SPANDANA

Ref: SSFL/Stock Exchange/2023-24/117

Date: November 07, 2023

To
BSE Limited,
Department of Corporate Services
P. J. Towers, 25th 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 Monday, October 30, 2023

Ref: letter No. SSFL/Stock Exchange/2023-24/113 dated October 30, 2023

In furtherance to our above-mentioned letter, please find enclosed the transcript of the conference call held on Monday, October 30, 2023, to discuss the financial and operational performance of the Company for quarter and half-year ended September 30, 2023.

The aforesaid information shall also be made available on the website of the Company at www.spandanasphoorty.com.

Kindly take the above on record.

Thanking you.

Yours sincerely,
For Spandana Sphoorty Financial Limited

Ramesh Periasamy

Digitally signed by Ramesh Periasamy
Date: 2023.11.07 16:14:58 +05'30'

Ramesh Periasamy
Company Secretary and Chief Compliance Officer

Encl: As Above

“Spandana Sphoorty Financial Limited
Q2 FY2024 Earnings Conference Call”

October 30, 2023

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

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 30th October 2023 will prevail.

Moderator: Ladies and gentlemen, good day and welcome to the Spandana Sphoorty Financial Limited Q2 FY2024 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 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. Shalabh Saxena – MD and CEO of Spandana Sphoorty Financial Limited. Thank you and over to you, Sir!

Shalabh Saxena: Thank you very much. Good evening to all of you, thank you for joining the call and investing the time in understanding the journey of Spandana Sphoorty Financial Limited. Friends, it has been over six quarters that the current management has been handling the business under Spandana 2.0. Over the past quarters, we have collectively focused on the following priorities. Number one, people, which is reinforcing the middle and senior management team with professionals that was number one. Number two or the second priority was strengthening governance risk and control with added focus on refining the processes. Number three focus on customer acquisition led business growth. Number four technology scale up. Number five customer led initiatives with emphasis on product services and meeting their lifecycle needs. These are the priorities, if I may just refresh, which were the ones which we had set out when we had come out with the vision 2025 document on the 11th of July 2022. While the agenda is still work in progress, suffice to add we have made significant progress on each of the items. At this stage we can say with reasonable surety that the company is on course to becoming a process driven and stable enterprise with professionals manning their respective domains. We are taking all the steps to ensure the company becomes future ready to capitalize the opportunity that exists in the environment. Before I go on to the results, let me also articulate the broad changes we have made over the past to make the company future ready. The first is people practices and communication. Number two cultural changes, number three process improvements, number four a completely data-driven approach through the organization and number five distribution initiatives. They are in no particular order each of them are as important as the others. On the five topics that I just covered, let me just elaborate. We have rolled out employee benefits like mediclaim, life insurance, formalizing performance management system, institutionalizing long service awards, greater focus on training and development of our team members. organizing town hall every quarter, which is a two-way communication with employees to communicate the progress of the company and vice versa taking feedback. We believe that in a large distribution as us, it is important that we over communicate with our teams so that the thought process and feedback both are well cascaded and received. Specific to distribution, we have taken the following steps which are very important in our considered opinion for defining the future of the company. The first one is customer acquisition led growth, second is moving to weekly repayment model from the current monthly, number three geographical concentration mitigation approach, which is how we had come across and we had come out with seven focus states mandate. Number four branch expansion. On the branch expansion, I would just want to detail during the course of this calendar year, we have operationalized 292 branches already. There are 110 branches which are ready to be operationalized over the next three months thus taking our tally to over 1500 branches. This completes our plan of having 1500 branches by FY2025 as articulated in the vision 2025. So, while our vision 2025 document had a plan of 1500 branches end of FY2025, but looking at the way we were progressing, we thought that it is important that with the momentum we open the branches as well so that we have a clear 12 months for all the 1500 branches to kind of deliver over the next year which is FY2025. So, while we are ahead of our plan, which obviously impacts cost in the shorter run. However, in the long run we will have a significant upside to our distribution and profitability plans. We will now have the full 12 months of next financial year to deliver growth from the branches. Point number five, focus on JLG. Joint liability group is something that we as a team believe in and we are passionate about it. So, the philosophy of five center meetings, which is Monday to Friday with five groups in a center and five members in a group is something that we are progressing on. Another focus area is timely conduct of center meetings and focus on attendance. Number three is focus on operational efficiency, like distances travelled by loan officer, geo tagging of customer homes etc. While I have listed the focus areas, I have to admit that we are not there yet. We will take about 3-4 quarters to reach the desired levels but as they say this is a continuous work in progress. If I were to kind of give you a gist our belief and philosophy remains number one, acquire more, which is the customer acquisition bit. Number two, lend shorter tenures, which is 12 months and 18 months, is what we have introduced and accordingly we see a significant movement in those portfolios, number three is muted ticket sizes. Personally, as a management, we feel that it is always good to be short on ticket sizes, not really aggressive on ticket sizes and which is what we are progressing on and number four weekly repayment. We will continue to pursue this path. If you remember, we had said that all the new branches that we are going to open will be weekly branches and we have a plan from now until exit 2025 of converting the current monthly branches into weekly. We can safely say that end of FY2025 about 80% Spandana should be weekly. Coming to collection model or project Parivartan and here I would want to spend some time on project Parivartan. So just to give you a background in our company the first 10 calendar days of the month were reserved for collections and the balance 20 days was for disbursement, customer acquisition, etc. This was the model of the company, which we have tried to rework under the project Parivartan, and I will just get into the details. So fundamentally we believe that under microfinance we should be doing all the three things which is acquire customers, disburse to customers, and collect from the customers, all the three things at the same time. So, while we had a model, we thought that this was the time which was Q2 because we could not have done it around Q3 or Q4. So Q2 was the time when we said we will modify the distribution model. This was to ensure that the distribution model remains scalable, and we continue to do all the three things as I said on all the days. So, we changed the model in Q2 in 700 branches, which covered about 1.5 million customers. So, what did we change? First of all, we moved the customer repayments from the dates that is 1st to 10th from the date to weekdays which is Monday to Friday of the month with Saturday and Sunday being a no customer operations day. This led to a change in repayment days for almost all the customers which were there in these 700 branches, which was the 15 lakh customers that I just spoke about. The reason why we did it was while I said we had to do all the three things, acquire customers, disburse to the customers, and collect from the customers on all the days. This also gives our employees two Saturdays to do training administrative work. So, we spent significant time in communicating the changes to the customers obviously with a base of about 1.5 million and initiatives of this mega scale, there are bound to be disruptions. There were many instances when our team members reached to conduct center meetings, but the customers probably missed coming because their schedule was slightly different from what we would have articulated. On the contrary, there were many instances where our team members because of the change reached at a different time of the meetings, thus missing the customers who came and went away. The above also has led apart from a bit of a disruption in the field it has also led to an increase in the flows in the buckets as you would have noticed in the presentation. However, we are very confident that this is temporary and in the next three to four months we will stabilize and even out the variances. Not really ideal, however, we did anticipate this. We had to bite this bullet, had to go through the temporary inconvenience and disruption for a better tomorrow and we walked the path. We are seeing normalization and by next quarter we should have regularized this.

Now to go to the highlights of the quarter. New customer acquisition. The results are already uploaded on the BSE and NSE, but however, I will just quickly go through the results. New addition during the quarter was 3.5 lakhs a Y-O-Y growth of about 183%, last year same quarter it was 1.2 lakhs. So, from 1.2 lakh it has moved to 3.5 lakh. Last quarter we were at 2.6 lakh, so there is quarter on quarter growth of 34% so Y-O-Y growth 183%, quarter on quarter growth of 34%. We have acquired 6.1 lakh customers in the first half of the year, well on course to cross 3 million customer base by end of the year.

We are currently at 2.7 million customers, a growth of 24% Y-O-Y and a 12% growth over the previous quarter. The AUM end of the quarter is 9,784 Crores or 69% growth Y-O-Y and 11% growth quarter on quarter. Geographical concentration risk in MFI is the biggest risk. Beginning of last year when we presented the vision 2025 paper, we had identified seven focus states where we would grow our business to mitigate this. Those states now contribute 22% to the AUM. By end of the year, we should be 26% and end of next year this will be in the range of 41 to 44%. End of next year, our endeavor is to ensure no state is more than 12% of the total AUM. This is a big step that we are taking. Currently our biggest states are in the range of about 15, 15.2, 15.3. However, we have another six quarters to really moderate these and get the big ones down to 12%. We are comfortable with a single state contribution of about 12% or below. On the disbursement, disbursement for the quarter was 2,513 Crores. This was a Y-O-Y growth of 81% and a quarter-on-quarter growth of 51%. Quarter one we disbursed 1,664 Crores. On the asset quality, the current book is at 96.7%. This has seen a bit of a dip because of the project Parivartan that I mentioned. The GNPA however, has gone down. It has fallen 23 bps to 1.4% and this is quarter on quarter, if I look at a Y-O-Y it was 7.37% as on 30th September of last year. NNPA again has seen a reduction of 7 bps over previous quarter, so we are at 0.42%. So, without confusing on too many numbers, the GNPA in the current quarter is 1.4% and NNPA is 0.42%. We continue to maintain a PCR of 70.26%. Our CRAR is at a healthy 36.6%, indicating a good balance sheet position. Collection efficiency I have already mentioned. Net collection efficiency was 97.7% versus 98.1% so that is where minus 0.4% for the reasons that I mentioned, project Parivartan. The gross collection efficiency however, which is collection with the lag is at 100.3%. On the borrowings bit, it was a good quarter for us. We mobilized 3,191 Crores in quarter versus 1,080 Crores last year same quarter, growth of about 195%. Happy to inform all that we added three big lenders in the quarter, State Bank of India, NABARD and SIDBI. You would have seen the presentation our cash position also was very healthy. End of quarter the balance sheet had a cash of 1850 Crores. Coming to financial performance, the total income was 640 Crores, which was a growth of 106% Y-O-Y and 21% quarter on quarter. Net income was 412 Crores, a growth of 89%. The yield has gone up quarter on quarter and while the same quarter last year was 19.5% but even on a quarter on quarter it has gone up by about 0.45%. So, it was about 24% last quarter. We are at 24.5% this quarter. The NIMS of the portfolio is 14.1% an improvement of 113 bps over previous year. However, down 0.11% over previous quarter. This has been because of increase in the leverage which has gone up from 1.98x in previous quarter to 2.31 in Q2. So, we will see some compression as we continue to increase our leverage. We have made this position earlier that south of 4x is something that we would be comfortable with. So anywhere 3.5 to 4 and once we hit that we start looking for growth capital. As of now that distance is some bit away. On the PPOP we reported 258 Crores a Y-O-Y growth of 134% and a 36% increase over Q1. Consequently, our profit after tax this quarter has been 125 Crores, which is a growth of 127% Y-O-Y and a 5% growth quarter on quarter. During the quarter, we also received a rating upgrade from ICRA. Our credit rating was upgraded to A stable from A minus positive earlier. So now the three rating agencies, all of them are at par.

To summarize, we will end the year at about 12,000 Crores of AUM. We ended the last quarter at 9782, so we will end the year at 12,000 Crores this year which is exactly what we have been saying over the past few quarters. This will entail disbursing about 3000 Crores and 3500 Crores in Q3 and Q4, which we are confident of meeting. All distribution led initiatives will be completed by end of Q3 beginning of Q4. These are predominantly opening of new branches and entailing the cost of opening those branches and manpower because it takes about 60 days to operationalize a branch. We did this so that we could prepare for a clean 12 months of growth next year. So, the next few months will all be about stabilizing. Next year, which is FY2025 will be all about focusing on growth and most importantly focusing on efficiencies and productivity. We have mentioned the vision 2025 and the reference to vision 2025 which was essentially a three-year plan which we had come out on the 11th of July 2022 giving details of where do we want to take the company over the next three years which is until FY2025. Happy to inform all of you that we started working on the vision 2028 plan because when we came out with the vision 2025, it was a three-year plan. We are already midway. We have initiated the planning exercise for the subsequent three years. We should be able to share the plan by the end of the year. Suffice to add we are usually optimistic of what the future holds for Spandana and the same should find its way in the plan. 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 who are slogging hard to deliver the results. Thank you to all of you who are on the call. You have 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 the future. We have the entire management team with us and are ready to take questions. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Hello Sir, good evening and thank you for giving me the opportunity. Congratulations to you and the entire team for the good quarter. So, my first question was pertaining to the customer addition, so we had guided for almost 1 million customer addition during this year, and we have already added 0.61 million customers and second half being a stronger half do you believe we will be able to surpass that guidance and do much better customer acquisition which will be lead to further better loan growth.

Shalabh Saxena: We have done about 6.1 lakh in the first two quarters. So theoretically what you are saying is right. But however, want you to also keep in context is the 3000 to 3500 Crores that we will do. Within that yes, the one could become 1.1 maybe could be about 1.15 lakh as well beyond that there is a certain mix that we have in mind which we are kind of executed. Plus, we have a lot of unfinished work on the distribution side that we had. So yes, there is opportunity in the market and what we also observed is that post the release of the pent-up demand about six to eight quarters back now the demand is pretty stable so we will measure and calibrate our steps Shreepal. Our focus on customer acquisition will remain 1.1 million against 1 million guidance is possibly a doable thing, but broadly speaking we will remain within 12,000 Crores kind of a number and utilize that time to kind of do other distribution initiatives that we have on our agenda.

Shreepal Doshi: Got it. Sir second question was pertaining to the credit cost, so during this quarter we have seen that increase to almost 3.9% on an annualized basis. So, could you please throw some light on that, and will this run rate lead to any change in our guidance of 2% for the year?

Ashish Damani: Hi Shreepal. This is Ashish this side. So if you look at the credit cost, we have given the breakup what is coming from the BAU is about 1.2%. We do have some like dated provisioning that we have done which is another 2.6%. In my mind the other items, the ARC and some correction that we had to do on the assignment portfolio that we have is largely addressed. We may have some more flows, but that will be calibrated within a period of time. What is important is to look at what is coming from the BAU or the book that we have created in the recent past or the book which is going to continue in the balance sheet and that is stacking at about 1.4% right now and I think this can be improved from here on.

Shreepal Doshi: As Sir highlighted that the collection efficiency was affected because of the project Parivartan right. So, can that also lead to an increase in credit cost requirement for the year or increasing flows from here on?

Ashish Damani: So, whatever is currently built in does have some bit of impact because of Parivartan as well. So, it is already taken into account. Going forward we believe that things will improve from here on. It is the initial hiccup which has added to the flows and that is reflecting in primarily 1 to 30 and 30 to 60 bucket. But I think further flows into 90 plus whatever the natural flow will be there that would definitely happen. But the ones which are primarily because of administrative issues should correct in the coming few months.

Shalabh Saxena: So Shreepal let me also add, will there be an impact, there is already an impact. Will it flow, yes little bit will flow for sure. There is no doubt about it. However, will it kind of significantly impact the guidance, no chance. We had said that it will be sub of 2% we are below that where this is a pain of one quarter which we had to take because the model in our wisdom had to be made scalable which we kind of walked that path. Once we are there, we kind of set right about 15 lakh customers and about 700 branches rest obviously the 300 branches are functioning and this year we have no plan to do anything on those 300 branches. The new branches are either way weekly so that part is sorted already. So, all these initiatives in our wisdom have to be taken if you really want to take Spandana to 17,000 Crores and a stable and a robust model is what we have kind of planned for and this is a step in that direction. Yes, we will have an impact probably in this quarter also, but this is all temporary because these are customers who are with us. It is just that entire disruption in terms of our schedule and their schedule has kind of not really aligned well and with 1.5 million base these things are anticipated. So hence we chose July and August month to kind of execute this so that we can cover up by the month of March of this year.

Shreepal Doshi: Got it Sir. Thank you so much for the detailed answer. Sir one last question was pertaining to the collection efficiency again. Sir have we seen any impact in collection efficiency in Bihar or UP sort of states where in there was derailment in collection efficiency because of rainfall or monsoon.

Ashish Damani: So, we did our analysis. Our chief risk officer, he did a detailed analysis on both the drought which is the short rainfall and wherever there was excess rainfall, the impact of both which is deficient as well as wherever there was higher, the total portfolio impact was about 2.5 or 3% of our entire books. So, per say and this exercise we did just about I think about four weeks or three weeks back when this thing was very right. So immediately Bihar we have a book, which is reasonably manageable. We are doing a very, very calibrated approach in each of these growth states and we are fine. We have not seen any drop or any stress if that is the question.

Shreepal Doshi: Got it Sir. So, the collection efficiency would broadly be like what I mean 94-95% for that 2.5% portfolio or would it be even lower than that.

Ashish Damani: So specific question to Bihar, the collection efficiency actually is better than the national average.

Shreepal Doshi: Got it Sir.

Shalabh Saxena: Because this is a very standard question which gets asked. We have not experienced any specific stress in any of the states that we are talking about. Wherever there are issues, they are more internal than a market or environment. So hence that is a matter of solace for us and everybody in the industry. But yes of course, we would be very careful when we lend and as I said lend short, lend muted.

Shreepal Doshi: Got it Sir. Thank you so much for answering all my questions. Good luck for the next quarter.

Moderator: Thank you. The next question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Yes, hi Sir. Congrats on a good set of numbers. Sir just two questions from my side, one on the customer acquisition side, so in this quarter, the new customer addition is actually at par with the industry leader in fact it is higher than that. So just wanted to understand what percentage of this customer are let us say unique to us and maybe if you can just further share whether we will be what second, third lender or will we be let us say first or second lender?

Shalabh Saxena: So, Renish good evening. I will give you the stats. It is not just specific to 3.5. I am just giving you a flavor because it becomes a more slightly wider answer, 33 to 34% of our customer base, it was about 36% last quarter. We are 34% is a single lender relation with Spandana and another 33% is 1 + 1 which is apart from Spandana there is one more. So, this takes it to about 68-69. We have about 19% with the 1 + 2 and then the others are, once they take a loan from us, then they go and kind of borrow from somewhere else, but what we have also been observing Renish, is doing a lot of analytics in terms of is there a correlation of either a ticket size or a number of lenders to the repayment behavior of the customers. Until now we have not really seen any that is number one. Number two our focus will be on moving into geographies where we increase the single lender relationship because single lender relationship also is a factor of our existing customer base and how much they want. So given the fact that we have normalized our operations, you will see a lot of these things, the 33-34% touching the 38, 39, 40%. If you go back to my Q1 earnings call we had said that our desire is that single lender and a one plus one should be a 38, 39 equivalent, so about 78, 79 should be one or 1 + 1. So that is the distance that we have to travel, and we are walking that path that in our wisdom weekly repayment helps us in that plus now out in the market from a customer point of view Spandana is acknowledged as a stable lender which when they need there is a credit demand, and this is a credit they need a periodic dose of capital for running their regular businesses. Once they have that confidence, you will see this number increasing so that is how we are approaching the business.

Renish Bhuva: Got it and just to follow up on that, so let us say the customer pool, wherein the lender relationship is 1 + 2 and above, what could be the industry level outstanding for borrower.

Shalabh Saxena: Renish see at a point in time hamara philosophy kya hai, hamara philosophy hai 2 Tak. I mean it does not really ring a bell with us. So, we will continue to acquire more and more customer which is the earlier question Shreepal asked, so we will continue to focus on that and hence our experience is on a customer ticket size, we are very well entrenched, and we are very well in our capacity to ensure that we are able to hold on to our customer. I mean as in right now we have about 2.7 million so that is what it is. What is very critical is the share of wallet increases and to the extent possible if required even if a customer has a vintage of seven years or eight years, we are still stuck at our maximum ticket size of 80,000 not more. So, we are continuing to follow that philosophy and I think we will progress.

Ashish Damani: I will just add. Hi Renish, our exposure at a customer level is 36,800 thereabouts. If you look at the industry average should be hovering around, you know 40 to 43,000. So, if you add my borrower, my loan plus another loan we are talking about 80,000 or somewhere there if, unless somebody has given loan which are like three years and all then this number can increase but otherwise this should be hovering around, so given that we do not have three years loan. We have all two year at best. I think our kind of customer should be in that range of 70 to 80,000 maximum exposure in that one plus one that you talked about.

Shalabh Saxena: So, you asked a very important question Renish, and I am just adding a nuance to it. What we track is not the ticket size, what we track is the indebtedness level, our indebtedness level today is about 36,000 and this I can say with reasonable surety either will remain static at this number or will keep going down which is exactly the opposite of how the industry is moving but we are very comfortable with this position. Our philosophy remains and this is what we believe in. You will never lose a customer either on interest rate or ticket size. You will lose a customer on your conduct, the way you kind of approach the customer, the way you deal with them. If you are transparent, if you are honest, if you maintain a cordial relationship with them and ensure that the credit supply is taken care of, their credit demand is taken care of, you are there.

Renish Bhuva: Got it. Sorry to follow up on that. So let me put it this way. What is our credit filters? Wherein if the system level indebtedness of the customer goes let us say about 1 lakh or above 80,000 will not lend. We have that kind of credit filters in our process or no.

Shalabh Saxena: It works in the reverse. Given the FOIR and the 1.5 lakh that is automatic ceiling. My rejection at this point in time is 45% and the only way to reduce that rejection is to increase the tenor from 24 to 36 or 48 which either way we do not have. So as a policy we are rejecting the higher number for the reasons that I said because we think this is the right way to do.

Ashish Damani: So, I will just bring down that. The way you can disburse a loan is maximum tenure can be only two years and within that FOIR eligibility. So, either your amount will go down or the loan will be rejected altogether that is how it works.

Renish Bhuva: Got it and just last question from my side on the credit cost. So, Ashish you did mention that this 58 Crores in this quarter is related to the past book but let us say in next two quarters what kind of impairment we still expect from the past book, or this is the last leg, and we are completely done with the past impairment.

Ashish Damani: So, there are two pieces to this, Renish. One is ARC book that we have on the balance sheet. The total outstanding on the balance sheet is about 164 Crores. We carry a provision of 34 Crores which emanates from the ratings that are given by the trustee and the rating agency, so the provision is driven by that. We are confident that we will be able to collect most of the ARC pool. So further provisioning may not be required in my mind, but if it happens it should happen gradually over a period of time that is part one. The other part is more about the assignment transaction, and it is a calibration that we have been doing around this. What we have on the balance sheet presently uncovered or let us say what we have already paid as advance to the banks and needs to be addressed in the balance sheet is about 16.6-17 Crores roughly, let us say. Having said that we are in a business where we need to keep taking the interest from the banks perspective as well and keep having a reserve around this so one can expect let us say I am just estimating a 40 to 50 Crores kind of a number over a period of time, not necessarily immediate or whatever, but I am just doing a future gazing here in a way that is the number I have in mind and we will be comfortable with that if at all that happens.

Renish Bhuva: Got it. Again, I mean if we have only 17-18 Crores which is there on the balance sheet then why we are saying 40-50 Crores.

Shalabh Saxena: Renish this is future. This could happen is what Ashish is saying. While our efforts on the field continues, we are just defining the scope and the limit to what the discussion that we are having at this point in time. It is not that this will happen next quarter or the next three quarters or four quarters. We are saying that is the total quantum of issue to be addressed while our efforts on the field continue that is the max that we are talking about. That is the point Ashish was mentioning.

Renish Bhuva: Got it. Okay that is it from my side Sir. Best of luck Sir.

Moderator: Thank you. The next question is from the line of Sagar Shah from Piper Serica. Please go ahead.

Sagar Shah: Good evening, Sir and first of all congratulations for such a healthy set of numbers. I just had one question actually basically that was related on your slide #8 actually. So, my query was that when I am seeing from 1 to 30-day bucket and from 31 to 60-day bucket, I am seeing a little bit deterioration in the asset quality, the 1 to 30 day bucket has gone up for the first time from 0.55 to 0.85 and 31 to 60 has gone from 0.42 to 0.60 and it has increased for the first time in the last six odd quarters actually. So, my query was that are we actually started seeing some stress which we have not seen actually for the last several quarters in this microfinance space. And if yes, then can you give some colour on that please?

Ashish Damani: Hi good evening, Sagar thanks for the question. I think this is partly covered in the opening remarks made by Shalabh. I will try to explain this in a little more detail. The movement that you see in the SMA buckets primarily can be attributed to the Parivartan project that the company has taken up. We have moved almost about 700 branches in last quarter from a monthly kind of an exercise where we used to collect between 1st and 10th of the month to a weekly kind of a setup where we are asking customers to make the payments in the first week of the particular month which is Monday to Friday. So in this there is administrative issue where the customers are still not aligned to the new thought process and that is what is creating a little bit of slipovers. So if you see our overall collection on the gross basis is still 100.3% which means people are paying with some lag and there are some miss outs that have happened which will catch up as we progress and I think what we believe is in another three to four months you could see this again normalizing and going back to levels where we were in the past.

Shalabh Saxena: So, Sagar, I covered this at a length in my opening remark, but broadly, our company used to follow a collection cycle of first to 10 which was a date, and the balance 20 days was for a disbursement and member acquisition. What we have done is we thought the right thing to do was to do all the three things which is collect, disburse, and acquire new customers every single day of the 20-21 days that you work. So, we moved in 700 branches covering 1.5 million customers from the date to a day which is instead of 1st to 10th now we are seeing Monday to Friday. We came out with a schedule to the customer saying that your installment is not on e.g. 8th but it is on Wednesday or Thursday or Friday and this reaching to 15 lakh customers for a scale of this obviously there was to be a disruption that is why we chose this quarter. We were fully aware of the risk.

Sagar Shah: Okay sure Sir and my last question Sir was related to credit cost. As you already highlighted there was a one off in the quarter related to restructuring. So that is how our credit cost was little high at 90 Crores. So can you give a guidance of our credit cost for FY2024 and for FY2025 also.

Shalabh Saxena: If you look at our slide, our credit cost is 1.4% only, the balance that is towards the FRs and some assignment transaction that we have done. I do not want to really take up the time of the others, but you can separately reach out to us and then we will get in touch with you.

Moderator: Thank you. The next question is from Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Hi Shalabh and Ashish. Thank you for giving me the opportunity to ask questions and congrats on demonstrating significant scale up of the franchise. So, first question is on the portfolio yield. So, portfolio yield has improved from 24% to 24.5% but the interest income has grown exactly in line with loan portfolio that is by 10-11% so does it imply that a good part of the growth that keeps on the quarter was slightly back ended, and a true reflection of the higher yield will come in Q3?

Ashish Damani: Hi Rajiv, good evening. So, I think the entire growth is in line with the portfolio growth and the reflection of the yield is nothing but whatever the top line growth has been. What however happens is we have done two DA transactions which will move some of the income related to the quarter as well into the other line item apart from the preponing of income because of the DA transaction which is almost about 42 Crores which has gone into the other income line item that gives you some aberration. In terms of as far as portfolio yield is concerned, I think we are very much there may be another 10 to 20 bps is what you can see.

Shalabh Saxena: So, the history is Rajiv, post the March regulations we increased the interest rate the first time around in June of 2022, so we had taken up our IRR from 21.97 to 24% in October, which is 12th of October 2022, which was last year, we took it up to 25. So, for the past four quarters we have been stable at the same interest rate. So, the yield on account of the delta on interest rate has I think kind of come one full year on a portfolio point of view, so now what you will see is not what the delta on account of increase in the rate, but more on account of the denominator increasing which will kind of progress as we move.

Ashish Damani: And just to cover the question in two numbers, 7% was the increase in the average AUM. The increase in the top line, interest income has been around 10% so those are the numbers for you Rajiv.

Rajiv Mehta: Shalabh you also said that customer level indebtedness will remain static or maybe even slightly come down. So, when you speak about indebtedness, you are talking about our average outstanding to the customer borrower.

Shalabh Saxena: Correct.

Rajiv Mehta: So then does it not imply that customer retention or portfolio will not improve because naturally as your processes, your things are becoming much and much better the customer stickiness and the customer attention should improve and the migration into subsequent cycles will left the overall blended outstanding per borrower but I agree that you will also add new clients but can it not improve I am just asking.

Shalabh Saxena: So, what you are saying is right. However, for the next one year so there are two parts we are discussing, we are discussing numbers, we are discussing philosophy. From a philosophy point of view, we will always be on the lower end of the ticket sizes, and which is what in the early part of the conversation we said that our maximum ticket you are operating at is 80,000 which is substantially lower than the industry. What you are saying is right. However, for the next year when we continue to pursue our customer acquisition led growth. By design we offer our customer a first cycle loan at 35,000 you will see that number being stabilized at 36,000 or thereabouts. One year hence when currently our proportion of new versus vintage customer is about 50:50. The day we start coming down to a 30% new and 70% existing that is when the 36 will start inching up and that will eventually play out say about six quarters from now. But however, the 36 is unlikely to become a 46 or a 48. At best 36 will be 37, 38, 39 that is the range that we are comfortable in, sub 40,000 indebtedness even for an existing customer base is a number that we should be comfortable with.

Rajiv Mehta: So, what is your thoughts about your tenure per officer or officer to assets ratio, it may be in the medium to longer term where can we reach from where we are.

Shalabh Saxena: So, we have done this benchmarking. We are at an enterprise level we are currently at 347 to a loan officer, so we are at a AUM currently is 1.2 excluding trainees, and our loan officers are handling 317 borrowers per loan officer. However, 317 Rajiv is a number and this 317 is because we have added a lot of branches and loan officers etc. This will immediately in the short term hit in the neighborhood of about 380 to 400 borrowers per loan officer which next year we are targeting of 440 to 450 number. On the AUM side, we are currently at a 1.2. We are targeting a 1.4 to 1.5 over the next three to four quarters. That is the number we are targeting. On the AUM side 1.4 to 1.5 is the number that I foresee stabilizing and on the borrower to loan officer, I think a number anywhere between 450 to 480 is a number that we will be comfortable with. We in our best of times done a 600 also in our previous company but those days were different. So now anywhere 450 to 470 is a good enough number with a 1.5 Crores of corresponding portfolio. Sorry for the long answer.

Rajiv Mehta: Thanks for this. Just a couple of observations and then I would like to hear your comments. And this is my last question. We have seen some addition even in the monthly collection model branches. Second question is about the growth in loan officers on sequential basis has just been 4%. So, I am asking this question in the context of significant number of branches that we have added.

Shalabh Saxena: Okay understood. So, the monthly addition is because of the split branches because the branches sometimes outgrow their capability. When a branch starts stocking a 20 Crores kind of a portfolio you have no option but to administratively split otherwise it becomes a slightly riskier branch from cash handling etc., perspective so all of this either will follow our model of transforming from a monthly to weekly. On the loan officer count I think Rajiv, we have kind of reached where we wanted to maybe another 500-700 and we are done for in terms of recruitment. Our branch addition and recruitment we kind of done whatever we had to which was my point in the commentary when I said that we have taken the cost. We have done all the investments in the distribution. Now it is all about, efficiencies and productivity.

Rajiv Mehta: Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Good evening, everyone and congrats Shalabh and Ashish on a good quarter. So just two questions, the first one is more of a data keeping question. Ashish if you could just tell us what is the DA outstanding as on September?

Ashish Damani: 732 Crores.

Abhijit Tibrewal: Alright thank you and the other thing is this time around you already shared I think around 42 Crores coming from the DA transaction which you showed as value change. So is this understanding right that I mean all the upfronting or what we call as finite income, when you undertake a DA transaction, you are booking it as that you do not show that.

Ashish Damani: That is right Abhijit. This will include the income that you would have booked in the interest income between the date of cut off and the date of transaction as well.

Abhijit Tibrewal: Got it. So essentially if you do a retransaction 45 days into the quarter, 45 days of interest income gets booked as net gain on fair value changes.

Ashish Damani: It may be 45 days; it may be 25 days depending upon where did I pick up the portfolio from which date onwards that is the way to think.

Abhijit Tibrewal: Understood and this time around we have reported net gain 60 Crores, 42 is coming from this DA transaction that you did and other 18 Crores is coming from?

Ashish Damani: So whatever cash that we have we park it into overnight funds with the mutual fund companies and the income interest come from there.

Abhijit Tibrewal: So even the treasury income is classified in the net gain on share value changes. Got it. Last question I had is I mean while you have already articulated maybe the yields will go up by 10-20 basis points. So, two parts to this one is I mean on yields do you think there is some regulatory risk not specifically to you but given how I mean other peers and the interest rates at which they are lending do you think there is a regulatory risk of again some kind of a capping coming in and the other question is specifically on your cost of borrowings. I am seeing Ashish sequentially your incremental cost of borrowing has remained stable, very heartening to hear that you have added three big lenders during this quarter. SBI, NABARD, and SIDBI. So based on how discussions are progressing, I am hoping you will look to add more maybe PSU banks lending relationships going forward. So how should the cost of borrowing kind of trend incrementally as well on portfolio basis going forward?

Ashish Damani: I will answer the cost of borrowing and then I will hand it over to Shalabh on the industry view for how the interest rates are likely to move. In terms of cost of borrowings, yes as we progress we should see more improvement in the marginal cost of borrowings for us but if you overlook at the moment in terms of our cost of borrowing it has been between about 130 bps between last year and this year and if I have to look at how the overall interest rates on the repo side has moved, it is also like close to about 240-250 basis points. So from that respect we have been doing well. Having said that I agree as the participation from the public sector banks improve and the mix changes, we should start seeing some benefits on the borrowing side.

Shalabh Saxena: So, I will just supplement what Ashish said. What was left in our kitty over the public sector enterprises so by design this cost of the borrowing should go down that is our estimate, that is our guess, and it is a logical guess. Now to your first question on the interest rates and NIMS that are being charged. Now specific to us we are currently at 14.1% NIM. Our gearing is just 2.3. If our gearing goes to a 4 which it will eventually. One has to operate at a 3.5 to 4 X, the NIMS should settle anywhere at about 12, 12.5 add about 2% of credit cost and cost of operations so you are talking of roughly about 4, 4.5, 5%. So 4.5% is what we have said that we are currently at 7% but I think on AUM basis I think we should settle anywhere on a long term basis at about 5, 5.5% and add another on the credit cost you will have 4.5 to 5% of ROA, so your question in terms of do we see any intervention, look this is a physical model which is a very expensive model. One has to physically deploy a lot of people and for all practical purposes they have to be monitored which entails a lot of cost and hence 5, 5.5, 6% you need that amount to run the company. At a point in time if there is a question from anywhere by regulator, there are others also who asked this question. We have a perfectly valid reason that for unsecure micro finance lending 4, 4.5, 5% is a very much doable levels and limits that we are at. We also have to ensure that as an industry we lend responsibly and when we say lend responsibly means that the interest rates that we are talking about and industry if you see the big players, the top ten players if I remember correctly contribute about 90% to the industry, most of them are in the median of the number which is a tolerable number. So, it is a number which is a logical number to operate. We balance the interests of all the stakeholders. So, per say our personal view is that if we continue to operate in this space, we should be fine. However, if there are questions, we will be happy to answer anybody outside.

Abhijit Tibrewal: Got it. Thank you so much for the update. That is all from my side. All the very best to you Shalabh, Ashish, and Spandana team.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Good evening, Sir and congratulations for a good set of numbers. Sir one question on the other loan product, so as part of our vision 2025, we had also said we will reach 3000 Crores in other NMFI so what is the progress there till now given that we are six quarters away?

Shalabh Saxena: Thank you for asking this question, Sarvesh. We have opened ten branches in Rajasthan. I think last time we had updated that we are going to expand in Rajasthan this is under our subsidiary Criss Financials, so we opened ten branches. We have disbursed in the loan against property while we are still finding our feet, but we are progressing really well. We have disbursed about 3.5 Crores and done about 105, 106 loans. On the nano MSME loans we just opened this up, I think about last month of the quarter. Last quarter we have done about 25 lakhs and 27 loans. We have 60 people already in the ten branches that we have spoken about. All of these are people from the industry, and I think I clarified this last time. This is a separate market, separate branch, separate set of people and even in the head office at the chief business officer level, there are separate set of individuals kind of looking at it because this entails setting up a full-fledged credit department if you are looking into it. This has nothing to do with micro finance so that is why we demarketed it and kept both the models separate. Our plan is to take the number up to 50 branches by end of this year. I think we should do about roughly 75 Crores to 100 Crores by the end of the year. Next year is when we scale up and we will scale pretty fast. We are just trying to even out all the rough edges that we have in terms of system because there is a new system that we have taken. This is not the microfinance system. So new system, new setup, new environment, new market, new set of people. All of this, we are just socializing ourselves and once done towards the later part of Q4, we kind of step up to deliver the plans that we have communicated.

Sarvesh Gupta: Understood Sir and just one thing, one clarification on the credit cost part. So, if I understand this correctly this 58 odd Crores which has come up, so only 40 to 50 Crores which is from assignment transaction is the sort of the further flow into this sort of number which can happen as far as our pre 2021 book is concerned and nothing else is sort of under question as of now.

Shalabh Saxena: Yes, so Sarvesh there were two pieces to it. One you got it right on the DA part. We do have 128 Crores of unprovided ARC portfolio which is there, which we are very confident of recovering that is there on the balance sheet. In case in future, we are not able to recover, we will have to take some bit of cognizance of that.

Sarvesh Gupta: And remaining is the assignment which is 40 to 50 Crores over a period time.

Shalabh Saxena: That is right.

Sarvesh Gupta: So at least in one quarter you may not see this sort of a number going forward.

Shalabh Saxena: No.

Sarvesh Gupta: Understood and in the project Parivartan which might have some impact on your credit cost on this quarter in terms of flows so 1.3% that we have got is inclusive of that hence we should expect this sort of a number going forward as well or do we think that the real sort of increase is going to come in the coming quarters from this?

Shalabh Saxena: So, we will see some flows in this quarter as well. Yes, the 1.4% is a part of this. However, we are trying our best to kind of ensure that it remains within the original limits that we have been delivering over the past few quarters. However, having said that our overall number that we have been very consistent in what we have been saying. We will be sub of 2% that we are very confident of meeting.

Sarvesh Gupta: Understood Sir. Just one final question on the district concentration do we track that and is it in line with what we wanted to achieve? I understood the state wise guidance.

Shalabh Saxena: So, we do all of that, the branch, district, state, zone, all of that we do but the larger point is Sarvesh, and I would urge, and I would draw your attention to is our top three states are 41-42%. They contribute 41-42% to our overall kitty. I do not know if you have that slide in front of you but if you go to the annexure slide 20 my top two states are 15 and rest all the states are sub-11. If you go back to the commentary that I said we said that exit 25 none of the states will be more than 12% so which means two state Odisha and Madhya Pradesh have to come down from the current 15 to 12% so this will come out one increase in denominator and the second is obviously there are certain pockets of inefficiencies which we kind of shut the tap on which is going to get us to that number. So, the concentration norm and the corresponding mitigation is something that we are very, very clear in our head that is what we are driving. I do not think we will take more than six quarters to kind of get to 12% across all states and the highest will be a 12% and the rest will be below.

Sarvesh Gupta: Sure, Sir. Congratulations again and wish you all the best.

Moderator: Thank you. The last question is from the line of Anand Mundra from Soar Wealth. Please go ahead.

Anand Mundra: Good evening, Sir. Congratulations on good set of results. I wanted to check on slide number 7 your current book percentage has come down so I could not understand this from 97.1 to 96.7.

Ashish Damani: Anand this is same as what we have been discussing about so some of the payments are delayed so they have been classified in the 1 to 30 bucket and that is why you see the current number has gone down by 40 basis points.

Anand Mundra: See what I understood from current and old number, one is current book, and one is a pre COVID book that is how the percentage is.

Ashish Damani: Zero-day delinquency.

Anand Mundra: Okay second Sir I wanted to check how many branches we have moved to weekly collection now.

Shalabh Saxena: I will give you the December position. I think there is a slide also that we have put up here which is split into operational and not operational. We are already at 1502 branches of which about 95 odd branches are yet to start operations exit December which is two months away rough and ready about 370 to 380 branches should be weekly, when this all gets over, I think we should be at about 450. These are all organic branches which existing monthly for whatever we are going to transform all of that will slowly start playing out in Q4 and then Q1 from next year onwards.

Anand Mundra: Sir this problem of increase in SMA2 and GNPA that will continue for another three or four quarters from the time you are moving everything to weekly branches.

Shalabh Saxena: There is no link between the two. The new branches are weekly model, so there I see no change now. We have moved to day instead of 1st to 10th we have moved Monday to Friday, we are not doing it now in those branches, these branches which I said will take about three months, max four months and then we will be sorted. The other branches, 300 branches which are monthly are very big branches, so we are not touching them for now. Once let us do this and which is why I keep on making that statement that exit 2025 or end of FY2025 Spandana will be 80% weekly, not 100.

Anand Mundra: Okay noted Sir, Sir one more thing, how much bad debt recovery happened in this quarter or six months?

Shalabh Saxena: H1 we have recovered 54 Crores. Last year write off recovery was about 39 last year, H1 is 54 Crores, and we are targeting upwards of 100 Crores which is another 50 odd Crores in the balance.

Anand Mundra: Okay and Sir with respect to collection efficiency since you have moved some branches to weekly, how this has been calculated now 97.7 percentage, so you are calculating separately?

Shalabh Saxena: There is nothing to do with monthly or weekly. The definition for net collection efficiency is very simple. It was due on the day. Did you collect on the day or not? We have kept it so simple and did not complicate it, gross is what has come from lag.

Anand Mundra: With respect to net collection, you are saying that you are taking date wise not month wise.

Shalabh Saxena: Yes, it will happen on different days so at the end, let me make it simple for the September month, for September if there is a due from a customer, if it comes or not otherwise it will go down.

Anand Mundra: So, Sir you will see at the end of the month whether it is weekly or any day on the month correct.

Shalabh Saxena: We monitor every day but obviously from a representation point of view we have to draw a line somewhere and present, so we follow that.

Anand Mundra: Sir this gross collection and net collection the difference being the excess largely would be prepayment.

Shalabh Saxena: Say for example, if I had 100 due in the month of September, I collected 90. I am just theoretically saying I collected 90, so 10 will be there. If the next month this I get 90 and this last month 10 comes next month, then the next month net will be 90 and gross will be 20.

Anand Mundra: Understood Sir. I am done. Thanks a lot.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

Shalabh Saxena: So, thank you very much for, for being on the call. We are very thankful for giving us the support during the quarters. We will continue to deliver. As a management we will continue to work on the vision 2025 plan that we had articulated. As highlighted in my commentary earlier, we have started working on the vision 2025 to 2028 which we will be able to share with you closer to the end of the year. So, thank you for all your support. Thank you very much.

Moderator: Thank you very much. On behalf of Spandana Sphoorty Financial Limited that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.

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