6th May, 2024

National Stock Exchange of India Limited,
Exchange Plaza, Plot No. C/1, G Block,
Bandra-Kurla Complex,
Bandra (East), Mumbai – 400051.
NSE Symbol: SBFC

BSE Limited,
Phiroze Jeejeebhoy Towers,
21st Floor, Dalal Street,
Mumbai – 400001.
BSE Scrip Code: 543959

Sub: Transcript of Earnings Conference Call

Dear Sirs,

Pursuant to applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, please find attached the transcript of the earnings conference call which was held on 29th April, 2024.

The transcript of the earnings conference call shall be uploaded on the website of the Company at https://www.sbfc.com/investors under the section 'Disclosures under Regulation 46 of the LODR' in due course.

You are requested to take the above on record.

Thanking you,
Yours faithfully,
For SBFC Finance Limited
(Erstwhile SBFC Finance Private Limited)

JAY PRABHURAM MISTRY

Digitally signed by JAY PRABHURAM MISTRY
Date: 2024.05.06 15:42:20 +05'30'

SBFC Finance Limited MUMBAI

Jay Mistry
Company Secretary & Chief Compliance Officer
ICSI membership no – A34264
Encl : As above

"SBFC Finance Limited Q4 FY24 Earnings Conference Call"

April 29, 2024

MANAGEMENT:	**MR. ASEEM DHRU – MD & CEO, SBFC FINANCE LIMITED** **MR. MAHESH DAYANI - CBO, SBFC FINANCE LIMITED** **MR. NARAYAN BARASIA - CFO, SBFC FINANCE LIMITED** **MR. PANKAJ PODDAR - CRO, SBFC FINANCE LIMITED** **MR. SANKET AGRAWAL – CSO & IR, SBFC FINANCE LIMITED**
MODERATOR:	**MR. RENISH BHUVA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY24 Earnings Conference Call of SBFC Finance Limited hosted by ICICI Securities.

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. Renish Bhuva. Thank you and over to you, sir.

Renish Bhuva: Thank you, Muskan. Good morning, everyone. Welcome to SBFC Finance Q4 FY24 Earnings Call.

On behalf of ICICI Securities, I would like to thank SBFC management team for giving us the opportunity to host this call. I will now hand over the call to Mr. Sanket Agrawal. Over to you, Sanket.

Sanket Agrawal: Thank you, Renish. Good morning everyone, and welcome to the Q4 Earnings Call for 2024 for SBFC Finance.

We have uploaded our Presentation on Saturday. I hope you have got some time to look at it.

With me, I have Mr. Aseem Dhru - MD and CEO; Mahesh Dayani – CBO; Narayan Barasia - CFO and Pankaj Poddar – CRO.

We will keep the format same as the last quarter. We will start with the opening remarks from Aseem followed up with Narayan's details on finance and then we move on to the Q&A.

Over to Aseem, thanks.

Aseem Dhru: Thank you. Thank you, Sanket, and good morning, everyone. Thank you for taking your time out for this Call.

FY24 was a coming-of-age year for SBFC. Exactly a year back, we were on our Roadshows meeting investors in the run up to the IPO. Investing is an act of faith, and we are really touched by the response we got. Strong mutual fund support, FII interest, family offices, portfolio managers and more than 2 million are the highest retail applications of any Indian IPO. We are now with our report card in hand a year later standing in front of those that put their faith in us presenting you with our fourth earning update.

We had indicated four things in our meetings and some of you who we had the opportunity to meet could probably recollect this:

1. We had said that growth till FY26 would be at 5% to 7% quarter-on-quarter. Happy that we have exceeded this by a mile in all four quarters we have reported so far.
2. Cost-to-AUM, we will see a 50-basis point reduction over the next two financial years. We decided to invest a little more in growth this year in terms of branch expansion and towards this we have delivered a 43-basis point reduction.
3. Credit cost will move in the band of 80 to 100 basis points. For the year, it has been steady at 80 basis points.
4. We will exit FY26 with a 15% ROE. We had gone into the IPO with an 11% ROE and have exited FY24 with an almost 12% ROE on a fully expanded capital base.

We are happy now how far we have come but super excited about where we are headed. We are building for the decade, so it is useful to track progress and it is like a milestone every quarter. The lending business is an adventure sport, never a dull moment. Last year too did not disappoint in terms of the headwinds that came our way.

So, if you see last year:

1. Availability of funds for NBFC's got crimped, thanks to the gravity defying CD ratio in the banking industry.
2. The cost rose thanks to the earlier point plus an increase in regulatory risk rate by 25 basis points.
3. Regulatory tightening moving towards 0 tolerance of policy breach and lack of customer fairness.
4. Post-COVID, Indian economy bounced back higher than any country which created a Goldilocks scenario in lending and robust demand with sustained credit standards.

The flip side of this was demand for trained professionals and the industry faced the highest attrition it has seen. Now, a good sailor doesn't expect calm weather. If you are running a lending business, storms are the norm, calm is the exception. We anticipated that the year's biggest challenge was to ensure cost of funds is contained. We could see that the banking system is struggling to finance its own growth and the regulators were also asking NBFC's to not be too dependent on banks. Towards this after our rating upgrade to AA-, we move towards NCD, to borrow from the market, and it is now 8% against 1% of our borrowings last year and increased the co-origination to 18.5% against 11.6% last year.

We converted 17% of our borrowings into fully hedged FCNR loans bringing down the cost substantially. These are short tenure rollovers and subject to the bank agreeing to rollover every half year. We added foreign banks to our lender book and net of this is that we ensured we reduced our bank borrowings from 70% to 57%.

Going forward, we will add some DIIs to the lending table, further diversifying our borrowing book. Resultant our Quarter 4 24 versus Quarter 4 23 borrowing costs have gone up by 37 basis points and quarter-on-quarter has been reduced by 8 basis points. On the asset side, we increased our Quarter 4 to Quarter 4 yield by 112 basis points, ensuring our spread went up by 76 basis points during the year.

I would like to explain a change in recognizing income that we have made in the current quarter. Co-origination is a recent phenomenon and towards this the right accounting treatment has been evolving. The transaction is akin to a DA in many ways and therefore, the excess interest sharing that we get from the bank, it has been now decided to group it under the interest income. This change has a positive impact of 45 basis point increase in yield and a corresponding reduction under the head of fee and other income. If this change was not done, the Quarter 4 versus Quarter 4 yields would have still been up by 67 basis points and quarter-on-quarter it would have been stable at 17.18%. If you refer to Page #22 of the Investor Deck, it depicts this with reasonable visual clarity.

We added 31 branches against 17 last year and our business grew by 38% year-on-year. Our asset quality was stable at 2.43% at the lower end of our guiding range. Our PCR has moved up from 39% to 45% Y-o-Y. Our profits grew 58% Y-o-Y to Rs. 237 crores ending with the ROA of 4.14% and ROE of 11.28% during the year. The exit ROA is 4.56% and ROE is 11. 9%. We reiterate our guidance for 5% to 7% quarter-on-quarter growth, reduction of cost by 50 bps and credit costs in the range of 80 to 100 bps.

Highlights during the year:

Our listing, rating upgrade, inclusion of the MSCI Global Small Cap Index.

Post listing, we added two Independent Directors that bring in vast experience in the fields of finance and technology. The revised board, led by an independent chairman, has five independents, thus ensuring majority board is independent. Co-origination book crossing Rs. 1,000 crores, ISO certification of our technology and other functions, upgrade to a new LOS and skill development and job creation of 400 fresh pass outs from the economically disadvantaged background.

We adopted a school under CSR, and we have rebuilt, added classes up to 10th, next year we will take it to 12th, installing Google Classroom, computers, resulting in 101 students, including 53 girls getting better education. The highest joy we get by serving customers that hitherto did not have access to formal finance. Being a platform of equal opportunity for all our talented staff, last year we paid almost Rs. 90 crores of income tax during the year and over and above this there would be GST, there would be local taxes, municipal taxes that we contributed. So, hopefully we are a good corporate citizen benefiting the society in which we live and in over 250 towns that we reach out to, we spread this joy.

I joined the 3,758 SBFCians in thanking you for your time and interest in listening to this call. I now hand it over to Narayan to take us from here. Thank you.

Narayan Barasia: Thank you, Aseem. A warm welcome to you and a happy Monday morning.

In terms of business:

Our AUM grew by 38% of Y-o-Y basis and 9% on Q-o-Q basis. Our AUM stands at Rs. 6,822 crores as of 31st March 24. Our MSME AUM grew 46% on a Y-o-Y basis and 9% on Q-o-Q basis to Rs. 5,704 crores as of 31st March 24.

We added 31 branches during the year. Our average ticket size of MSME loans remains at Rs. 9.6 lakhs per loan.

In terms of borrowing, our borrowing cost has been reduced by 8 basis points Q-o-Q as Aseem has mentioned and is at 9.38% for the full year. Post our rating upgrade by India rating to AA-.

We have diversified further and have raised money under NCDs from mutual funds and have added the couple of foreign banks as well. We are further looking to diversify borrowing as we go along in future.

In terms of Asset Quality:

Our GNPA is stable, and range bound. It is at 2.43% as of 31st March 24. Our credit cost is steady at 0.8% for the year. Our PCR is increased further to 44.74%.

In terms of capital and return ratios, our yields on the loans are at 17.08% for the full year and 17.62% for the Q4 FY24. The spread for the full year FY24 is 7.7% and for the quarter is 8.31%. Our OPEX is at 5.34% of AUM for the full year FY24 as against 5.77% for FY23.

OPEX for Q4 is further lower at 5.01%. Our return on average AUM for the full year is 4.14% and for the quarter is 4.56%. Our return on average tangible equity for the full year is 11.28% and for the quarter is 11.9%. Our capital adequacy remains strong at 40.5%.

Our tangible networth is at Rs. 2,518 crores as of 31st March 24 and our debt to tangible equity is at 1.6x as of 31st March. The PAT for Q4 is Rs. 73 crores, thereby recording a growth of 15% on a sequential basis. The PAT for the full year FY24 is Rs. 237 crores, thereby recording a growth of 58% on a Y-o-Y basis.

With that, over to the questions and answers.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Kunal Shah from City Group. Please go ahead.

Kunal Shah: First is with respect to the overall OPEX and the employees, so there have been almost like 220 odd additions to the employee during the quarter, sir, if you can just highlight in terms of maybe what verticals these are being added, there is almost like 6 odd branches additions and similarly maybe with respect to the overall cost, we had seen an improvement, but how do we expect the overall cost to assets to settle there?

Narayan Barasia: We have continuously been investing in infrastructure, so what you are saying is right, the number of branch has been continuously going up at a slow and steady pace. So, we added about 6 branches in this quarter. So, the investment in terms of people is happening throughout in terms of new branches, but as well as increasing more resources in the branches where we are able to do well, so it is all across. We are originating a long tenure loan and so by that meaning the operating leverages will keep on improving. We further expect that from here on the OPEX should further come down while the investment in the branches is continuing.

Kunal Shah: Sir, in terms of the addition to employees, maybe the branch oriented would be a significant part of it or these are in other verticals as well?

Narayan Barasia: No, significant will always be branch.

Mahesh Dayani: So, Kunal, I think if you look at the total structure every quarter we have been adding close to around 6-7 odd branches, so if you probably cumulatively look at the number, you will have close to around 14-15 branches in the last 2 quarters and roughly we have 14-15 people in a particular branch including gold and ME so that largely sums up the overall headcount, which is there, but that is largely the customer facing roles that we actually invest in. In addition, we are also beefing up the collections infrastructure where the number of employees that have come through has come through in the last quarter. So, that largely sums up the 200 plus number that you see in the data come through in the last quarter.

Kunal Shah: And secondly, any plans on housing now, are we re-evaluating the structure, how are we looking at it, maybe obviously from the regulatory side, it was quite clear, but any revaluation on that front?

Aseem Dhru: So, housing is we are seeking the regulators nod to get the license. If that comes about, we do housing. Within the NBFC where it has been a little bit of a stretch to start housing loan because the unit economics have to add up, so we are waiting for a subsidiary nod to get into that business. As and when that happens it is fine. Until then, we stay focused on what we are doing right now.

Moderator: Thank you. The next question is from the line of Shubranshu Mishra from Phillip Capital. Please go ahead.

Shubranshu Mishra: Two or three questions, the first one is on the co-origination, what is the unit economics here in terms of cost of funds sharing, OPEX sharing and credit cost sharing and where do we think we will end up in terms of percentage of AUM in the next 2-3 years? Second is on the ALM, given the fact that we lend long, would we want to match the ALM and borrow long, which will have a detrimental impact on our spreads as and how we borrow long, so that is the second? Third is on the PCR at Stage-3, so in India the PCR or Stage-3 is closer to the LGD given the fact that we have largely secured assets, this seems a high LGD if my interpretation is correct? These are my three questions?

Mahesh Dayani: So, let me take the broad construct on the co-origination piece. I think what we have been guiding also is that we are very comfortable for our co-origination to be at almost 18% to 20% odd and that is the range that we have been at. This is largely at a disbursal level, so, obviously at an AUM level comes with a lag. So, if you look at our current number, you would probably see our disbursals also in the range of 20% odd, a couple of percent here or there. Also, as Aseem in his opening remarks mentioned that now as a percentage of the overall AUM, the reliance on co-origination is now almost close to 18%, which is up from 11% from last year. Moving forward, we expect the current trajectory and the momentum to continue, we feel with a higher base we will be able to continue to build at 18% to 20% of our disbursal and as a result, our AUMs will also move in that particular direction. I think co-origination is an excellent tool. It is a great ROE enhancer, extremely profitable and obviously from a liability construct perspective, it helps us on our overall AUM bit up as well. We don't call out the exact unit economics on the co-origination bit. That is something between us and the co-originating partner, but we will just like to leave you with saying that it is a great ROE enhancer for us and hence it is at 20% of our overall current AUM and disbursal as well. Narayan, you might want to pick it up on ALM.

Narayan Barasia: In terms of ALM, on the asset side, first the secured MSME obviously is a long tenure asset, but at the same time gold which is a 15% of AUM is a short tenure asset. So, in a way the weighted average on the asset side comes to roughly about 4.5 years, but on the liability side, you are right, liability in the market is not available for so long. So, what we do is number one, we don't borrow any short term, that is one what we do. We try and maximize the tenure on the liability. At the same time coupled with the liquidity we keep; I think we don't have any ALM mismatch on any bucket from ALM point of view.

Sanket Agrawal: On PCR, we have been constantly increasing the PCR. We were at 39% last year. We are at 45% now. You are right that the LGD on these assets would not be more than 20%-25% adjusting for time value, but we create war chest for our cycle to turn and credit cycles do turn, and therefore we create double of what regulatory requirement is and we continue to strengthen our provision coverage ratio. During the quarter as well, we have created additional provisions to the tune of 1.5%, taking the overall PCR up to 45%.

Shubranshu Mishra: Just to slip in one last question, this increased PCR, is it a posturing for the credit rating agencies for a better rating?

Pankaj Poddar: On the PCR, basically as per our model, it starts at 35% and our endeavor or intent is that we keep it above 40%. So, from a model standpoint, we would like to keep our PCR in longer term above 40%.

Narayan Barasia: And just to clarify, it is nothing from a rating perspective.

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

Renish Bhuva: Sir, just two questions from my side. One on the asset quality, so when we look at the gross NPA ratio, of course, it is range bound, but on sequential basis it went up by 4-5 basis point, despite the high denominator wherein we saw the AUM growth growing by 9%, so which essentially reflects that the forward flows are still high. So, could you please throw some light on what is happening at the underlying ground situation?

Pankaj Poddar: So, as you rightly said, the GNPA numbers is range bound and that is based on our model where we expect that to be around 2.5%. The portfolio if you look at in last 3 years, we have seen a growth post COVID and there is a portfolio maturity curve also which is hitting. From a model standpoint, we expect the numbers to be stable and range bound, and we don't expect any impact on the credit cost side. So, credit costs, we expect to be stable around 80 to 90 basis points.

Renish Bhuva: And secondly, on the secured MSME disbursement side, so when we look at the ticket size, it went up pretty sharply on sequential basis and similarly the volume sort of has moderated plus when we look at, let us say the AUM vintage wise on the branch between 12 months to 36 months, again, there is a sharp fall from 43 to 31, so I mean what is happening at those branches? I mean ideally the branches with more than 12 months of vintage, AUM should keep on increasing, why there is a sharp fall on sequential basis?

Mahesh Dayani: So, I will take the first one. So, largely on the co-origination bit that probably explains why the ticket size went up. So, the ticket size went up to almost 9.67 lakhs and this was at almost 9.38 lakhs, but it is still lower than probably what was recorded last year in the similar quarter of above 10 lakhs. Last quarter, it is consciously by design that we had moved our reliance on co-origination slightly higher, which explains that on an average basis, what we maintained is our average is going to be between 9 and 11 odd lakhs, so by and large it should hold up. So, that explains the disbursal and why the average ticket size has marginally been higher. With respect to the average AUM per branch, if I were to give you some comparisons with related to the branches which are matured and which are more than 36 months - there were 11 branches which moved up, which were more than 3 years where the average is now hitting almost Rs. 50 odd crores. There were a significant number of branches for the full year, there were close to around 31 branches which got added where the averages being between Rs. 8 and Rs. 9 odd crores; and the 12-to-36-month branches significant or high number of branches moved up into the more than 36 months bucket and that is where you see a significant bump up coming up there. So, if you look at the overall trend, even if you probably look towards the end of the year trend for the last year, you will see the 12-to-36-month bucket is moving towards or close to around Rs. 29 to Rs. 30 odd crores and that is what we have been talking about. And as the branches are maturing more than 3 odd years, you are now beginning to see it now hitting out Rs. 50 odd crores. If you were to even do a peer group analysis and probably look at it, for more than 3 years, you would see similar ticket sizes in the range of close to around Rs. 30 to Rs. 40 odd crores, so at least that bucket is doing significantly better. Even if you were to look at 12 to 36 odd months, you would see industry moving anything between 18 and 22. So, we would probably be there, but during the year as you start seeing these ages, you would probably see them gradually going up, but these are range bound and will continue to be range bound. As per our internal threshold that we maintain, we feel that in 3 years your branches on average should be Rs. 30 odd crores. That is the internal benchmark that we hit and as long as we are hitting that, we are largely comfortable.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: This is actually on the math on co-originated income, and I think in one of your slides you have shown the bump up in the yield this quarter because of co-origination income being recognized out there. I think the number works out to around something like Rs. 6-Rs. 6.5 crores and that is approximately around 2.8% to 3% of loans outside balance sheet. So, is that a fair run rate to assume?

Sanket Agrawal: Yes, Nischint, you are right. The amount is closer to Rs. 6.3 crores that has been reclassified from fee income relating to co-origination to an interest income that is given a 0.45 basis uptick during the quarter and that is what you see in the bump up from 17.17% to. 17.62%. And the yields quarter-on-quarter across the quarters have been stable at 17.2%. There are two adjustments during the year that have happened, one in quarter two that we did not book interest on NPA that was one adjustment. The second adjustment is on this co-origination interest income. Net of both of these, we continue to have yields in the range of 17.2%, which is sustainable for the foreseeable future.

Nischint Chawathe: And just very simply, if I look at loans outside balance sheet that you put, basically you have minus loan book on balance sheet and I try to kind of look at 80% of the co-originated AUMs, it doesn't fully tie up, I mean there is a small difference?

Narayan Barasia: No, it cannot be. We can take it offline and take you through the numbers. These will exactly tie-up. This is the EIS, the Rs. 6.3 crores which Sanket mentioned and you also mentioning is excess interest spread on the off book as what you mentioned is absolutely the same.

Nischint Chawathe: The other thing is on the asset quality, if you see gross stage two loans have increased in the last two quarters and the ratio has also gone up on a year-on-year basis. So, how should we think of it? We know that FY23 was obviously an exceptionally good year because we came out of COVID and is this going to be like a new norm or is it something which has kind of bumped up in last two quarters and we are trying to reduce it?

Pankaj Poddar: So, overall, if you look at Stage-2 assets, Quarter 4 was 3.55%, which is 4.37%. Within this, if you look at MSME that is around 3% range earlier and this is around 3.2% range now. So, we expect this number to be range bound. There was a slight increase we have seen in gold in terms of Stage-2, but that also is based on the asset from a positioning stand, but earlier the Stage-2 and Stage-1 contribution used to be 90% plus current. The numbers remain the same. So, we expect the numbers to be stable from here on. So, on Stage-2, if you look at MSME remains stable.

Nischint Chawathe: And gold when was the last time you did auctions?

Pankaj Poddar: We do quarterly as an exercise, so based on the aging, when customer hits 90 plus as the process, the auction process gets conducted.

Nischint Chawathe: So, basically the bump up in GS2 is basically gold, that is what am I reading it?

Pankaj Poddar: Yes.

Nischint Chawathe: And anything on the outlook on the MSME business, given the fact that this year you have kind of exceeded your guidance, how do you see the economy going forward, we are sort of just getting into an election, so some of your peers have kind of given a little bit of a caution. So, just wanted to get your sense, how comfortable are we to kind of have the current run rate?

Aseem Dhru: Nischint, we are just coming out of a Goldilocks scenario for lending that was there last year and this year the headwinds are clear. Now, how we navigate is a different story, but the headwinds are clear that here the regulator is basically guiding the industry for a lower growth. I mean it is all but telling the banks that it would want them to soften down and improve the CD ratios over time. So, one is that the regulator has been guiding a lower growth and eventually the industry always moves to what is regulatory guidance. So, we will see a slowdown of loan across the system next year in my opinion. The second is that NIMs would be consistently under pressure as the scramble for liabilities will continue. The stock market continues to be buoyant, then the banks will continue to struggle for deposits and then the price of the deposits will move up. The US Fed has crossed 5% and when US Fed crossed 5% and the dollar is also getting stronger, Yen has moved towards toward its historical weakness and we are seeing that the Indian rupee, I mean you saw Indonesia also trying to defend its currency. So, if the RBI will still have its act to ensure that the currency remains under control and with that there is no chance in my opinion of an interest rate decrease happening in the US as well, forget what would happen in India. So, the likely scenario is that the repo rate will continue where it is for the year. Bank MCLRs will continue to leak into our cost of funds and NIMs will be a challenge that all of us will have to address. And we are coming out of an extremely low credit cost as an industry and from this kind of low, chances of it going lower are ruled out. Chances of it inching up a little are more likely, so I would say 3 clear headwinds for the industry and for us as well protecting NIMs, ensuring growth and ensuring the credit cost is under control.

Nischint Chawathe: Just one last point here is one of the large private sector banks has significantly raised lending rates in business loans and does that mean that it gives you tremendous pricing power to kind of maintain your margins as well?

Aseem Dhru: So, we are a very small company and generally the GDP, the economy doesn't affect us. We are solving a very small problem for a specific set of customers which are the small customers, we are solving for excess. We are not solving for speed, etc., or competitive pressure because most of the customers we lend to are first-time commercial borrowers in a sense. They have a CIBIL score which has come out of small assets loan they have taken. So, these set of customers are not so price sensitive, and you are able to price what is reasonable and we also want to ensure that the IRR of the business should be sufficient to price it, because the minute you price it beyond what the IRR of the business is, you are inviting trouble eventually. So, we have to be cautious and it is not that we have unlimited pricing ability, but we have to be cautious, but wherever we see that there is an opportunity to price something which is within range we would go for it. If you see our results last year, we have increased our yields across the year and we have to see how the year pans out and how do we navigate the year, how do we ensure that the right jaw between the yields and cost of funds is maintained, and it doesn't clench down. So, that is going to be the challenge which we think we will handle as the year goes by.

Moderator: Thank you. The next question is from the line of Laxmi from Tunga Investment. Please go ahead.

Laxmi Narayanan: This is Laxmi Narayanan here. Couple of questions. First, I just want to understand what kind of loan rejection ratio you have. I just want to understand your funnel, how many people apply for and how many goes through the check and then finally, how many people end up getting the loans disbursed?

Pankaj Poddar: So, on the approval rate, typically we look at the credit login, typically 50% is the approval ratio. What comes to the credit from a login standpoint, 50% goes through.

Laxmi Narayanan: And second, in terms of the MSME, so can you just give us some little details on how the various sectors in MSME? What kind of break up you actually have, either in terms of the size of the business or in terms of the industry they operate in?

Mahesh Dayani: So, these are largely consumption related businesses, these are the mom & pop stores and obviously when your ticket sizes are between Rs. 9 and Rs. 11 odd lakhs, so these are largely non-manufacturing. So, if you look at our target customers, these would largely be classified as Micro Enterprises, but most of them would be typically under the service enterprises. These would be your retailers across segments. These could be converters. These could be salons. Any establishment that you can probably find in your neighborhood would be a different customer.

Laxmi Narayanan: And what kind of balance transfer out happens in your customer segment and you mentioned that most of them are maybe first time formal borrowers and who you actually lose your assets to in general, if you look at in the last 3 years or 2 years, where actually it goes and what are your plans to arrest it?

Mahesh Dayani: So, if you look at the entire secured segment, which is largely by property, almost 80%-85% of our customers are borrowers for the first time against their commercial or residential property. So, they would have a typical credit score, but they would be borrowing against their property for the first time, so almost 85% of our customers who we disburse are of that category. So, we don't take over those set of customers. We would tend to take over some of the customers, which would be in the range of between 10% and 15% odd. That is on the incoming customers. In terms of outgoing what we typically say is that while our door-to-door tenure of loans would range from anything between 7, 12 and 15 years, but behaviorally, these customers are with us for largely 5 years and as these customers are credit tested their scores obviously move up with the right kind of repayments. Ultimately, they would migrate, and they would migrate into the private banks or some of the public sector banks who can offer them significantly lower rates. So, we have seen an entire spectrum, so not any particular bank per se, but you would have the different banks in the different geography who would probably want these customers over a period of time.

Laxmi Narayanan: And you have a clear exit thing for your customers, right, so they have to pay their penalty on the total disbursement amount or something like that?

Mahesh Dayani: Not all. So, it is a part of the agreement that, wherever it is applicable, they would pay, but we have not put in a minimum clause that they have to be with us for 3 years. It is not a part of agreement. So, you can't technically do that.

Laxmi Narayanan: And then one last question, once you disburse the loan, how do you, is this a typical practice I see that till the loan is disbursed, most of the finance institutions due diligence and post that as long as the money comes, they leave the pedal, they just don't do it. So, do you do something differently where you actually after the loan get disbursed, you keep corroborating the GST or you do subsequent analysis whether the particular borrower is doing better, the cash flow is improving or some process you have in place, so how do you do that?

Mahesh Dayani: So, unlike banks, who operate overdraft account or cash credit account which are largely operative accounts where you probably can look at the end-use even post disbursals, unfortunately for NBFC, we don't have operative accounts, but what we typically do is something which is called hindsighting where we look at all customers who have been disbursed as to how the pattern has been. Second is obviously we keep evaluating the valuation of the property and do some kind of checks, but on a transactional basis that obviously doesn't happen. Most of our customers aren't really the GST range customers, if you are considering the total borrowing that they do is Rs. 9 to Rs. 10 lakhs. So, they are largely out of that, and it is very unlikely that those kind of variables and the transaction monitorable are going to be there.

Pankaj Poddar: Just to add, as part of portfolio management exercise we also do bureau scrub and trend analysis that also tells us how the portfolio is behaving and if there is any area where we have to look into that gets actioned.

Moderator: Thank you. The next question is from the line of Laxmi Narayanan from Tunga investment. Please go ahead.

Laxmi Narayanan: So, there has been a sounding by is the regulator saying that the microfinance institutions have to bring their interest rates slightly down right, now, how does that impact a player like you, whether how positively it would impact or negatively it would impact?

Aseem Dhru: Ultimately, what the regulator seeks is that there is a fair practice code that you put with customers in all its true spirit. So, it would want that you are lending at a rate which is not usurious, it would want that you are transparent to the customer and there are no hidden charges, or nothing not disclosed to the customer. It has to be fair to both parties. So, at the moment what we are doing is that we are pricing it for risk and if you look at our lending category and look at our peers we are not at the higher end of the lending. There are several peers of ours who are lending at a much higher rate to a similar set of customers. We are lending where we believe is a fair rate to both of us. And I don’t think that any move being planned there is going to have any impact for now as what we understand.

Laxmi Narayanan: And if you look at risk going forward in the next 3 to 5 years, what are the key risks you actually foresee for you as well as the industry, I think for the industry you talked about NIM compression and also little lower asset growth, but for you per se, what do you look at as risk and what kind of efforts you are making to counter them?

Aseem Dhru: If I tell you the risks, how much time do you have? I can go until afternoon. So, the reality is that in the lending business everything affects you because lending is a derived demand. It is not a principal demand. Nobody needs a loan for the sake of it. People need things and therefore they take a loan for it. So, eventually, it depends on which end of the spectrum you are. We are not on the consumer end of the spectrum. In the consumer end of the spectrum, the worry would be whether the money is going into creating assets or money going into consumption which could not be a good growth of loan to have. We are in the business loan segment where we are lending to small businesses who are not leveraged, it is the first time borrowing that they are doing against property. So, to that extent we are doing what is very traditional finance and ultimately the risks comes more from our own operating efficiencies. The risk comes more from our own credit judgment because ultimately the borrower is not somebody who has been wonderful tax audited statutory reports and none of our borrowers file GST, they are way below that threshold. So, the ability to really understand the customers and shift out data points which give you the confidence to lend is data-driven with a fair amount of judgment also in it and whenever you are doing even a little element of judgment, the risk of the lending goes up which is justified with the higher interest rate that we charge, then it makes RAROC efficiency. So really the risks to us, one comes from the environment which is what I mentioned earlier, the second risk comes from our own foolishness and mistakes and the third in misreading the environment or taking steps like too faster growth, for example, now we have to take a growth rate that we are comfortable with in terms of managing the outcomes and we have to keep watching our portfolio for what signals it is giving us. So, still at the end of the day just a 6.5-year-old company and we have to be careful. We have to watch many cycles to be able to be confident that yes, now we have we have got it well. So, we are still figuring ourselves out, we are learning, we are making mistakes, we are correcting and hopefully we are improving.

Laxmi Narayanan: And in terms of the gold portfolio and the MSME portfolio, what is the yield you get on gold?

Mahesh Dayani: So, in terms of the yields, we are now closer to 18% odd and in terms of the MSME, we are in the range of 16.75% to 17% odd.

Laxmi Narayanan: And from a top up loan point of view, what kind of retention you have on the gold loan in terms of the repeat gold loan because as you said it is a short-term loan, so that is one in terms of retention? And second in terms of the top up loans, what percentage of your borrower's did MSME avail top up loans and what is your criteria to do that?

Mahesh Dayani: So, typically what we do is that we wait for at least a year before we consider him for a top up. And obviously the top up has a lot of considerations to be looked at, whether his income has moved in line with his requirement, because that is where your FOIR is linked with and whether there is sufficient margin available on this property side for us to give him that particular loan. So, as I mentioned earlier that our overall top up doesn't exceed more than close to around 15% odd. So, that is largely range bound in that particular case. With respect to the gold, it is a short tenure product, it is between 3 and 6 odd months that we on board. We on-board close to around 3000-3500 customs every month. A lot of these customers, typically even after they close the loan, end up coming back after a few months and typically we see some bit of repeat customers come in. They would be roughly close to around 30% to 35% would be repeat customers that would eventually come back to you.

Moderator: Thank you. As that was the last question for today, on behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.