SPANDANA

Ref: SSFL/Stock Exchange/2024-25/140

January 29, 2025

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
Bandra Kurla Complex, Bandra (E)
Mumbai – 400051

Symbol: SPANDANA

Dear Sir/Madam,

Subject: Transcript of conference call held on Thursday, January 23, 2025.

Ref: letter No. SSFL/Stock Exchange/2024-25/129 dated January 20, 2025.

In furtherance to our above-mentioned letter, please find enclosed herewith a transcript of the conference call held on Thursday, January 23, 2025, to discuss the financial and operational performance of the Company for Q3 FY25.

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

Vinay Prakash Tripathi
Digitally signed by Vinay Prakash Tripathi
Date: 2025.01.29 11:02:19 +05'30'

Vinay Prakash Tripathi
Company Secretary

Encl: As Above

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"Spandana Sphoorty Financial Limited

Q3 FY25 Earnings Conference Call"

January 23, 2025

"E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on January 23, 2025 will prevail."

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

MR. ASHISH DAMANI – PRESIDENT AND CHIEF FINANCIAL OFFICER – SPANDANA SPHOORTY FINANCIAL LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Spandana Sphoorty Financial Limited Q3 FY '25 Earnings Conference Call. 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 star and zero on your touchtone phone. Please note that this conference is being recorded.

A standard disclaimer. 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 date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

I now hand the conference over to Mr. Shalabh Saxena, MD and CEO. Thank you, and over to you, sir.

Shalabh Saxena: Thank you very much, Sagar. Good evening to all of you. Wishing all of you a very happy and prosperous New Year and a very happy in advance, the 76th Republic Day. The management team at Spandana is thankful you for your interest in Spandana and for taking time out to join us on this call.

Most of you would have gone through the quarter 3 results that have been uploaded on the stock exchanges a couple of hours ago. All of you are aware that since the beginning of the financial year, the microfinance industry in India has been going through a slightly difficult operating environment, owing to a multitude of factors. However, before we dwell on those factors, let me take a step back and give you a context of what was the strategy we at Spandana adopted and what were we trying to deliver through it. And then we'll come to the results. Way back in July 2022, when we presented our Vision Document, we had identified a few key levers which we felt were important for the company to grow sustainably. The first was geographic concentration. Spandana's portfolio was concentrated then in a few states, which was a key business risk.

To address this, Spandana expanded its presence in predominantly northern states like Bihar, Uttar Pradesh and Rajasthan where we did not have a meaningful presence. As a consequence of this expansion, the share of top 4 states in our portfolio reduced from 57% then to about 50% by end of December '24.

So hence, we tried as per the articulated strategy, we tried reducing the concentration and spreading it across to the regions that we were not present, which was predominantly the Northern region. Point number two, we are a firm believer that weekly is a better microfinance model giving the organization opportunity to engage few times in a year with the borrower. In times of stress, it is easier for the borrower to pay a smaller installment. All new microfinance branches, hence, which we opened during the past 2 years have had a repayment schedule, which was weekly.

And by the end of December '24, these branches contributed about 14% to the AUM. And on a regular basis, about 20% to 25% on new disbursements. Parallelly, we also launched Project Parivartan which was to move the existing borrowers who were in the monthly branches from monthly repayment schedule to a weekly repayment schedule. However, we have identified and we have been informing you that there were implementation difficulties on the field, which resulted in elevated flows from these branches.

We have paused Project Parivartan now, in fact, we did it a couple of quarters back. However, we will pick this up in the next few quarters when the business stabilizes because we do believe that weekly is the right model to go in the future. Point number three, muted ticket sizes, shorter tenures and customer acquisition-led growth have been the cornerstone of our growth strategy over the past 2 years.

The maximum ticket size that we offer is INR80,000 and the maximum tenure that we offer is 24 months. We don't offer any loan beyond 24 months, and we do believe that in the microfinance environment, this is the right thing to do. While we added about 9 lakh new customers in FY '23 and about 14 lakh customers in FY '24, respectively, in the current financial year, and we've kept you updated as well, we have slowed down our customer acquisition owing to the industry challenges and have added only about 3.3 lakh borrowers so far this year. This is a part of design. This is a part of the articulated strategy that we have for this year, given the situation that the industry is in and we are in. Now that brings me back to the challenges that the microfinance industry in India is going through in the current financial year.

As we had alluded to in our previous earnings call, there are a number of factors that are playing out simultaneously across the country. The first is branch staff level attrition across the industry. It continues to remain elevated. Point number two, with easy availability of credit, many customers, many borrowers had availed loans from multiple institutions causing stress in their financial position. This has resulted in increased delinquencies across.

Point number three, post-COVID, there has been erosion of discipline amongst borrowers with fewer of them turning up for center meetings as compared to earlier. So there has been a drop in the center meeting attendance over the past couple of years. Group cohesion has suffered as a consequence resulting in individual door knock for collections, thus substantially increasing collection pressure on the branch staff.

Point number 4 is the external influence, which is a mix of various localized as well as national level occurrences, which have happened over the past 3 quarters. This also includes the debt waiver movements, and there are some local challenges in small pockets across states like Karnataka, Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and few other states.

If you look at Slide 5 of the investor presentation, we have dissected the microfinance portfolio into zones and clearly South India appears relatively better than North India. Most of our expansion over the last 2 years was in North India, and this has added a dimension to our current performance. Having said so, we do see green shoots emerging in December '24. We have a slide on this in the investor presentation, but I'll kind of elaborate. Our current book, which is a customer who was standard or not in arrear, the net collection efficiency has shown a trend reversal in December.

In December, we saw 2.2% of flows from the X bucket, which is the current bucket into arrears, which has improved from 3.6% in November. So 3.6% flow has gone down to 2.2%. Any improvement in current book indicates a smaller pool which flows into the subsequent buckets. As this trend solidifies, we expect delinquencies and forward flows to reduce.

And while we are already 22 days, today is the 23rd day of January, we continue to see the same trend as we saw in December and probably slightly better in quite a few geographies. So if this solidifies into a proper concrete trend, then I think we will be sure that the reversal has happened. Point number two, efforts on the field to engage with branch staff has shown some improvement in attrition rate during the quarter.

Our annualized LO and BM attrition was 60% and 30%, respectively. While I'm cognizant of the fact that a 60% Loan Officer attrition is way beyond the expectation where in a normalized scenario, we were anywhere around 40% to 45%. However, we are taking steps to ensure that the Loan Officer level attrition is curtailed. The Branch Manager attrition at 30% annualized is more or less very near to the normal, which was about anywhere between 25% to 29%.

As we have highlighted in our previous calls, attrition leads to a disruption in the center meeting and borrower discipline because it's the Loan Officer and the old, seasoned Loan Officer who is able to drive all these initiatives and any new person taking this initiative, taking charge, obviously takes his or her own time to come up the curve. So that was the disruption that happened.

We were impacted by this. However, things are improving now. This should hopefully have a positive impact in the coming quarters. Point number three, we've added a control layer in 75% of the branches and are seeing strong traction in branch process hygiene factors like center meeting monitoring, customer engagement, following up for missed payments on due dates, checking the CGT, GRT process, etcetera, are some of the many things that the control employee whos stationed at the branches is supposed to be doing.

We've hired this layer for the last, and we've kept on increasing it for the last about 5 months, 6 months, and we are seeing good results of it. We'll continue driving this and we will ensure that, say, in the next 1 quarter, we will have all our branches manned by the branch quality manager. The green shoots are encouraging, and we are doubling our efforts to strengthen business -- strengthen the business fundamentals, thus setting up the organization for future growth.

Another point which is very critical is the recovery from the delinquent pool. Recovery from delinquent pool is one major focus area where we believe borrowers will repay as the stress abates and once the industry adopts the slightly tighter credit rules. On analysis of the delinquent portfolio, which is the GNPA pool and upwards, we have seen that a large portion of customers are seasoned and vintage customers, who are probably not currently in a position to pay. However, their intent is okay.

It is an ability issue, it is a capability issue. We believe that a separate team engaging with them would help us get the results on this pool. Hence, a dedicated recovery team of 600 has been following up with the borrowers to recover dues. The team of 600 has just been beefed up and has been increased. However, we are seeing an encouraging trend over the past 3 quarters with about INR21 crores recovered in quarter 3 alone.

The trend has further continued in January, where the recovery so far has been equivalent to the full month of December. So we are on track, and this is something that we will pursue for the next minimum 4 quarters. We plan to take the count of dedicated recovery team to about 1,000 by March '25.

The team is actively assisted by the various tele calling infrastructure who encourage borrowers to repay their dues and improve their credit record. While we had a team pursuing this portfolio until now, we are increasing the team size as we see more potential in the recoveries from this pool in the coming quarters.

As the external situation improves, we want to be ready with enough capital to drive future growth. We have been maintaining about 17% of assets as cash and equivalents, which provides us with enough liquidity to meet all the organizational obligations. The capital position of the company is strong as is evident from the CRAR of 35.7%. The Board, taking in view the future growth has given an approval to raise up to INR750 crores of confidence capital. While we are in no immediate need of capital, however, considering the market conditions, the company will raise the said confidence capital at an appropriate time, and we will initiate the steps now.

Now over to the results. The current trends, while they are encouraging and operations should normalize, hopefully by end of quarter 2 of next year. Because we have not come across any structural changes, either in the rural demand or long-term dip in the economic activity or the macroeconomic outlook. Let me now move to regular business updates.

Business drivers.

During the quarter, the company adopted a cautious approach to lending. We followed a cautious approach because of the fluid situation in the market and hence had curtailed our disbursements considerably. Our disbursement for the quarter was INR1,443 crores, a Y-o-Y decline of 43% and a 5% quarter-on-quarter decline. AUM at the end of quarter 3 was INR8,936 crores registering a decline of 14% Y-o-Y.

The AUM is an outcome of disbursements as all of us know, and we are confident that once the dust settles, we'll be back to driving growth. With the pause in customer acquisition in almost about 800 branches and pausing onboarding new to credit borrowers, our total customer acquisition for the quarter was about 47,000 customers. The new business that we had launched, our LAP and Nano business, which we started a year ago under our subsidiary, Criss Financial is growing steadily. During the last quarter, we crossed the 10,000 borrower milestone and an AUM of INR180 crores.

These products are offered in 6 states and across 105 branches. The portfolio quality under both these products continues to be strong. We continue to believe in the strong market potential of these products.

Now we move to portfolio quality. We continue to maintain provisioning at 80%. We believe this is among the highest in the industry. GNPA at the end of the quarter was 4.85%, an increase of 324 bps Y-o-Y.

Sequentially, the GNPA was flat. Likewise, our NNPA for the quarter was 0.98%, flat against September of '24. On the liability and marginal cost of borrowing, including the borrowing mix. During the quarter, we borrowed INR872 crores. The borrowings were calibrated keeping in view disbursements and the organization's liquidity requirement. All of you are aware of the qualifying asset criteria that has to be maintained and hence, more prudence on the borrowing side.

Our marginal cost of borrowing for the quarter was 12.2%, which was about 8 bps lower than the previous year and about 41 bps higher than the previous quarter. Likewise, if I look at the borrowing mix, we now have a more healthy mix with banks contribution increasing to 55% at the end of quarter 3.

The quarter 3 FY '25 financial performance. The net interest income for the quarter was INR265 crores over INR309 crores reported for quarter 3 of last year. NII was lower by 22% over the last quarter. PPOP for the quarter was INR78 crores, which is down 67% Y-o-Y. The decline in PPOP was largely on account of shrinking loan book and increase in the opex because of the bench strength that we've created. Yield on the portfolio was down 291 bps Y-o-Y to 21.1%, yield declined by 128 bps over the previous quarter. And we'll cover in the various questions that we get asked on the details of the yield. NIM for the quarter was 11.3%, down 195 bps Y-o- Y. NIMs declined as a result of decline in yield and increase in the cost of borrowing. We are consistently working towards improving our cost of borrowing. The company reported a net loss of INR440 crores for the quarter on account of higher provisions. We will once again, in the -- during the call, we'll break this INR440 crores to you so that you have a better sense of what was the contribution into this INR440 crores.

Given the challenges, we'll continue to maintain a cautious stand until the green shoots solidify into concrete trends. We are optimistic that the situation should normalize by end of quarter 1 or beginning of quarter 2 of FY '26. We are maintaining an agile approach and are implementing steps where necessary. We are also closely monitoring outcomes thereof. We continue to be prudent in our approach to lending, ensuring that our portfolio is well diversified, while staying conservative on ticket sizes and customer indebtedness.

The entire management team of Spandana is thankful for the consistent feedback that we have been receiving from all of you. This brings me to the end of my commentary. We look forward to your continued support, and we are ready for the questions.

Moderator: Thank you very much. Our first question comes from Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: So I just had a couple of questions that the new guardrails and one will be implemented in April as well. How will that put further pressure on asset quality in the first quarter? So you're talking about things peaking out in the first quarter, right? Does that include the impact of any guardrails?

Or how do we view it? That's my first question. And secondly, that growth will slow down. This was a discussion at another call also. Growth will slow down post new guardrails. So what kind of AUM growth can we build for FY '26? I know longer term, it would pick up across the cycle. But just for FY '26, because already, in the fourth quarter, we won't expect much growth. So on the exit AUM, what is the kind of growth that we could build in? That's my next question.

Shalabh Saxena: So thanks, Mahrukh. Your first question was around guardrails. As we speak, we already, as an industry, have implemented the guardrails one, which came into effect from July where there were various criteria which were laid down on the guardrail one, of which the primary one was the number of lenders, which was restricted to 4. So you can be the fourth, you cannot be the fifth.

So while, yes, in the short term, it does create an impact because if you go back to post-COVID for the past 2 years, there have been instances where there were customers who were arrear and delinquent with somebody else still getting loans with some companies where they either they had a relationship or they didn't have. So that was the environment which the customers had gotten use to, which now obviously with the guardrail implementation and stricter enforcement of the -- what kind of customers you can acquire at -- from a delinquency or a DPD bucket level. I think it kind of in the long term helps restore some discipline across the industry, including the customers.

So it was a good thing to happen. And in spite of that, you are seeing that uptick, as I mentioned in December. And when I say uptick, it is across the industry. And I've spoken to a few people, everybody has experienced this trajectory going up. So yes, Mahrukh, and then in April, there's a guardrail 2 coming where the number of lenders comes down from 4 to 3. Will it have an impact?

The answer is, yes, in the short term, 110%. In the long term, however, you are back to bringing discipline to the customer. What it also does is that across 2 enterprises, if a customer is current with somebody and and a delinquent or an arrear customer is somebody else, she will have to ensure that her arrear account is clear for her to be eligible to borrow from any entity. There are rules in terms of the customer should not be more than 60 DPD if you have to give a loan, etcetera. We've gone slightly ahead from -- instead of 60, we are saying we are getting it down to 30. And then I just answer this as to and I'll qualify why.

What happens Mahrukh, is that in a situation as this, it is better to err on the side of caution rather than really kind of going overboard when it comes to deciding as to which customer to lend. And hence, to your second question on the growth and what will be the AUM. My guess is year '26 will be a mix of consolidation, discipline and growth. It will not just be a growth, number one.

Number two, because the first quarter, second quarter, there could be an impact. Either way, Mahrukh, you are also aware. First quarter is typically a very mute quarter because companies lenders do get into the groove. There are -- the situation is such that the first quarter is never high on from the lender side as well. So it's a good time to kind of enforce this.

And while we've kind of taken that extra step in terms of doing it now, but the industry, when it happens in April, probably at best, well the customers will take about a quarter to kind of settle, post which then all customers will have to do is to be prudent and they'll have to balance their portfolio in terms of where to borrow and which loans to kind of conclude.

So yes, long answer to your question, but the answer is, we will as an industry, we will have to kind of take it as it is because this is a marathon. This is not a 100 meters or this is not a T20. So yes, it could impact 1 quarter even a 2 for that matter. But then long term, it's good. It'll build sustainability in the business, and it will help us. To your specific question in terms of what are we targeting, I think we should -- I mean the year has still not ended. But I think a growth of around 15% is a good number to target from our year-end numbers. That's a good number.

And then we'll see how the year progresses because when this year started, we did not know how things were moving. We did not know what was coming. FY '26, obviously, we are better prepared. And it's always good to kind of be cautious. And if things improve quarter 3, quarter 4, we will kind of relook at it. But at this point in time, I think a 15% exit number FY '26 of about INR10,000 crores of AUM should be a good number to target.

Mahrukh Adajania: In the next quarter -- I mean, in the current quarter, the AUM will consolidate, right? Because the focus is still on cleanup. Is that a fair view?

Shalabh Saxena: Your question is right. And the answer is, yes. The current focus of our company is to ensure we get the portfolio right. This year also has taught a lot of lessons to everybody, including us in terms of how much to grow, where to grow, which areas to target, which pockets to target. A bureau check at the time of loan is not the be all or end all, you have to keep track of the customer and so on and so forth. So lot of realignment will happen in terms of geographies. I mentioned in my commentary that South behaved slightly better than north. But does not mean it will behave every time the same.

So you have to calibrate your strategies, basis – the customer experience and the customers repayment behavior over these last 3 quarters. Once we have that, we will know exactly where to grow. But as I say, the environment also has to kind of warm up to this whole new world. And I think I'm reasonably confident that 1 quarter or at best 2 quarters is good enough for things to stabilize and then we kind of move on.

Moderator: The next question comes from Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: My question was on the X bucket collection efficiency for states like Bihar, Karnataka and MP, which happens to be the key states for us. So if you can just highlight this kind of trend for these states.

Shalabh Saxena: This is the X bucket collection efficiency, the 97.8%, that is in Slide 5 or 6. That's the one you're talking about, right?

Shreepal Doshi: Yes, yes, that is for the whole company, right? I mean I'm talking about these three – four states.

Shalabh Saxena: Yes, yes, yes. I got it. I got it. So Bihar is about 30, 35 bps lower. Karnataka this month, last month was okay, this month is experiencing a bit of -- and you would have read news about whatever is happening. But that should settle because there is a lot of interventions. So that should settle hopefully by end of this month. But Karnataka this month is clocking slightly about 30, 40 bps lower than the number that you see. What were the other states, Bihar, Karnataka and...

Shreepal Doshi: MP and Maharashtra?

Shalabh Saxena: Maharashtra is okay, MP is okay. Yes, MP, Maharashtra are in -- I mean, give 5 or 10 bps here and there, they are almost clocking at the national average.

Shalabh Saxena: Bihar is trending a bit lower. That is very, very clear. The team says that this month, they catch up with the country. Currently, they are at a lower number. Karnataka last month was okay. This month is about 30, 40 bps lower. The other 2 states are just around the national average. Nothing of concern.

Shreepal Doshi: Got it. And sir, just one question was on this flow rates. So basically if you could highlight the PAR 0 number or PAR 1 to 30 DPD number for us for this quarter and for the last quarter because you highlighted 31 to 180 DPD, but if you could also give details about 1 to 30 DPDs number?

Shalabh Saxena: So, Shreepal, yes, Shreepal, the 1 to 30 number last quarter was about INR527 crores. This quarter, the closing number was about INR348 crores. So that number has been coming down.

Shreepal Doshi: Got it. That is helpful. Sir, second question was on this -- we've not been able to meet the RBI requirement of 75% for microfinance loans. If you could just give some clarification on that particular aspect?

Shalabh Saxena: Shreepal, the qualifying assets is a metric which needs to be met. I'm sure it's on the balance sheet level, you have to have 75% of your lending to be qualifying assets. Now in the current situation, we had deliberately slowed down the disbursements. That had an impact on the qualifying assets. Plus we have been holding cash on the balance sheet, which obviously then as a percentage became higher than whatever the threshold could have been at the end of this thing. So these metrics in the current situation, go for a toss for a little bit, and we are already working with the regulator on the aspect.

Shreepal Doshi: Got it, sir. Got it. Sir, just one last question was on branch expansion side. So while we are going through turbulent times on maintaining our books, what is the reason or what is the thought process behind adding these branches even during this quarter? And I see that the branches that you added, large number is in the -- based on monthly collection model?

Shalabh Saxena: Yes. So Shreepal, we -- these branches that you're talking about are split branches. They are not -- I mean, while they are technically new branches, but when a portfolio grows beyond INR10 crores INR12 crores, that is beyond the threshold of our comfort because it becomes difficult to manage. So all the new branches that we have opened this year, this entire year, not just this quarter, are all split branches. This year, by end of the year, I think we should have about 105 or 106 new branches, but all of them will be split. They are not absolutely brand new. They come with the portfolio already.

Moderator: The next question comes from Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: So my first question is given that there are green shoots now in December, and you said that things are looking similar in January. Based on your conversations, do you think is there an outside chance that the implementation of the MFIN guardrail 2.0 can be permanently deferred?

Shalabh Saxena: No. So Abhijit, look, I can't speak for MFIN. We have given our position clearly. And there is no reason to not believe whatever deadline that MFIN has given. So it has been deferred from January to April. As far as we are concerned, we've gone that extra mile. I think we've put it out -- put out a slide and we have a section in the slide where we say that we will restrict ourselves to 3 lenders.

Obviously, it's purely internal and voluntary because we do believe that it's important to take these slightly more tighter norms. I know there will be an impact. There will be a higher rejection. But at this stage, I think we have to ward this time by being overcautious rather than going the other way. So as far as we are concerned, we are already in line.

Abhijit Tibrewal: Got it. And then a related question on one of the slides, you've given out the lender overlap, the Spandana, Spandana plus 1, 2, 3, 4. So intuitively one would have thought that given that guardrails 1.0 had already been implemented, the customers with Spandana plus 4 or Spandana greater than 4 could have come down. Is there a denominator effect that we are seeing that 13.8% in October has moved to 15.8%?

Ashish Damani: Yes, absolutely right, Abhijit. So there are 2 metrics which are pushing the number higher. One is the denominator because the customers who are paying off falling off from the numbers clearly impacts this. The second is if you know our existing customers who are there at, let's say

Spandana plus 3 or whatever and have taken a loan. Then probably there is another reason why the numbers will slip from the higher rows into the lower rows.

Abhijit Tibrewal: Sir, but now that as an industry, no one is giving loans to the customers who have four loans already, right? Then how are some of these customers able to get a fresh loan?

Shalabh Saxena: No, no. What is the guardrail 1, you cannot be the fifth lender. You can be the fourth lender. The entire industry, still not every customer has already reached the brim. So there are customers at various stages. And they will progress towards whichever way.

So the loans are there. It is just that -- see it is a credit demand, high demand segment, where the day you want to switch on the loan tap, it will start coming. At this stage, obviously, in spite of the eligibility of the customer, at least I speak for ourselves, we are being cautious. And likewise, there are few more who are cautious.

So it is not about whether customers are able to take a loan or not. It is about how much is the willingness of the lender in this situation to kind of go overboard on the lending side. So it's a tough one, Abhijit, but I guess this should be -- we have to wait it out for 1 quarter, 1.5 and then let's see how things go.

Abhijit Tibrewal: Got it. And just one last question for you. And Ashish, sir. Sir, I mean you said that by end of 1Q or early 2Q things should normalize. Given that, I mean, we are seeing some green shoots in the sector. Add to that the fact that maybe April onwards when MFIN guardrails 2.0 get implemented. So next 6 months, how should the trend be is what I'm kind of trying to understand?

Have you been able to get some handle on what could be the credit cost now over the next couple of quarters? And for you, Ashish, sir, I mean, while we've managed to keep our GNPA number at almost same levels as last quarter. Except GNPAs, have there been any other covenant breaches that you have seen?

Ashish Damani: So I'll answer first. There have not been any other breaches that we have seen. It's all related to quarterly profitability that we had and the tangible net worth bit, which is obviously records, even the write-offs is taken into the consideration. So that is how those are the 2, but otherwise, nothing else.

Abhijit Tibrewal: And Shalabh sir, my first question where I asked how the next 6 months are going to trend, given what we've seen in December and January? And if we are...

Shalabh Saxena: Yes. So Abhijit, I was just in the process of -- and after I finish your question, there was a question that Shreepal had asked, which I had kind of given an approximate answer. I have the answer. So I'll give that answer after I'll finish your question. So the next 6 months, I'll just stretch it 2Q which is this quarter and the Q1, and I'll add the Q2 as well of next year.

My guess is that one should kind of just hold the fort on the ongoing -- the disbursements have to start. The disbursement story has to start, goes without saying because you have to meet the customer demand, but you have to do cherry picking as far as your customers are concerned. That's number one. Number two is, the portfolio quality and driving the discipline.

This is, in fact, should have been number one, which is driving the center meeting discipline in the JLG model that most of the industry follows. It is extremely critical that this door knock model, which is the customers being difficult in terms of attending the center meetings has to be kind of curtailed and we have to ensure that the customer comes and turns up at the center meeting because door knock is a very inefficient way of operating this model. And frankly, for the number of customers that all of us deal with, we are at about some almost 3 million customers. Even a 10% is a good, good number, which is very difficult to manage. So not a viable model from an employee stress perspective and even operational efficiency. So because right now, while we are preparing our powder for the next 2 quarters on the growth side.

However, this -- the opex, etcetera, and the cost to income have to kind of size down to more manageable levels and better levels. So the -- my sense is next 2 quarters, 3 quarters, at least, we will try to ensure that the current center meeting attendance of about 55% to 60% or 55% to 59% has to go and go back to about 70%, 75%. And then from there on, we kind of take it forward. That's number one.

Number two is the portfolio quality, which is customers in arrear, have to kind of be brought back to the current levels. And the customers, the sizable number of customers who've flown into the GNPA bucket for whatever reason, for the right or the not so right reason, we have to ensure that the recoveries fall in line, which is the one of the slides that -- or one of the graphs that we put out in the investor presentation.

So that is something because when we look at the profile and the demographics of the customer , we are talking of customers with significant vintage -- who are obviously hard pressed on fulfilling their liabilities across all financiers. So they pick and choose. For example, we have a good set of customers who pay only to us but don't pay to somebody else and likewise, it's the other way around as well.

So the customers also in these times when they are short on money, they are sequencing their payments, probably loans where, which are shorter and where their loan termination is around the corner. They will first clear off that loan and then move over to the next financier. So that is what is happening at the customer side. But just to give you a softer input, around November is what we saw from a trend point and a customer from a trend and a customer engagement point of view.

Customers have started coming back in terms of engaging with our loan officers and branch managers in terms of when is the center meeting, when do I come, when -- how much is my arrears. So they have started getting into those conversations because the new loans, obviously, they are finding it difficult to get. So that's a good development, and that is where back to the guardrail 1 and the guardrail 2, which is going to come in April. Yes, initially, it is a bit of a -- because they are used to a particular way of operation, which obviously no more exists or that environment does not exist.

So 3 broad things before I conclude. First is discipline, JLG discipline, number one. Number two, employee welfare, very, very critical. You have to ensure that the employees are taken care of so that they hang around to lead your revival, that's number two. Number 3 is complete focus on portfolio quality, which is making the customers aware about how they need to kind of ensure that the credit worthiness is restored and maintained.

And the fourth is taking care of the disbursements and the needs of the customer to ensure that they are able to fulfill their business requirements. This is our focus and our priorities depending on companies, the 1, 2, 3, 4 can be 3, 2,4, 1 or whichever way.

Abhijit Tibrewal: Got it. This is very, very useful.

Shalabh Saxena: Thank you. And Shreepal, I know you are on the call. You asked for that -- those questions. I have the numbers now. So our national average is 97.84% on the x bucket. Bihar is 97.55%, Karnataka is 96.37%, Madhya Pradesh is 98.52%, Maharashtra is 98.84%.

Moderator: Thank you. The next question comes from Renish from ICICI. Please go ahead.

Renish: Sir, my first question is on the net collection efficiency, which stood at 90.7%. If you can give some insights on how this net collection is moving month-on-month and maybe December, how it is and can Jan maybe first 15 days. So if you can just share qualitative comments on that.

Ashish Damani: So hi Renish, so December number, like Shalabh said, is 97.8% and it was disclosed...

Renish: No sir, I was talking about the net collection efficiency, not x bucket?

Shalabh Saxena: Yes. So the x buckets also, while we will give you -- we will -- from a trending point of view, we are seeing while the -- there is a good movement of about 10% to 12% on the 1 to 30. That's number one. What Renish we are also seeing is, and it is actually a little bit of it -- while it's good.

The customers who have moved into GNPA, this month, the net collection efficiency has really gone up because the customer has started paying back. While they will not come out of that GNPA bucket unless they clean up their loan, but that is another one. Specifics we can give -- specifics, if you want, we can kind of get into the buckets but from a trending point of view, Renish, what we are looking at is squeeze of the complete X bucket, which is what take this to 99 and then you have the flows of 1% and then target of around 40% to 50% of recovery or collection in the 1 to 30.

And then the other or other -- the balance 50 bps kind of flows through or you make efforts to hold. But then that is something that you're going to afford to kind of just live with, that's part one. Part two is, there is a lot of meat in the GNPA book at this point in time. We have a good about almost -- we've done the analysis.

We have about -- for the book that we have, we -- even if we target a good number, and we are targeting quarter 4 and quarter 1, a decent number. And we've given trends in the investor deck as well. That's something because we've either written off or they're in GNPA. So GNPA is 80% provision, written off is 100%. So whatever comes is obviously a straight addition to the bottom line.

Renish: Got it. Okay. So sir...

Shalabh Saxena: Want anything specific? Yes, specific you had asked about?

Renish: No, sir. So I was just coming back to that point. So let's say, the net collection efficiency, which is 90.7% in this quarter. In a normalized scenario, ideally, where should this settle around 96%, 97% or?

Shalabh Saxena: Yes. So, no 97% is a good number to target and 97% in the short term. And then ideally company should try to go anywhere between -- operate anywhere between 97% to 98%. But that 97% to 98% is probably two or three early quarters away. Even if we are able to take this number to good in the short term from the current 90%, 91% to about 94%, 95% in the say, next 2 to 3 months and then take that 95% to 97% by, say, end of quarter 1 of next year. I think that will be a good trajectory to maintain, and then we hold on and then that's how with a slightly more calibrated disbursement approach, I think this is a doable number for the team that we have on the grounds.

Renish: Got it. Okay. I'm just, again, hopping back on this question is, since you are mentioning that we'll have a normalized quarter by Q2, which means this 91% should reach -- 97% by Q2. And hence, there should be at least a percentage point improvement in net collection efficiency over the next 6 months. So are we seeing that kind of improvement in Jan or maybe the bulk of improvement will happen back ended?

Ashish Damani: So Jan is stable. December, we have seen some improvement. Jan, we're seeing improvement in 1 to 30 bucket as well as the NPA bucket, like Shalabh was explaining. Other buckets are more or less flat. But if the current bucket starts improving, starts going to 99%, then what you have to deal with is a finite bucket in the bottom that can be addressed with the measures that we have taken on increasing number of people for the collection.

Shalabh Saxena: So Renish, let me just get into the specifics. Your question is a valid number. Instead of -- which are the states which are kind of dragging this and which are the states which are kind of pushing the numbers up. The states like say, Maharashtra that I think Shreepal spoke about, states like -- we are hardly there in Haryana, but there are Bihar also for that matter. Bihar is pulling the average down. Karnataka is pulling the average down at this point in time. Maharashtra is trending very well, which is much, much above the national average.

So the approach that we are taking is obviously take every state one at a time because new things come up every time. For example, you would be reading things about a particular state, which has just kind of happened in the last 2 weeks. It will take another 2, 3 weeks, hopefully, to settle. But broadly speaking, slowdown in Bihar from a lending perspective for various reasons that have been discussed. UP is pretty okay. Maharashtra is okay. Karnataka should be okay in the next 3 to 4 weeks at best.

Rajasthan is trending okay. These are the numbers that we have -- they will start hitting the 98 point -- the X bucket will start hitting the 99%, if not this month, the next month. And once that happens, Renish, then it is a 3-month window where you kind of get the other buckets up. It is always the 2 or 3 states, which I have mentioned, which we'll keep an eye on and then let's see how this goes.

Renish: Got it. And just last thing from my side on the Criss Financials. So I think in notes, you have mentioned that we have written off some INR50 crores. So I'm wondering what this write-off pertains to?

Shalabh Saxena: This is the individual.

Ashish Damani: So Criss has a -- total INR750 crores of individual lending, where it's an unsecured lending, the borrower profile is just a notch higher than the microfinance borrowers. Largely the business is in Andhra Pradesh and Telangana this year. And as all of us are aware, Andhra actually had a major flood situation. And you've seen some slippages there. And thus, there is a write-off that has come in.

Shalabh Saxena: So the LAP and the Nano that we launched about a year back is an INR180 crores book. That's almost a cent percent book.

Moderator: The next question comes from Rajiv Mehta from Yes Securities.

Rajiv Mehta: Shalabh and Ashish, appreciate the company maintaining strong provision coverage on stage 2 and stage 3 despite the higher flows. My first question is, with the significant increase in loss in Q3, in the sustained covanent features, would it force us to raise capital in the very near term disregard of the market conditions, so as to get the confidence of the lenders back? And what are the ways of capital raise being evaluated and whether a promoter fee would commensurately participate in it?

Shalabh Saxena: So Rajiv, I'm not sure, I think you missed my commentary. And in fact, there is a point in...

Rajiv Mehta: Sorry, sorry, I joined the call late. I'm sorry.

Shalabh Saxena: Yes. No. Fair enough. So I'll also give a reference to the -- to Slide 8 of our investor presentation. Nevertheless, I'll answer your question. We had a Board today, and the Board has approved of equity raise of up to about INR750 crores, which is the confidence capital that you spoke about. At this point in time, we are at about 35%, 36% of CRAR.

So technically and practically the balance sheet does not need capital because it is a very fortified and very strong balance sheet. However, from a confidence of all stakeholders, not just lenders, it's always good to kind of sit in a good position -- in a comfortable position. And hence, equity raise of up to INR750 crores has been approved, that we will evaluate, we will -- it's an enabler. The mode, the time, etcetera, obviously, has been left to us and or as we start our journey, we'll kind of assess the situation and move accordingly.

Rajiv Mehta: And then Shalabh on the promoter contributing in that?

Shalabh Saxena: Yes. We have their support.

Rajiv Mehta: Okay. And you also mentioned about the positive trends in collection efficiency and then the enabling factors, you mentioned that the center meeting attendance, which is a leading indicator has seen some revival. You're talking about some improvement in loan officer attrition as well. Can you quantify the improvement that you're seeing in center meeting attendance in the loan officer attrition?

Shalabh Saxena: Yes. So center meeting attendance, historically I mean, if I take out the last 2 quarters, 2.5 quarters, if I look at FY '24 H2, and when we used to measure, it used to be about 65%, 60% to 65%. And people keep on rotating. I mean, it's not that they will remain absent forever. So he will attend one then miss the second one. That's where the 60% to 65% comes. And this was once again pockets.

Good pockets, we had upwards of 70% and even a 75% to 80%. Weekly obviously trends at about 80%, 75% to 80%. But the last or rather this year, we have seen, say, during the elections, the attendance go down to 50% or below that number as well. Now what we have started seeing is Rajiv, customers engaging with us on their payments, which earlier the engagement was slightly tepid. It wasn't really that enthusiastic.

So customers have started returning back asking details of time, asking details of loans, asking details for the repayments and so on and so forth. So this is a lead indicator, which also helps our people on the ground because we don't want them to be fighting with their hands tied. Once the customer starts cooperating, that's the start of a good, healthy engagement with the customer, which kind of helps all of us in the long run from an industry point of view. So that is one.

Two is we are seeing, and I think I just answered Renish. We are seeing, even though the customer is in the GNPA bucket, we've seen hard numbers kind of increase from a collection efficiency point of view in the GNPA bucket. So those are the indicators where which kind of -- and I gave a long-ish answer to Shreepal also on this and Mahrukh in the initial stages where the customer engagement on understanding her sequence of loans and what is the loan outstanding and how many loans are outstanding, how many installments are left for the tenure to be completed. All these questions, we have seen a tremendous increase at the branch level, which kind of gives us the confidence that the Guardrail 1 and even otherwise, a general discipline that the entire industry has been kind of enforcing and trying to bring about is yielding results. Like always, these things take their own time.

So hence, July implementation of Guardrail 1 we are seeing effect in around November, December. Guardrail 2 when it comes in April, we'll have it own -- takes its own time. But long term, I think, Rajiv, it's a good traction that we are seeing. And hopefully, the moment it solidifies into a pure play trend, that is where we will kind of then move on.

Rajiv Mehta: Just one query I had on the collection efficiency. So I think for the whole quarter on a net and a gross basis, we have reported collection efficiency of 92% and 94% for the whole portfolio. And when you do the write-off, you would do the write-off at the end of the quarter, right? And you've written off about INR700-odd crores of portfolio, so which is about 7%, 8% of the overall book. And I would presume that this portfolio will be nonpaying completely. And hence, mathematically, does your collection efficiently from January onwards improve to 97%, 98% on the current portfolio, which is on the books?

Ashish Damani: No. So, the current portfolio would not necessarily move into GNPA and write-off. And hence, I don't know if that math is straightforward the way you've said Rajiv. But yes, the -- we have been seeing at these customer levels, the improvement happening more month on month and that's why that slide has been given on the current portfolio. Overall efficiencies, yes, I agree with you. Once you take the write-off book away, the overall percentages should improve going forward.

Rajiv Mehta: Correct. So my question was on the overall number itself. Got it, Ashish.

Moderator: The next question comes from the line of Aviral Jain from Siguler Guff.

Aviral Jain: I have two questions. One is when you report the net collection efficiency for the quarter. So -- and somebody mentioned on the previous question that you had INR677 crores of write-off on the portfolio. So the denominator for the quarter included this written-off book as well. So and hence the net book that is left after the write-off will have better collection efficiency in the quarter going forward, assuming -- now the denominator has reduced and there's no further slippage. Is that the right way to look at it?

Ashish Damani: Aviral, the number given here is after the write-off. If we look at pre write-off the number will be slightly lower. And we can give you that number offline.

Aviral Jain: Understood. And secondly, so given the collection efficiency trend what sort of -- and the book from a delinquent book perspective is looking very similar to the Q2 book, the Q3 ending book. So -- and if the collection efficiency is not improving, can we assume or is it likely that we may see a similar credit result or credit provisioning needed plus write-offs in Q4 as what we have seen in Q3?

Shalabh Saxena: Yes. So we are still on January 23, Aviral. And the reason while we are continuing to manage what we have on hand, it's very important for us to assess how do we chart the coming months and quarters. So let me just detail. The fundamental of any organization is that you have to start disbursing because it has to be -- it is a growth industry, you have to pursue growth. At the same time, while all of us are cognizant that we have calibrated growth and not really a 30%, 40% type of a growth. However, you have to start getting into that groove and channel of starting normalized distribution. For you to be confident of getting into that channel of normalized growth, you have to be confident that the trends are improving and your money is safe. Your good money is not going after bad money. So that's extremely critical. That's number two. We alluded in detail in -- about 2 or 3 questions we have said that we are seeing that trend.

It is still just one month trend, and January also seems to be trending on similar lines as December. So no real surprises. I hope we closed January, if not -- I mean, at least slightly better than December. And if this continues, we will see -- we will -- another 2 months, 3 months, I think we should be confident to say that now let us push the growth agenda.

So that being in the context, that being the context now to your question in terms of, yes, we are where we are, and we'll continue to manage the book, but however, very critical that we kind of take decisions every quarter and every month, which have to maintain the balance sheet and balance the balance sheet as well as kind of balance our agenda that we have for the enterprise. So that's where it stands. And we'll see -- we'll evaluate, too early for us to really start plotting the quarter or the next quarter for that matter.

Aviral Jain: Sure.

Moderator: Mr. Jain do you have any other question?

Aviral Jain: Yes, one follow-up question on that. So do we expect or are we seeing any forward flows from the quarter end perspective? Or would we see -- even if the collection efficiency stay like where it is, it would mean that there is no further flow from where we are on the...

Ashish Damani: So Aviral, I'll take that one. Basically, what we were trying to explain earlier as well is your flows from the top have to kind of stabilize above -- I mean, below 1% level. So 99% once you get the collection efficiency. Then you have a normalized flow into 1 to 30 and subsequent buckets. What we have right now is a very abnormal flow driven by many factors at industry level, some, let's say, Spandana's own doing. But once you have that 99%, then there is approach that can be arrived to address all the other buckets.

I think we are getting very close to addressing the first part, which is your current bucket. And as Shalabh was explaining, we have started working on the other buckets as well the hard buckets where we have already seen a lot of improvement. The middle one -- which is your Stage 2, I think there also, we will get more time now given that we have added people. We have added control teams.

We are going to address it in a more structural manner, even in the Stage 2 buckets. I think right now, the team was struggling to bring discipline and a continuity to manage the current bucket itself. I think that is now getting addressed and the improvement will start. We'll see -- we'll start seeing improvement in the subsequent buckets as well.

Moderator: The next question comes from Kunal Shah from Citigroup.

Kunal Shah: Yes. So firstly, with respect to the Spandana plus 3 and Spandana plus 4 and more. How is the collection efficiency behavior out there, particularly in this portfolio? And how much is already there into the Stage 2 bucket? And when we look at it now, given that we know in terms of which are these customers, how are we working with them because I think it's almost like 30% of our book?

And if it doesn't get renewed or refinanced, there is, again, a risk of this flowing into the -- maybe flowing into Stage 2 Stage 3 and write-off. And even like from the earlier bucket, you could see some moving because other players would refinance and we might not get a chance. So how should we look at this and how industry players are now working with three and more lenders?

Ashish Damani: Yes. So the -- we are just pulling the numbers Kunal, while we speak. But in generic terms, I think it is very difficult to say what the industry will do and how the customer would behave. Because it's not like all the customers who are in, let's say, Spandana plus 4 are not paying. That's not the case. Yes, they are punching above their weight.

Compared to AUM, the delinquencies will be higher in those buckets. So for example, Spandana plus 4, I think in the GNPA, the contribution is about 25% compared to the AUM, which is at 15.8%. So clearly, the weights are higher when you look at the delinquencies or the flows. But it's not like everything is into where the customers are not paying. The second point that you mentioned that as the guardrails kick in, people stop disbursing. So that disbursement, yes, will kick in and will reduce further. But it's not like today, everybody is disbursing to everybody as a case. A lot of it -- I'm assuming is already played out where the liquidity has been curtailed to customers who are having, let's say, more number of loans. Yes, they are getting some loans, but not like what probably was before the guardrails, the case was where people were not looking at it all together. I think some more of it will come, but lot of it has already played out in my mind.

Shalabh Saxena: So Kunal, just to kind of conclude and I mentioned this point earlier, whether you are a plus 3 or a plus 1. The customer, given the implementation of the guardrail, will sequence her loan in terms of who to give first in case she is short on cash. If not, then obviously, she suffices her liability across the finances.

If not then, she'll sequence, but at the end, for her to qualify for a loan and get a loan, she has no real option but to kind of ensure that the loans are cleared or the arrear buckets are cleared everywhere. So that's our take on slightly the next 3 to 6 quarters.

Kunal Shah: Yes. So the question largely was, as Ashish also highlighted, 15-odd percent of INR9,000 would be closer to INR1,300-odd crores. And you mentioned like 25% of GNPA, which is hardly like INR100-odd crores. So when we look at it on this INR1,300 crores of Spandana plus 4 or equal to 4, we just have like INR100-odd crores of GNPA, while I believe when most of the other players are sharing the collection efficiency, it seems like there, the collection efficiency would be lower than 70-odd percent. So this can easily get added into the Stage 3 and should be more of a worry getting into Q1. So I was not very confident as to how this would stabilize in terms of the collection efficiency even in 6 months? Yes.

Shalabh Saxena: Yes. So you run that risk of either flowing into GNPA? Or -- and as Ashish mentioned, not everything which is a plus 4 is a GNPA. Yes, they are -- it is disproportionate to their contribution, and that's the point I think you are also making in a different way. I think, yes, that we'll have to wait for how things play out.

Because our sense is that the -- there's nothing structurally wrong with either the income levels in the markets that we operate or the customer intent because we'll just have to wait it out and see how this thing goes. But the past history also is a testimony to the future. I think we should see things improving from now on.

Given the fact that with no real depletion in incomes, it is now a pure play, her capability to pay. If she has, she will give money to everybody, if not at best she'll sequence for her to get a fresh loan from anywhere.

Shalabh Saxena: The pain -- yes. So temporarily, somebody would -- some enterprise will have to bear that will have to take it or will have to bear the pain. But eventually, I think it will stabilize. So my sense is that you will see and not just us, for everybody. We will see a lot of recoveries, a lot of money from recoveries flowing in, from GNPA pools and the write-off pools.

Kunal Shah: Okay. And when you look at it, one of the player was indicating that once we into the lesser leveraged customers or maybe just like three lenders, there could be some pressure on field as well, okay? Because currently, larger part of the yield is also maybe driven by the customers who have like more than four lender relationships. So do you think that could have a pressure over 2, 3 quarters in terms of yield structurally coming down for the industry?

Ashish Damani: Kunal, I think these customers are not that sensitive to the interest rates as such. And even when we are speaking about the differential, the industry operates today in a very tight range of, let's say, 22% to 24%, 25% at best. So the yield or the interest rate, I'm not very sure it will be a driving thing for the customers to take that decision.

Yes, but loan amounts or for that matter, the ease of getting a loan or the timing, those definitely are some of the aspects which – or let's say, sometimes the customer is in the fag end of their loan with somebody. Probably they will be looking forward to repay that of first because they can get a fresh loan from that entity. Those will be the driving points for such customers rather than the interest rates.

Having said that, I think most of the institutions, including Spandana have a staggered interest rates where you would want to retain your good customers and thus you pass on the benefits on the interest rate to customers in subsequent cycle. That is taken care of.

Moderator: The next question comes from Viral Shah from IIFL Securities.

Viral Shah: Shalabh, just wanted to basically again touch base on the question. But we are looking at Spandana plus 4 or more lender association. I understand, of course, there's a denominator impact. But even if I adjust and look at it on an absolute basis, there is just INR40 crores quarter-on-quarter decline, which is like 3%. And this is despite having a INR660 crores plus of write-off, right? So basically, does it mean that at an industry level, even the first guardrail is not being adhered to?

Shalabh Saxena: I'm not sure how -- you need a lot of data to come to that conclusion, Viral. So I'm not exactly -- maybe we'll take it offline in terms of understanding how you go to that number, but...

Viral Shah: Basically, what I've look at Shalabh is, see you had some INR10,000-odd crores AUM, right, as of October or September, right? Of course, that is the September number on the denominator side. But when I look at September AUM, and apply the 13.8% and then what is your AUM, which is INR8,900 crores something in this quarter and I applied the 15.8%.

The absolute decline is INR40 crores. This is after you having written off INR660 crores on the portfolio, right. That's how your AUM is at the end of this quarter. And when I'm saying is why is the industry not adhering to them, basically, who is lending to the customer, which by the first guardrail no one can lend to?

Shalabh Saxena: Yes. So look, I will answer -- I mean, I'll answer the second part, Ashish, in the meantime will answer the first.

Ashish Damani: So one, this is not driven by AUM, these are like a number of borrowers. So it is not necessarily just the AUM part. It is also the count part.

Viral Shah: So then if that is the case, then basically people are lending even more to those borrowers. Does that mean that?

Shalabh Saxena: So let me answer the second, which is the question that you are asking. Look, there is no choice of people who signed up this code of conduct with the association or the SRO. There is no option for them not to follow. So it's a signed up document and it's a signed up agreement. And I do not have as a company an option to follow or not follow. There could have been some and this includes the banks, the universal banks, the SFBs, everybody, it's not just the NBFC or the NBFC-MFI. That's number one.

Number two, yes, there could be plus or minus in terms of instead of July, somebody would have implemented it in August or September because of tech developments. It requires a lot of tech developments and a lot of testing before you are ready. So I would -- Viral, I would say that give or take 15 days 10 days here and there, I would really be surprised if there's somebody who is not following it. And at least we until now have not come up with a situation. There could be technical misses in an IT, in some company here and there, but not following brazenly -- I'm not -- I don't think so. Let's just say that.

Viral Shah: So Shalabh, you are saying it came from July, right? I'm looking at the number versus October. So by October also, if no one is able to implement, then are we actually jumping the gun.

Shalabh Saxena: No, Viral, according to me, when you see the real impact in at least one to two quarters, you should see it. You should just wait for about -- it operates with a lag, slightly with a lag. That's reason why I kind of dealt at length with why are the customers, what has happened that the customers are returning back to the center meetings? Why are the customers engaging with us? I do believe that everybody has kind of implemented it and maybe a clearer picture for all of us to see. And for all of you to see would probably be end of this quarter, but I have at least personally not come across an instance where this has not been followed.

Viral Shah: Shalabh, again, on that point, can you give us like who are the -- like what number of MFIs, banks, SFBs have been signatory to this MFIN guardrail 1 and how much AUM does that represent at an industry level?

Shalabh Saxena: So we can take it offline, Viral. I mean, obviously, I don't have the number handy -- but practically, it would cover minus the SHGs, I think it should cover everyone.

Viral Shah: Okay. Then the second -- next question relating -- again, on the data point. But more I would say on this theme, is are we basically -- and when I say we, not specifically Spandana, so don't take it in that sense. But as an industry, jumping the gun and saying that the worst is behind and December is showing improvement, because, see, by definition, X bucket collection efficiency has to improve, right? After 9 months of pain, if you remove the delinquent customers, by definition, it has to improve.

Shalabh Saxena: Agreed. First of all, worst is behind is not a statement I have used ever. In this call or I won't and in fact -- no, no, fair enough. Fair enough. I'm sure somebody would have used it. I have been very cautious in what I said. What I said and even our presentation says that. It says green shoots and it says early indications. Early indications when they solidify into a trend, which you have to give at least 3 to 4 months to thump your chest and say that it's going the way that we would have liked to.

All we qualified was that December was decent, almost a 3.4, 2.4 uptick from the previous month. We have to wait for the trends to really be very sure of when when we kind of see the things, where we can say that we are confident now we are the worst is past. So my guess is we have to be slightly cautious on this. It is not a trend as yet. Another 2 months will really give you a fair picture of, yes, the so-called worst is behind us. And now what you are left is this bucket, which you have to deal with, then you have to address those markets. But at least you get rid of your leaking bucket problem, which is currently we are facing.

Viral Shah: Fair enough, Shalabh. And just on your point, If the compliance, say, after, say, 6 months of the Guardrail 1 is what it is. How are we sure, say, we won't have this similar kind of problem, say, a year down the line, of course, because everyone has a shorter memory in terms of when the things normalize. How does one get that confidence, he won't be the similar situation, say, 1 year or 2 years down the line?

Shalabh Saxena: Look, so to each company its own. As far as we are concerned, we've obviously learnt our lessons in terms of what position to take, which geographies to expand and most importantly, it has to do the biggest takeaway in this whole issue for the last 3 quarters has been how we deal with our employees, how do we deal with their well-being, their careers, their recognition, their rewards and so on and so forth. That's number one. The second bucket is the customer bucket. Obviously, these guardrails take care, at least structurally, the customer from a pureplay lending point of view. Once you are assured of that bucket, then what is left is your employees and how you kind of bring your attrition levels down to about 2%, 2.5% per month.

That's a more manageable attrition because that is the only gap that need -- that's a new thing which has come up in the last 3 quarters, which is good from an enterprise point of view and from a company's point of view because that is what you have to address. And once that is taken care of and the structural initiatives take care of the customer behavior, I think we should be good to go.

Viral Shah: Fair enough. And Shalabh, if I may, just one last question.

Shalabh Saxena: Yes, yes, please.

Viral Shah: So basically, from -- of course, the 3 lender cap has been deferred to April. But when I then look at the overlap, the other 2 guardrails so as to say they have gone into implementation, right? And when I look at the overlap of MFI borrowers and them having non- MFI loans, so that nearly represents in aggregate to INR1.1 lakh crores, whatever you want to take it, the updated number, and that represents nearly 20%, 25% of the total MFI industry, right?

So if we are seeing this kind of pain for a customer who has, say, more than 3 or 4 loans, which are MFI loans, what about the customers who are so overleveraged ? And does it mean that say customers who just have three or more than three loans, your LGDs are at least in this cycle and immediately in next 2, 3 quarters, the LGDs are going to be north of I would say, 90%.

Shalabh Saxena: Viral, so guardrail is a direction, which has been given. You need not stop at that. You can go a step forward and restrict the borrowing by the criteria that you wish. In the examples that you quoted, the customers borrow from a lot of these fintechs, etcetera. So it is entirely upon the enterprise to kind of take a call in terms of any unsecured that you want to do. You will not do, whether it is from an NBFC-MFI or whether it is outside.

So that is what each enterprise will be doing, like we have done. And we'll continue to do because further what has been pronounced is a bare minimum. And anything beyond that, it is the prudence and the risk taking appetite of the company, which will come into play. At this point in time, and I go back to the first question which was asked, at this point in time, it is better to err on caution and probably continue this for at least 4 to 6 quarters before we really are confident that the absorption capacity of the household and I'm moving away from the customer to the household is enough to kind of fulfill the liabilities, all the liability, borrowing liabilities that have been taken. And likewise, the other way also, I presume for all the companies which are kind of lending, which are non-MFI, when they are lending to the household, they would be looking at the household liability as well.

So the right thing to do is to look at the overall household liability, which all of us are doing, plus and then obviously, you can go down to whatever you want to whether you want to take the mobile phone loan that she would have taken, her husband would have taken as a liability and then calculate the FOIR, etcetera, all of those things are a matter of the companies and the enterprises credit policy.

Moderator: Next question is from the line of Rajeev Jindal from Hero FinCorp.

Rajeev Jindal: So my question is -- all those were limiting my questions, although there has been discussion on these numbers only till now. So my point or my question is that, so what are the recovery rates in the softer bucket, bucket 1 and bucket 2. And is there any improvement in the recovery rates in the last 3 months, if it is deteriorating? So what it was in September? And what are the numbers as of now? So that is my question number one. I have another question.

So on the thing Spandana and the multiple lenders, the Spandana plus 1 and Spandana plus 2. So like you have taken the numbers from the bureau scrub, so do you have any performance analysis how these borrowers are performing with Spandana and with the other peer lenders?

Shalabh Saxena: Yes, the second one, I'll answer, the first one, Ashish will answer. Do we have the number? Yes, we have. But we don't really – there is a specific purpose, we don't really have the number handy. Separately, we can connect and assess.

Rajeev Jindal: Okay. Okay.

Shalabh Saxena: First one was bucket 1 and bucket 2.

Ashish Damani: I mean, we have already given the current bucket efficiencies, Rajeev, we've talked about that 97.84%, which is nothing but from the current bucket, the remaining is the flow. And the Stage 2 normally hovers around -- what we have seen is prior to June was around, let's say, 45% to 50% is now stacking at around 40%.

Rajeev Jindal: Okay. So this is constant for last, say, 3, 4 months, maybe for the last 6 months?

Ashish Damani: Yes. It is moving -- it will move maybe, 100 basis points plus or minus at best.

Shalabh Saxena: So Rajeev, this whole when you operate in these volumes, the most important thing is to stop your leaking bucket. You have stop your X flows because once it flows, then it's only a question of what percentage, so which obviously is not the best situation to be in because you are collecting also your loan officers job is not to chase the customer through the month. So that is what it is. So it's always good to kind of be focused on the lead indicator, which is the X bucket and the other things are a matter of obviously the regular activity.

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

Shalabh Saxena: So thank you, all of you to -- for having attended this and showing interest in our organization. The company and the industry is obviously going through a slightly different phase, not the regular BAU. But given the trends that we have seen, we really hope that -- this works to everybody's advantage and most importantly, the customer's advantage because we deal with the segment, which is the so-called bottom of pyramid. And it's very important that the household there has a regular supply of formal credit at very reasonable rates to ensure that the income-generating loan that they take is put to good use. So that's the endeavor that we are in and all of us are in. So thank you for the interest, and thank you very much.

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