 1. So, it is a kind of a quasi personal loan where we have to ensure that the amount which we are going for is only going for the funding of their invoices because the retailer is not settling his old bad debts. And system has to drive this and the MIS should be coming at all times live with all our team and to make all those things in the in the system we are reorienting it and with this the new version will be relaunching and we will stay with more confidently on this segment after, I would say end of September when we relaunch it, but now at the end of, we would like to sell for us. It is one of the lending fees. So, our SME has been doing extremely good at the same time wholesale. So, this was the third quarter which you have added. And I would say it is a little, maybe slow at what we promised and a little more cautious, but that has been our ethos and that we first learn it and we don't want that. We do a huge mistake on building a credit cost and then implementing those learning. So, we have been upfront and a little cautious and that is why we have sort of going to a new platform with the new policies and processes around that.

Moderator: Thank you. The next question is from the line of Ananth Jain, an Individual Investor. Please go ahead.

Ananth Jain: My first question is that we have seen a significant increase in our fee income on a year-on-year basis where like it has gone up from Rs. 5 crores to Rs. 9.5 crores, which is like even in relation to the interest income, it is significantly higher, the growth in the fee and commission income. Can you just help explain what is the reason for this and can we see this trend continue in the coming year?

Rohit Gupta: Definitely, we are doing, one is the retail part when we are doing retail. So, typically our IRR, we have done lending at around 18% and the DA is happening between 10% and 11%. So, we are getting a spread of 6% to 7% on the retail, yes, it is without any kind of recourse, but at the same time we are very cautious and that it will only grow if the quality of our book which we are down selling is good and on the wholesale typically we are able to get 1.5% to 2% which on the down sell and on the DA part and sometimes the spread is more where we are down selling our own book and a little bit of fee income is also coming from the co-lending which is not captured in our AUM where the fee element is lesser. So, it is a combination of all three. Retail, where the spreads are higher, DA on the wholesale where it is typically 1.5% to 2% and typically on co-lending where it is between 1% and 1.25% even in our co-lending on the wholesale is roughly around Rs. 500 crores. So, that is also one element of that.

Ananth Jain: So, the fee incomes get generated from all these activities?

Rohit Gupta: Yes. And in spite of that, we wanted to build our SME, we build small relationship with PSU banks on the retail side as we see that being our book being PSL and qualifying all our book qualified as PSL and the rest part as the MSME book and where lot of PSU banks and larger NBFCs are very keen to go on a co-lending model.

Ananth Jain: The second question is like Ankit before me had asked this question on the Suvidha loans, if you could just give some idea in terms of what is the, I know it would be difficult for you to quantify as to what our loan book could be in Suvidha maybe a year from now, because there still the system needs to come up and it needs to stabilize, we need to grow our book, but purely from an opportunity point of view, if you can give us some idea that would be very helpful?

Rohit Gupta: I would say we have had data of around 1,50,000 fabricators across all India, so typically we are lending, maybe penetrating 10% to 15%, 15,000 to 20,000 customers on an average, 1,50,000 to 2,00,000 which remain there for 90 days. So, that can be an immediate opportunity which can be, I would say, in cash we can target it in the next 2-3 years, but at the same time it is one of the products and we have to see operating costs and the credit cost. And with the new version, we are very hopeful that we will be able to control both of that. And so for a lender, one part is coming where we have associated with in terms of the debtors and the subvention for a limited period. The other part is to optimize the credit cost and the operating cost.

Ananth Jain: So, the opportunity size you said is like 15,000 to 20,000, can you just quantify that for me in terms of, what like 3 months is the tenure but in terms of, like 3 months is a tenure, but in terms of?

Rohit Gupta: We are able to penetrate 10% to 15% in the next two years, three years, roughly AUM of around Rs. 150-Rs. 200 crores if our ticket size remains 1 lakh to 1.5 lakh. If we increase our ticket size then penetration can also increase. So, there is nobody else. And when you do the same segment again and again, you do help for domain knowledge and we as a company think that is the key to our differentiator compared to others. Yes, the way we thought we will be able to do in last two quarters, the performance is not up to mark, but yes, we thought that instead of going with the existing platform and building a little credit cost and all those, we thought it is better to halt for a few months with the new system and at the same time, all those learnings we must incorporate. One thing, we can increase our IRR also as initially we thought that it can't go beyond 20% to 22%, but now we foresee that we can even target at a higher IRR, maybe 300 to 400 bps higher and that will also take care of our credit cost to some extent.

Ananth Jain: Last question from my side, we have seen that the ticket size has actually come down every quarter, so any reason for that?

Rohit Gupta: Suvidha?

Ananth Jain: Yes, Suvidha.

Rohit Gupta: It was intentional. We as a management decided that we should focus first on number learning the various geographies, behavior of those customers and build their history into that, and it was basically to keep on the same for the last 2 quarters. It is a pilot and the pilot with a huge bigger size I don't think makes any sense for us. It was that onboarding the customers they are able to know what CSL is and understanding their credit behavior, understanding their geographies and building the team and implementing the system, so for that we are not in the initial year even in the next year. The first year will never be a year where we can make any substantial income out of that where because your operating cost will be higher 3 months to 6 months then you optimize that cost and the thrust will be on to acquire customers and because it is a very repetitive business and once we have acquired the next effort going forward comes down.

Ananth Jain: So, you have mentioned before as well, so once the new system comes up with July is when you said do you think that we would be onboard other clients as well like others or have other partnerships? When do we see that? APL Apollo, we are already working with

Rohit Gupta: As of now, whenever we have gone, there is a lot of demand that is why you are limiting with one company and because sometimes APL their quality and their costs are higher as compared to B grade customers and sometimes in Tier 2, Tier 3 cities they want products from those companies also. So, going forward we will be funding those customers also who are going beyond APL, but we will be charging interest from day one where the subvention may not be coming from those companies and when we do that and exhibit to other companies then we may see that subventions coming from those companies. First, we will focus largely on APL and optimizing the product and seeing that operation on the new platform.

Ananth Jain: So, maybe once it stabilizes 6 months after that?

Rohit Gupta: Lastly I would also say in the last 2 months-3 months there has been a lot of I would say from the regulators and the banks regarding unsecured, so even on lenders sometimes used to ask especially what kind of unsecured book you are having. So, right now, so very frankly, an unsecured book is not being seen very positively by any of the lenders or rating agencies.

Moderator: Thank you. And the next question is from the line of Pankaj Parab from Molecule Ventures. Please go ahead.

Pankaj Parab: Sir, my question is on the technology front, so we have been investing in technology since the last 2 year-3 years, so I just wanted to know what development is here till now? And how it will help us in going to scale and getting scale in the future?

Rachita Gupta: So, to answer that question, in the last couple of years, we have been constantly working from a very basic data into system to a pretty much an involved system like we are doing for an SME loan. We are completely 100% digital. There is no paperwork happening even from loan origination and the underwriting and we have built a very robust underwriting platform as well on today's date. Like everything is happening digitally and with the number of API integration in terms of fraudulent checks at the login and the kind of bureau analysis, bank statement, analysis, ITR, GST, pulling out of all Udyam Aadhaar, we are doing it all automated at a click of a button. So, from there and the disbursement phase and our collection platform we are receiving about 93% all digital via NACH, UPI, RTGS and only a mere 6% to 7% is something which comes in collection comes through cash. And we are also live on all the public platforms like Paytm, Phone Pe all these UPI apps. So, in terms of digital transformation, we are constantly growing day by day. Our system is also now getting closer to machine learning as well as it is now picking up concepts of showing automatic deviations to the users whenever they are just putting up data and we are constantly working day in day out. Our analytics systems, our dashboards are all in place and we have a dedicated team who is working on creating those exhaustive dashboards with graphs and everything so that we can have better access to the technology. And like I said, we have been already evolving now we are going to be revamping our entire LOS, our loan origination platform into a much better and a much smoother one which will definitely help us reduce our TAT and have a more streamlined and a smoother flow even than today.

Pankaj Parab: And are we developing any in-house customer rating system for the credit disbursement or credit check, sort of that?

Rohit Gupta: The system where we do a lot of analysis in terms of whether to capturing the various credit bureau checks may be coming from **36.30** auto-analyzing, capturing various data, our system is doing the machine learning and those we are able to relate it with being a secure product, target audience where still your banking and their cash flow analysis or GST or ITR doesn't fully reflect the true state of affairs of the customer. So, how to do that based on certain qualitative and quantitative sectors we have built in and based on that we are able to analyze it, but it is not an unsecured products where certain rules to put in and where lot of data is coming and based on that you are able to do up to a certain amount of Rs. 50,000, Rs. 1 lakh, Rs. 2 lakhs. Yes, you can put best of those things into a system which is already there, but it will give you a complete outcome and based on those outcomes you are doing the lending that will never happen and never happens because unless until your borrower is doing everything is on their number which is not there because their GST ITR and Banking doesn't reflect their even 70% to 80% of the business. So, you have to evolve as per the segment and so the assessment has to be done, ED has to be done with the customer. Being a secure business, technical and legal evaluation of the property and the Title has to be done. And so that is a combination of debt and along with the ED and the physical checks.

Moderator: Thank you. The next question is from the line of Sanjay Kumar from ithought PMS. Please go ahead.

Sanjay Kumar: Hi Sir this is my first time on the call so just a basic question, how does it work if we are funding the fabricator? Do we lend against the purchase order issued by the fabricators end customer or will it be against APL Apollo distributor's sales invoice? I just want to understand if we will have access to the actual tonnage or the volume being purchased from APL Apollo?

Rohit Gupta: Typically when we give, we give a proforma invoice from a retailer and after the onboarding we disburse directly to the retailer and after disbursement the final invoice is being captured. So, we are not funding directly to the customer. 25% is coming from the customer and 75% we are funding.

Sanjay Kumar: And why fabricators and not the dealer?

Rohit Gupta: The ticket size will be from Rs. 5 crores to Rs. 25 crores, maybe even more and largely it is a quasi-secured kind of a product based on receivables and all those. Thirdly, it is a competitive segment between 11 to 13 already is being targeted by the larger banks. Even the group company of ACL existing service is already doing that and we want to be in those areas where we are not competing with the larger NBFCs and the bank and build our knowledge and we have seen a segment where the competition from the larger in terms of IRR is not there and the ticket size is smaller that is why we have chosen to fund fabricators and whereas still lies **40:25___** in terms of SME, we are also targeting a little I would say, one step to the customers in SME are also similar may be little one step better than this. So, those dealers are not a cup of a teen either in terms of IRR nor in terms of size and being a quasi secured product.

Sanjay Kumar: And so even for future partnerships, we will be focusing only on retailers then?

Rohit Gupta: Yes, if you understand otherwise here it is a very higher conscious market. Amit will also add from his experience here.

Amit Ranjan: Basically, what we have made here is a product which is only suited for fabricator and first we get a lot of client on board we see what kind of payment method is there, they are paying on time plus the churning is fast and getting a better IRR, so in spite of getting into more clientele like funding the retailers or the dealers better to focus on a one segment, explore it to the best and own the rewards once your master of that product. The second line can be the retailer to whom the distributors are supplying. That can be a funding between 15% to 18% and the ticket size can go up from Rs. 25 lakhs to Rs. 1 crores. That can be a second segment but we still don't want to do it because at this size of company it doesn't allow us to take that kind of risk by doing unsecured loans with the higher ticket size. So, we will like to remain ourselves in this segment for next I would say one year then we will look at retailers. But this instrument is helping us build relationships with the retailers and distributors and that we can definitely leverage in the coming years.

Sanjay Kumar: And second the Suvidha platform that we are building, is it going to be fungible in a sense, can we plug and play with say a B2B e-commerce platform like Grasim has launched Birla Pivot and they are looking for lenders, L&T has SuFin, are we looking at partnering with such platforms?

Rohit Gupta: Primarily they have that platform, they have the dealers and retailers which have a better I would say audience in terms of customers. These are little kind of subprime kind of customers. They are organized players which have organized shops and dealers. So, we are going a category below what the category which we have just proposed and which I have been saying earlier. They are funding dealers and retailers and we are going with the end borrower who is putting value addition while using that product and converting it. If I just take your example, it is like funding to those painters who may buy from retail shops and do that fabric painting on a per square feet basis to the customers. But they are not going to that segment; they are only going to the retailers and distributors.

Sanjay Kumar: And finally which IT company is helping us build the Suvidha platform, the LOS system?

Management: I think the company which we gave our first mandate to Synoriq so we are just a kind of in-house company for us because all our LOS, LMS which we were the first vendor and a lot of knowledge has come from our side to them and we have a good synergy. We are able to leverage each other far better and so it is working with the bigger company. If we give one that tweaks our product on a daily basis based on the learning, then to and fro from the larger companies become very, I would say very slow and cumbersome and from here we have a very good advantage.

Sanjay Kumar: Sorry, sir, what was the name?

Rachita Gupta: It is Synoriq. Synoriq is a company based in Jaipur and Mumbai.

Sanjay Kumar: The reason I asked was, is the delay because of their capabilities that is causing the delay because there is a company called **(Inaudible) 45:12** whose PSU's are preferring.

Rohit Gupta: but it is pla**y** on both sides because they were also busy because we have been working with them on LOS which Rachita already told earlier. Most of the team was working on the beta2 version of the LOS where lot of input has come from us. We have been integrating the accounting also thirdly they were focusing on making an LMS for our wholesale settlement also which had lot of complications. So, they were preoccupied at the same time. There were lot of tweaking every day based on the learning, so I would say at both the ends they were also slow and from us also lot of changes were being told to them and I would say so frequently,

Rachita Gupta: And in my past experience of making so many technologies and we have worked with for a lot of technology vendors and we have kind of realized bigger the company is initially they will really sound that those projects can be completed well within time, but in our personal experiences, we have seen that the larger companies have taken way beyond their time and with this company like sir had mentioned we have had a good synergy and the turnaround time for developing those platforms even with the way we are giving a changes on a morning-evening basis, it has been very prompt and we have worked with to name a few vendors we worked with Jaguar, **46:52 Nucleus** and so many other companies we have worked with. None of them have been that responsive, so we can call it a mixture of a combination of both the parties, which has led to a little delay in the productions.

Moderator: Thank you. The next question is from the line of Sanjay Ladha from Bastion Research. Please go ahead.

Sanjay Ladha: Sir, a couple of questions. So, sir the Suvidha loan platform which we are developing, what is the cost associated in the platform we are taking up and also this TAT which we have said is less than 6 hours has been done in the Q2 FY22 or it will take time?

Rohit Gupta: So, that is why there were limitations with the existing system and the existing was more a kind of a term loan kind of a system, but it is more Quasi, personal loan and unsecured. So, in terms of cost as you know we have been their first customers a lot of knowledge about the product we are giving to them, so the cost advantage is also usually with us and as compared to the larger one they are very cost effective when we may be giving them 30% to 40%, which the larger one will charge and the turnaround time is far better and we don't negotiate on giving the scope and then negotiating the commercial. So, that is also a big help for us. So, that kind of synergy and the relationship we have with them. So, yes, as compared to the larger one, they are more flexible and even cost competitive.

Sanjay Ladha: Can we quantify that amount?

Rohit Gupta: It will be roughly between Rs. 30 lakhs to Rs. 50 lakhs and then their A&C and enhancement costs keep on happening at every time.

Sanjay Ladha: My second question would be on, since we are witnessing a strong demand in the housing segment, so are we looking at the wholesale segment AUM to increase? Or we will restrict ourselves as we previously also said that we will restrict and commit not increase the AUM in the wholesale segment is the Intention is stay intact or are we increasing the AUM?

Rohit Gupta: Chandan will explain more. I will just say one thing, strategically we have decided that the focus is more on the retail, but at the same time our housing segment is being extremely good which we have seen in this segment also collections, repayment was equal to more than our book. Collections were roughly around Rs. 752 crores, whereas closing book is around Rs. 500 crores something. So, it is very well explained in those numbers that a lot of pre-closure, prepayment has happened and a lot of boarding and the disbursement figures were higher. So, the focus will be to do more business by doing down-selling and being on the co-lending about housing and how it is doing Chandan can add on that side.

Chandan Kumar: I Chandan this side. As you have mentioned that the demand in the housing sector is robust. Definitely we are very much positive on the sector side and on the real estate side also. But as

Rohit has already mentioned that we are targeting an AUM mix of 55% to 45% definitely on the growing book side or AUM side, one is growth and definitely the on book AUM of real estate book that is the wholesale part will also grow and sync with that part itself. As mentioned earlier, we are focusing on down-selling part and increasing our fee based income also, so the main focus is totally towards on that part on growing real estate through co-lending or DA kind of arrangement where we will be restricting our on book AUM towards 45 or 55 kind of mix on total AUM part and then we will be boarding on the kind of DA or co-lending kind of a revenue.

Sanjay Ladha: My next question would be, since the rating has been upgraded and you have also mentioned that the weighted average would be the cost of borrowing we will be benefiting by 50 to 70 basis points, so can we assume that NIM can increase in the year itself like 100 basis point or it can be below that if we can answer it?

Rohit Gupta: I would say about 25% to 30% of the benefit we will get because it will run only on the incremental one and so the wasting one, renegotiating will be difficult which is only when they get repaid on their incremental borrowing so in terms of NIMs, I would say whatever what can be the benefit cost of borrowing can go down by 56 to 75 base, so it is only the incremental cost I would say in terms of NIMS 0.25% to 0.3% can be the net addition in the first year and in the second year, third year that will be we can see little higher figure, but in the first year that will be the maximum that can help.

Sanjay Ladha: In the cost side, since we are increasing on the platform and the employer cost and also on the branches front, so how much the cost can we expect to increase in the year or 2 years down the line? And now what is the impact on that side will be taking place?

Rohit Gupta: For the larger portion of the IT spend has already happened. So, going forward, the spend on that side will not be huge and apart from the MC cost and other and in terms of employee cost, as I told earlier in the presentation, also that our middle level and the senior level employees are there and they can do even 2 times to 2.5 times business of SEMI with the same team which is only that junior retail team at the branches will be added, so largely in the SME and retail segment you build cost upfront because of the senior team and the middle level team and it gets optimized over years, I would say and we have already done in that last 3-4 years and going forward our incremental cost will be on the team at the branch level. So, it will not have a huge impact apart from the impact on the bases and the size.

Sanjay Ladha: So, on the branch cost side, if you can I mean that is also not will be significant?

Rohit Gupta: Branch cost is roughly in terms of including all costs. If you are having five people, 1 DM, CM at which is 3.5 lakhs to around Rs. 3.5 lakhs including rentals and everything per month.

Moderator: The next question is from the line of Sanjay Kumar from ithought PMS. Please go ahead.

Sanjay Kumar: One question on SME retail, I see that some of the products have a tenure of even 7 years to 8 years from whatever I have seen MSME at such tenures is always a risk, the max that even banks go up to is say 3 years -4 years. How comfortable are you with this long tenure SME loans?

Rohit Gupta: Firstly I would say in industry less than 3 years -4 years, it is a largely unsecured products and none of NBFC, any housing companies maybe even in the form of **55:50 LAF**, which is largely a LAF, but in the form of housing they are giving from 10 year to 15 years and going any product to segment base where we are catering because it is for them both they want the minimum amount which can help in their businesses and at the same time the EMI cannot go beyond their limit, they can't service. And thirdly, there is also I would say lot of competition from the market and everybody is offering a product where we are in and none of the company they are giving larger tenure, we are restricting ourselves to 7 years and most of the companies are giving between 10 years to 12 years and that is where most of the competition is hurting us and few of the customers and our sales team has been pressing us for last two 2 years to 2.5 years to increase our tenure and we have been registering our team that we can't increase it and with this our competition, maybe a smaller or a bigger company, the tenure is more in the range of 7 years to 12 years. Still we have tried to restrict ourselves and average tenure is around 6.5 years to 7 years. And thirdly, foreclosures of 15% and more or less if the count is fine, either the counts get taken over by other, unless & until we don't give him additional amount or some types of amount of lower IRR. So, typically we say an average life of a customer in MSME tenure is around 4 years.

Sanjay Kumar: And if you could name your competitors in this particular product SME retail?

Rohit Gupta: When I say smaller ticket size from Rs. 5 lakhs to Rs. 15 lakhs Finova is there, AVIOM Housing is there, Star Housing is there even, **(Inaudible) 57:46** then Cholamandalam, 5 star, AU Small Finance Bank is there and Shriram Transport is also coming up in certain areas, Capri Global is there SK Finance, so these are all the segments which I run through all starting from Aadhar, Aavas, Adani, Agriwise**,** Express, Bajaj, Canara, Capri, DCB, State Bank**,** and Shiram, Piramal also, different areas different product as we have a product from Rs. 5 lakhs to Rs. 30 lakhs, Rs. 40 lakhs, other than Finova, AVIOM, SK, **(Inaudible) 58:27** less than Rs. 10 lakhs Namdevis also there in Rajasthan. Certain geography, certain place, so every geography we will find 3 to 4 people who are our main competitors. So, but there is a lot of market size still under penetrated and still this is a segment where I would say any NBFC can build a domain if they work around under the same segment with few products, so every NBFC has a tenure more than 7 years.

Sanjay Kumar: All the sourcing is inhouse, I believe or do you use any DSAs?

Rohit Gupta: So, we don't have DSA model in our company, but we don't say that sometimes comes to an intermediary is what they call connectors and through their relationships, we only encourage direct model, but 25% to 30% business can come through the various relationships maybe called as connectors or small DSA.

Sanjay Kumar: Primarily it is DSA?

Rohit Gupta: Yes.

Sanjay Kumar: Any particular reason for not engaging these loan aggregators or platforms like say someone?

Rohit Gupta: Two three things, we are not an unsecured loan. We are a loan aggregator based on data and the customer can come through various forms. Secondly, the DSA would like to target the bigger ticket size Rs. 45 lakhs, Rs. 50 lakhs plus since they don't target too much larger, bigger DSA don't target less than Rs. 20 lakhs kind of a segment and where the small DSAs or individual small connectors or relationship guys working in particular small geographies and aligning them with few NBFCs that are working in that area in that product, so that is the way that is happening and our focus is to tell our team to go directly in various marketing I think Amit can explain little more.

Amit Ranjan: So, the idea of not engaging DSAs or loan aggregators is very simple and these kinds of clients should be directly targeted by the team. So, that no intermediaries are there and no fraudulent activity is happening. The customers are basically unbanked and unorganized. So, it is better to target them directly instead of getting through intermediaries because that opens the door for various means of services from DSA in terms of services which are a lot of things from clients. So, we don't want to get into that and these clients are basically first or second time entrepreneurs and they want money for their working capital. So, the need is not much and DSA will never come into this segment because they will not get any kind of commission from any of the NBFCs on a larger note. So, that's the reason it is always better to approach these clients directly rather than getting into the loan aggregate mode or from a DSA.

Sanjay Kumar: Finally on collections even that is in house but today in wholesale we have 70 accounts roughly SME 2,008 accounts, but in Suvidha we already have 1,500, so given the ticket size is lower the number of people you will be dealing with will be larger, how are you going to?

Amit Ranjan: Suvidha we are roughly around 850 clients on board active, not 8,000.

Sanjay Kumar: No, I said 1,500 anyway, so how are you going to build your collection capabilities given there will be a few jump in?

Amit Ranjan For SME and Suvidha, it is a beautiful combination for RO and RM to earn incentive on both fronts. So, in Suvidha, the RO and RM sourcing the business. They have been given a target of collecting as well and till now it has been working very fine because they are getting incentive for doing businesses also and they are trying to meet the client on a daily basis, if there is any collection is there because it is a shorter term loan, 90 days loan and within 60 days we are trying to collect the amount, so that the client also gets the benefit of submission. So, there is no need of collection or external agency right now. Coming into SME, we have around 2,800 client, but the collections spool which come to us we are able to cater because up to 6 months the sales team also who is going hand in hand with the collection team for collecting the EMI and primarily like Rachita also said, most of the collection is also coming from UPI and NACH only 9% which are coming from collections. So, till the time these trends are there, we are not getting any help from external agencies for collections as of now.

Rohit Gupta: And secondly, I would say it's our experience when we did FinTech lending and where we did 10,000 loans and they used to outsource their collection from outside agencies, they are not absolutely working, they only appoint people who telecalling and they don't have feet on the street. So, neither they know the customer, nor the customer knows them, so typically we have a wealth collection officer in every branch, roughly around 30 collection officers, one regional head and one national head. So, that is the typical size and apart from that the local sales team who have done that account is responsible for 6 months to 9 months and after that when it comes to collection our typical acceptance ratio is around 75% to 77%, 23% bouncing which typically is the nature of our industry segment because of seasonality and so many issues and because we only give one day to put all that in a one single date and sometimes which is early in the month is disposed and there were lot of demand to put. Now, we will be having 2 days going forward with the new LOS coming and LMS**.** So, out of 27% most of them is coming through various I would say most payment gateways and only 7% is coming from cash collection, so to give a very NACH is 64%, 17% is UPI, checks, wallets or RTGS and all those are around 3%-4%. And I would say outside collection agencies for our segments can never work. Any company telling you I will never buy that argument. They are not at all helpful. It is helpful on the unsecured loans and when you write off, it gives you a substantial discount or an arrangement of that kind. But in a segment of a secured product every company has to have their own collection team.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Rohit Gupta for closing comments.

Rohit Gupta: Thank you everyone. I think we have a decent Financial Year '24 and we are forcing that as now we have already done with all those, I would say, consolidation in the SME, the focus in growing ourselves and we have kept little bigger targets for ourselves for next coming 2 years and we hope we will be able to achieve that. So, thank you all of you and Thank you Sayem and your team.

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