SPANDANA

Ref: SSFL/Stock Exchange/2023-24/070

Date: July 31, 2023

To
BSE Limited,
Department of Corporate Services
P. J. Towers, 25th Floor,
Dalal Street,
Mumbai – 400001
Scrip Code: 542759

To
National Stock Exchange of India Limited,
Listing Department
Exchange Plaza, C-1, Block G
BandraKurla Complex, Bandra (E)
Mumbai – 400051
Symbol: SPANDANA

Dear Sir,

Subject: Transcript of conference call held on Monday, July 24, 2023

Ref: letter No. SSFL/Stock Exchange/2022-23/058 dated July 14, 2023

In furtherance to our above-mentioned letter, please find enclosed the transcript of the conference call held on Monday, July 24, 2023, to discuss the financial and operational performance of the Company for Q1 FY24.

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

Kindly take the above on record.

Thanking you.

Yours sincerely,
For Spandana Sphoorty Financial Limited

Ramesh Periasamy

Digitally signed by Ramesh Periasamy
Date: 2023.07.31 16:42:24 +05'30'

Ramesh Periasamy
Company Secretary and Chief Compliance Officer

Encl: As Above

"Spandana Sphoorty Financial Limited

Q1 FY '24 Earnings Conference Call"

July 24, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 24th July 2023 will prevail.

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

Moderator: Ladies and gentlemen, good day, and welcome to the Spandana Sphoorty Financial Limited Q1 FY '24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectation 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.

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, then zero on your touchtone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Shalabh Saxena, CEO and Managing Director. Thank you, and over to you, sir.

Shalabh Saxena: Thank you very much. Good evening to all of you. Thank you for taking time out to attend our earnings call. This is the fifth quarter of the new management in Spandana and I am satisfied to state that we've come a long way from a year back when in July 2022, we had presented our Vision 2025. Since then, we've received a lot of valuable feedback, suggestions and advice from all the stakeholders for which we are very grateful. Please have the suggestions and advice flowing our way, we need them.

As you are aware, we had identified five priorities for us as a management team when we presented Vision'25. We have made significant progress on each of the five priorities, and I would start by providing an update on those. Number one and most important-

People, reinforcing senior and middle management team.: As announced in our last earnings call, we now have all the 13 key positions filled and all the minus 1 levels are also adequately staffed. Thus, our senior leadership hiring agenda now stands complete with a strong management team in place. Our focus now is on setting-up employee centric people practices with the aim to make Spandana a preferred employer. We have started work on this already. And in the next two quarters to three quarters, we intend to make progress on this key agenda item.

The second point was strengthen governance risk and control with added focus on refining processes. A lot of our efforts in the previous year were dedicated in refining and further strengthening governance, risk and control. We have been calibrating our exposure norms, tweaking policies where necessary to add strength to our governance framework. Streamlining processes was also a major focus area during the last five quarters. This is a continuous process, and we will keep working on it consistently.

Number three, focus on customer acquisition-led business growth, while ensuring retention of good existing customers. We continue to drive growth through member acquisition. We had added 8.8 lakh new borrowers during FY '23, which is last year. In the current quarter as well, we've added 2.6 lakh new borrowers. As we expand the new geographies, our new borrower additions will continue to trend higher. By end of the year, we intend acquiring more than 1 million new customers, thus taking our customer base upwards of 3 million or thereabouts.

Point number four, technology scale up to deliver an end-to-end paperless process for customers. We are continuously scouting for and investing in technology to make our systems robust and process simple for our employees and customers. Our focus has been an agile LOS and LMS and most importantly, a safe and secure back end. We believe that technology will drive the next wave of growth.

Point number five, customer-focused initiatives with emphasis on products and service. We had envisaged a non-micro finance loan book of over INR2,000 crores by FY '25 and are taking concrete steps in that direction. We have introduced loan against property in the new geography of Rajasthan. We will soon be launching the Nano enterprise loans in select markets. We look forward to scaling up these product offerings in multiple markets in the coming quarters. This is apart from the INR15,000 crores of book in micro finance, which we have planned end of FY '25.

Apart from the five priorities, we are well possessed of the fact that there is a large scope for building efficiencies in our distribution network. We are taking a number of steps to ensure right utilization of resources. We anticipate a 15% to 20% improvement in efficiencies in the current distribution metrics that we operate and over the next two quarters to three quarters, we will see the benefits play out. Our focus on growing in the seven states, which were Rajasthan, UP, Bihar, Haryana, Tamil Nadu, West Bengal and Gujarat where we have a very low market share continues to gain ground.

Over the past two quarters, we opened a net 188 branches, most of which are in these focus states. We want Spandana to have a meaningful share of microfinance portfolio in these states. A large portion of our loan book and borrower addition growth is expected to come out of these seven states.

As is there in the presentation, about 26% of new borrowers added during the quarter were from these seven focus states. While some of our initiatives result in immediate impact during the quarter, many others will take a quarter or two to translate into tangible results. But I can say this with reasonable surety that we are on the right track.

Having said that, let me present the results of Q1 FY '24. The results and the investor presentation have already uploaded on the NSE, BSE websites. I'm sure you would have gone through, but I'll quickly go through the results.

Disbursements, as you are aware, Q1 is usually a seasonally low quarter for the microfinance industry. We disbursed INR1,664 crores during the quarter, up 26% Y-o-Y. On AUM, we ended the quarter at an AUM of INR8,848 crores, an all-time high for Spandana. This was 60% growth Y-o-Y and a growth of 4% over the previous quarter.

Customer acquisition. One of the strong pillars of our Vision 2025 is customer acquisition-led growth strategy. During the quarter, we added close to 2.6 lakh new borrowers, which is 144% higher than the same quarter previous year.

On the borrowing side, you are aware this is the key component of any NBFC and its functioning. The quarter saw a total borrowing of INR1,540 crores, up INR894 crores from last year Q1. Our marginal cost of borrowings was slightly lower at 12.3% as against 12.6% in Q4 FY 23. Weighted average cost of borrowing was largely stable at 12.5%, up by 9 bps overQ4FY23. We continue to strengthen relationships with our borrowers while continuously having dialogue with other lender partners.

On the portfolio quality: Our portfolio quality continues to improve over the quarters. The standard, which is the current book is at 97.1%, an improvement from 96.6% over the previous quarter and a marked improvement from 68.4% in Q4 of FY '22. The 1-90 bucket is 1.36% now, which was 1.54% in Q4 of FY '23. Of the 1-90 book 40%, that is 0.55% is in 1-30 bucket.

The GNPA end of Q1 FY '24 now stands at 1.63% and the NNPA is 0.49% on the back of improved quality and higher provisioning. Of the GNPA pool, about 42% is contributed by pre-April '21 book, which itself is 1.2% of the loan book now.

On the collection efficiency front, net collection efficiency for the period was 98.1% as against 97.6% in Q4. We continue to see improvements in net collection efficiency, which is a very healthy sign. Gross collection efficiency for the quarter was 101.5%. Our focus at the distribution level is net, because that is the timely repayment and that is what we are driving as a team.

Financials for Q4. We continue to maintain a provision coverage of 70.1% on the consolidated book in the current quarter, and NNPA has reduced to 0.49% and GNPA improved to 1.63%. The number for the previous quarter were 2.07% and 0.64%. Our yield on the portfolio has improved to 24% from normalized yield of 22.8% in quarter 4 and 16.4% in Q1 of FY '23.

NIM is 14.2%. That is up 38 basis points over normalized NIM of last quarter and 434 bps over quarter 1 of FY ‘23. Total income for the quarter increased 104% to INR527 crores versus INR259 crores in Q1 of FY ‘23. Net interest income was up 102% to INR328 crores for the quarter was INR162 crores in quarter 1 FY ‘23.

PPOP for the quarter was INR189 crores, up to 273% over INR51 crores reported for the same quarter previous year. PBT for the quarter was INR161 crores, PAT INR119 crores, which is an increase of 13% sequentially over the past quarter. We had reported a loss of INR220 crores during the same quarter of previous year, owing to a write-off of the INR702 crores that we have done in Q1, as all of you are aware.

So to summarize, we have the building blocks in place and now are completely focused on execution and delivery of our Vision 2025 targets. This year is all about efficiencies, productivity and refining processes. Our plans for having 1,500 operational branches by end of FY '25 is on track.

And over the past six months, we've opened, as I said earlier, 188 branches. We continue to build the distribution where we feel there are opportunities obviously, quality of the specific geography drives our decision making. We continue to experience strong economic tailwinds in our markets, driving demand for micro loans. We continue to be cautiously optimistic about the growth potential of the microfinance industry in India.

I thank all the stakeholders of Spandana, the Board, our lenders and our colleagues in Spandana, who pulled in their energies during the year. A special note of thanks to all the branch staff, our loan offices, branch managers and the entire field staff who work hard day in and day out to deliver the results that collectively all of us have envisaged.

Thank you very much to all of you on the call. You have been a constant source of encouragement by giving us positive advice feedback and, of course, support during the year. We look forward to receiving similar encouragement in the future.

We have the entire management team with us and are ready to take questions from you. Thank you very much.

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

Shreepal Doshi: Sir, congrats on a good set of numbers. I had the first question on the collection efficiency. So we see that collection efficiency for MFI lenders are ranging between 98% to 99%. So is it fair to assume that this is the new normal for the sector post COVID now? And therefore, the credit cost would also broadly be increasing to say 1% to 2%?

Shalabh Saxena: See, for the -- so there are two questions that you asked in that one question. The first is net collection efficiency is a timely repayment and sometimes the payment comes with a lag. The payment comes with a lag for various reasons. It is sometimes a company-driven thing also, the employee might be on leave, etc. So there are various layers in this whole thing. The credit cost if you have to look at, you have to look at it in the context of whether you're receiving the payment or not and that is where you should look at gross collection efficiency.

On the timely repayment, which is the fundamental discipline of micro finance, the net collection efficiency is what we are driving amongst our teams. To answer your question, Shreepal, 99% is what we are targeting in the short term. Is it a new norm, maybe at this point in time, -- while we built in all our financial credit cost of 2%, we anticipate the number to be lower, a 1%-1.25%. Any company and not just us.any good company if it runs its model well; it should not deliver a credit loss of1.5% or maybe 1.6%, that's it. So that's our take on this whole thing. We obviously have done some conservative estimates on the credit loss valuations, and that's where we are.

Shreepal Doshi: Got it, sir. Thank you. The second question was you highlighted about tech initiatives. So what is the capex or expense that we are likely to incurred over the next one year for these initiatives? And then on the opex, even during quarter, the employee cost was significantly higher on a sequential basis. So what explains that?

Shalabh Saxena: Employee cost.

Ashish Damani: Hi Shreepal, this is Ashish, this side. The employee costs are higher because we had gone through our annual increment cycle, and there is also a headcount increase, which has happened between last quarter, around March and then again in this quarter as well for the branches that we have rolled out. So those are the two parameters which have kind of added to the cost. But as we go along, the employee cost change on a sequential quarter basis should normalize because this was more of an annual increment exercise, Thus, you are seeing a jump between previous quarter and this quarter.

Shalabh Saxena: On the second question, which is this year, our IT cost is about INR75 crores of split into a capex of about INR20 crores and the balance is opex. We have budgeted this adequately until FY '25, and we will do another three years excise next year when we'll kind of bake the future years as well into this.

Shreepal Doshi: Got it, sir. Sir, just last question. With respect to the income revaluation that we have to do as per the RBI norms. So if there is any household which has got household income of more than INR3 lakh. Firstly, what is the process that we have deployed for evaluating the household income, and secondly if there is any household income who is making more than INR3 lakh then do we have a product for that customer?

Shalabh Saxena: At this point in time, Shreepal, and in our various commentaries, we've been stressing the fact that we are very basic bread-and-butter people. We don't want to deviate and hence, the right answer to this question is that we will put them under the non-PSL, non-qualifying assets and book them. But as of now, we are not approaching them. I mean, if it doesn't fall then the lady is out. We don't source that case because as I said, last year and this year, we are just sticking to the fundamentals of business. And given the fact that we are doing the JLG model of micro finance, that is what we are foreseeing.

Moderator: Thank you. We take the next question from the line of Manuj Oberoi from YES Securities. Please go ahead.

Rajiv Mehta: Yes. Hi, sir, this is Rajiv. Congratulations on very strong set of numbers. My first question is on growth. So sir, were there any specific operational changes still implemented in this first quarter because when I look at disbursement, there seem to be lower even adjusted for seasonality. So that is one.

And another related question is, is there any change in duration of the portfolio over the last two quarters because I see portfolio run off in this quarter being slightly slower than usual?

Shalabh Saxena: So the second part of your question I understood. Can you just repeat the first part? Sorry, I didn't understand.

Rajiv Mehta: Yes. So were there any specific operational changes on the ground, which also led to a lower disbursement in this quarter, besides your own seasonality?

Shalabh Saxena: So Manoj. we have a defined goal in mind. Rajiv.

Rajiv Mehta: Yes, Rajiv, this side, yes.

Shalabh Saxena: So Rajiv, we have a defined goal in mind on FY '24 and FY '25. As you've seen in the presentation, we are already at INR8,848 crores. We are very close to about the INR9,000 mark just about INR150 crores. We are in no hurry to report. Microfinance is all about pacing your innings. Microfinance is not a T20.

Microfinance is a test match. And the test match has to last a full five days, don't have to end the test in three days or four days. We know exactly what we are doing just because there is an opportunity, where you cannot or should not change or alter your plan. We are cognizant that -- and I will repeat this Microfinance is a risk management business. It is not an asset business.

It is important that the teams on the ground are culturally aligned to the sense of responsibility that you do not as an institution deviate on the quality that you're sourcing. Hence, I heard your question or rather your observation, my view is that we know exactly where we have to end and we've given the last call also, there was a point on this. We are in no hurry to end the match in three days.

Our goal defined this year and next year, which is INR15,000 crores in FY '25 is fixed. It could be a few INR100 crores here and there. In all likelihood, it will be over. But very difficult to kind of stick our neck out and say instead of 15, we'll do 17. There is no need. So past is enough history that if you are not cautious, you end up burning your fingers, hands and everything. So that is very clear. We'll pace our innings to ensure that the quality is delivered and that is what we are doing.

So we had said in the last call that we as an institution has to very, very clearly deliver quality apart from the top line as well. And if you would have followed our numbers over the past four quarters that we've been coming here. That's a testimony of the fact. So cautious lending is the right approach in my view. Quarter 1 either way, this is what was the plan and we are just about there.

Rajiv Mehta: Okay. Got that. And now the question is on NIM outlook because -- so what is the space for the portfolio yield are moving up because it has moved pretty significantly in the last two quarters. And secondly, the other variable for NIM will be the cost of funds and I see marginal cost of funds coming down and we also raising sizeable coming up money at lower cost. So basis the expected movement in cost of funds over the next few quarters and maybe more residual re-pricing of portfolio, where do you think NIMs can go to?

Ashish Damani: Hi Rajiv. Good evening. Yes, there is a quarter or two more for our NIM's to see at least around the same number or small expansion as well, primarily on account of yield probably inching-up a little bit more given that we've been lending at 25%, there is a little headroom there. We are presently at 24% yield and you would never hit the 25%, but there is still a little bit of headroom there. So a quarter or two, you may continue to see some inching up.

On the cost of fund side, I think we've seen a drop last quarter. We hope to see a little more drop given that as an institution, we have been having a consistent performance for the last five quarters now. I think there is a scope of improvement in terms of how or what kind of pricing that we are borrowing at. So yes, we are positively inclined to maintain the NIMs at the current levels.

Rajiv Mehta: Sure. Ashish, can I just ask one more question before I move back?

Ashish Damani: Sure. Go ahead.

Rajiv Mehta: It is on the provisioning line. So there's a INR26 crores provision made against receivables from assignment portfolio. It can't be against that direct assignment portfolio, right? So what is it pertaining to?

Ashish Damani: So this is a direct assignment only. So there were certain customers where the collections did not go through. And during the period (IT disruption), earlier period, when we did not have the IT or whatever information we kind of have paid in advance to the banks. We are still trying to collect it from the customers. As a prudence, we have kind of provided against that portfolio just to have a clean set of books.

Rajiv Mehta: Yes. So any more hit likely, yes, or we are done with this?

Ashish Damani: We still have about INR24 crores of portfolio, which is there on balance sheet, which we will have to see and calibrate as we go along.

Moderator: Thank you. The next question is from the line of Sagar Tanna from Alchemy Ventures. Please go ahead.

Sagar Tanna: Hi, sir. If I heard you correctly, you expect credit cost to be 1.5%-1.6% for the year, is that correct?

Shalabh Saxena: Yes.

Sagar Tanna: But what is the outlook because we still keep getting mix commentaries with respect to rural recovery, etc, what is your outlook in terms of how the economy is shaping up on that side of the country?

Shalabh Saxena: So look, the credit demand is very strong, and we have seen a lot of turnaround from a quality point of view. So that is the heartening fact in this whole micro finance story. So micro finance over a period of time has seen lots of ups and downs. And post-COVID, a year now a year, 1.5 years, that it has seen strong tailwinds, both from the economy point of view and the heavy investment that the government is doing infrastructurally in the Bharat of India.

So from a quality point of view, I think if you run the operations well, the number that I said should hold that unless there are some unforeseen, unknown issues, which might not kind of favour the industry. As far as the industry is concerned, concentration risk is very, very important. And as an enterprise, we are ensuring that we walk the steps to ensure the concentrations are moderated across the states where you see the elevated levels on the market share and the contribution that a specific state does give to us.

So that is what we are working at, and until FY '25, right now, we have a couple of states that 14%- 15% contribution. We have a clear plan to get them down to 11%-12%. So in our estimate, combination of concentration, plus good execution of the model. Relying on JLG to ensure that there's a safety net are the critical components of this model. And I can say this is a reasonable surety that if all of these are done well, there's a good chance that as an enterprise, we will stand to gain on this.

Moderator: Thank you. The next question is from the line of Jignesh Shial from InCred Capital. Please go ahead.

Jignesh Shial: I have two questions. One, has there been any write-off during the quarter? And any recoveries from the previous written-off quarter, any number on that you have it?

Ashish Damani: Yes. So write-off for the quarter is driven by the policy that we have taken up last quarter, which is any loans, which move into 455-plus days, will be moved to technical write-offs. The number was INR21 crores. The impact of this was around INR5.8 crores in the P&L. In terms of recovery, the total recovery that we had was INR23 crores across the write-off.

Shalabh Saxena: So of the INR700 crores and other write-offs that we have done, we've collected all put together about INR90 crores is the specific question that you asked from the time we started this journey.

Jignesh Shial: Understood. That's very helpful. And secondly, you've been doing pretty good on the MFI side. And as you rightly pointed out earlier that more-and-more focus would be on incremental branches and states I asked the same question last time as well. But if you can brief out a little bit more in detail about other than MFI businesses, how we are shaping up and how we are seeing that things are opening over next two years? But at least how are the beginning has been there, if you can give some idea on it that could be really helpful other than your MFI business.

Shalabh Saxena: So Jignesh, we will -- it's early for us to -- I mean, we started booking loans on the LAP side. We will launch the Nano enterprise, which is the small ticket loans to retailers. A 60,000 ticket size is the number that we will start with it is a non-JLG business. That should start in this quarter. These two businesses this year is testing the waters and seeing how it goes. These are pretty fast moving. There is an opportunity, a lot of opportunity, and we'll continue to focus on the lower ticket sizes.

I mean, we are not intending to give loans of INR20 lakhs, INR25 lakhs on the LAP, for example. Sweet spot is INR5 lakh to INR7 lakhs. And on the Nano enterprise, I said our loans will be at INR60,000 to INR1 lakh. So there is tremendous demand for these loans because this is the missing segment. The banks don't go after them and their business mostly survive on borrowings from friends and relatives.

Once again being unsecured in nature, at least the Nano enterprise, we have to be cautious and that is what we will. On the LAP side, it obviously is a secured business. And that we are focusing on productivity. There's a slightly longish gestation period business. Its not a MFI business, which turns around very fast. But it holds tremendous promise for the profile of customers and the segments that we have identified. And maybe next quarter, when we come, we will have more colour on this because we'll have some volumes backing whatever we speak right now it is insignificant volume to kind of give any commentary on.

Jignesh Shial: Understood. But just one thing that this will be all focused on the new customer base altogether, right? Not to the existing ones

Shalabh Saxena: Yes. So absolutely. And what we have done is that we have opened a separate set of branches we are not cutting corners by putting them into MFI branches because ultimately, it is the same institution. But we are very clear. We are not making the model fungible, we are not cutting corners. The places where to open a branch is a factor of the geography and the potential and has nothing to do with whether Spandana is around or not.

I mean the Spandana MFI is around or not. It is a completely new set from a Chief Business Officer down to the Loan Officer. It is a complete separate team it works differently. It works and the hirings have been done from the industry so that they have a fair colour of how this played out. It's a new business for us, but it holds a lot of promise. The new business that we have launched in the state of Rajasthan, I don’t know, you are aware or not, but when we took over this book, this is not a new business for Spandana because this was being done in Andhra and Telangana. We had a book of about INR117 crores when I had taken over.

And now it is around INR51 crores, INR52 crores. So it has run down because we were looking for a good LMS and LOS. We wanted to do business properly and just because the opportunity was goodwe really did not hurry into launching this business. we were servicing our existing book. We stopped all disbursements for a year. That is why the book run down from INR117 crores to INR51 crores.

Now we have started in a different state, which is Rajasthan, which is supposedly a fertile geography for this kind of a setup because the customers are evolved there. And we see a lot of available demand and untapped demand in this market in this segment, and that is what we will continue to progress on.

Jignesh Shial: Understood. And is it fair to assume that the yield on this new segment would be lower than your typical MFI portfolio, but the tenure would be longer one. So the EMI will become more stickier?

Shalabh Saxena: That's correct. Yes, that's correct. Absolutely.

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

Renish: Yes. Hi, Shalabh and Ashish, congrats for good set of numbers. Sir, just two questions from my side. One, you've been on the qualitative side since we have started this journey of weekly collection model so of the total MFI branches which are on the weekly collection, is there any split, let's say, how much of this would be earlier into monthly model?

Shalabh Saxena: No. So the new branches, Renish, that we are opening irrespective of the states will be weekly. That is number one. Number two, for a customer who you contracted at a monthly, it would be unfair for us to work weekly path because it might not happen. So we have clearly laid out plan in terms of how do you convert or rather phase. How do you phase out the current monthly model across the branches because we have three sets of branches. Branches, which are low on AUM, medium AUM and very big branches.

The very big branches are at some 285 or 286 numbers, our of the 1,100, 1,200. Those branches, we will not touch this year. There's other things that we are doing, but they will remain monthly. The other branches, we have a phase-wise plan on how do you kind of recalibrate them to convert them into a weekly. Because by definition, about 60%, 70% in a steady state business will go to our existing customer.

And if you keep on booking a monthly loan, this will never really work. So you'll never be able to depart from the monthly. So we are believers in the weekly model, just as we are strong believers in the JLG. So there are clearly articulated plan internally that we have on how are we going to move the existing set of monthly branches into weekly.

Renish Bhuva: Okay. And like, say, while implementing this, have you witnessed any, let's say, pushback from the client or the staff where we might see some pushback in implementing weekly model?

Shalabh Saxena: Weekly model. So what are we attempting to do, Renish. We are attempting to do all the three things, which is a customer acquisition, a collection and a disbursement. All the three things, every single day of the 20 working days that you have, 20, 21. The new set of branches that we have opened is a fresh staff, and that is a easier one. I mean, most of our team members do realize and any event such as a COVID or maybe a demonetization which happened many years back. In case whenever there are challenges in the environment, weekly customers isn the weekly model comes out of a crisis much quicker than the others because the liability at least at the EMI level is very nominal of INR600, INR650 instead of the INR2,400, INR2,500.

Now the point is that -- so the answer to your question is, we've got very good support from our people. The plan was made, taking them very much on board in terms of how they are doing. Plus what happens is that when it comes to a Monday to Friday, Monday to Friday rigour-- Renish. What happens is the staff gets a Saturday, Sunday, which is much more relaxed rather than the earlier regimented approach of a Saturday, Sunday because we had a different collection model of 1, to 10. So the long answer to your question, we have got very good support because we took them into confidence before walking this path. And now obviously, we are progressing on that.

Renish Bhuva: Got it. And sir, secondly, on the, let's say, growth side. So we have seen most of the companies reporting better numbers in Q1 despite being seasonally weak quarter. And if I recall our guidance for '24, '25, we had laid down a year back. I think since then the industry or is the business cycle has changed dramatically. So would you like to give, let's say, a revised guidance or any commentary on the guidance, which you have put down on your back?

Shalabh Saxena: So if you look at our numbers, we ended the last year at INR8,511 crores. We are at INR8,848 crores now. If all goes as per plan, we will hit the INR10,000 crores number in either the last month of this quarter or the first month of the next quarter. So we should end the year at about to INR11,750 crores to INR12,000 crores, roughly, that is the number that we are looking at, which works out to in my mind, more decent Y-o-Y growth for FY.

This growth is coming from the new areas. So that is very, very critical. We are opening those new geographies, new branches, which will kind of deliver the numbers that we are talking to. Earlier also, we've stated this position that we are not great fans of big ticket sizes. We'll continue to deliver loans in small packets. -- and that is, what we are planning to do. That is why the numbers on the customer acquisition side you would have seen.

Maybe two quarters from now, we will evaluate the movement on the ticket sizes. I understand there's inflationary 6% increase, that I ideally one should be doing on a ticket size to stay at par. But, at this point in time, we are not facing any resistance either from the customer or our employees. And we are happy that way. We are clear that, more number of customers is the way to go, and not really…

Ashish Damani: In fact, Renish I'll just add a point about what Shalabh was trying to allude to. If you look at our ticket sizes, this quarter, the weekly is coming into play now, given that, we have weekly business at 35,000 in the first ticket size instead of 42000, which we do in a monthly setup. And that has impacted our average ticket sizes. It is marginally lower compared to last quarter. It is around 41,000 compared to 42,000 plus last quarter.

Shalabh Saxena: So Renish, if you see within our company, we are following two ticket sizes. But then in our ticket -- in a cycle one, monthly, our ticket size is 40,000 in a weekly model, whichever the 188 branches that we have opened, the ticket size is 35,000, and that's the start point. So we are convinced that, you don't loose a customer for INR3,000, INR5,000. There are other things, which come into play, which is, what is your conduct with the customer? What is your approach? Are you there, when the customer needs a loan? How you're dealing, is it transparent?

So the larger point is that you have to be convinced of the position, you are taking and you should not be out-priced. So that is also very critical. Suddenly, you can't be an outlier in the market, when the world is giving at USD100, you can't be ending the USD50. So that we are cognizant of that. So there we keep on balancing and recalibrating and calibrating. But as of now, we've chosen this path and we will keep on evaluating our position as we move ahead.

Renish Bhuva: Okay. Got it, sir. Thank you so much, sir, and all the best.

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

Sarvesh Gupta: Good evening, sir and congratulations on a good set of numbers. And sir, one question on the cost to income side. So where do you see it settling down? We had a little bit spike in this quarter. But as you explained, it was because of employee cost maybe increments, but where do we want to settle it?

Shalabh Saxena: The sweet spot is more than north of 35% south of 40%. So once the things are stabilized, a 37%, 38% is a good number to kind of operate in. Anything less would not be fair on the employee and anything more is not fair on the balance sheet. So that is what, is our view. So 37%, 38%, any number, which is between 35%, 36% to south of 40%. I mean any number starting with 35% or until 39%, is a good number as for us.

Sarvesh Gupta: Understood. And on the ticket size question, so your number of borrowers as in Slide number 5, has not increased much, maybe 12%, 13% up only Y-o-Y, while the AUM is up 60%. So overall ticket size per client would have increased quite a lot, right? Y-o-Y, if we just do the average?

Ashish Damani: Yes, hi Sarvesh. Yes, what basically we have done is, we have kind of written off a lot of portfolio last year. And that has impacted a cleanup on the number of borrower side, since the customers had the small trail portfolio also coming from the COVID period and all. The amount outstanding adjustment probably was lower, but the number of customers is, anyway the denominator kind of shrunk really big time. That's the impact that you see. But if you look at the number of customers, like Shalabh was explaining last year, 8.8 lakhs customers. This quarter, 2.6 lakhs customers is what we have added.

So the number of borrowers will continue to increase from here on and the exposure piece will be settled. Even if you look at with the current base, the average outstanding probably is around INR37,000, which is very much in line with the industry, in fact marginally lower compared to the industry. So, we are very well placed there. The ticket size like we talked about, is a factor of what kinds of loans you do.

We have a very standard income-generating loans only, which as company, we are doing. In fact, most of our loans are two years. So the ticket size will be slightly higher compared to people, who do, let's say, one-year loans or people who are doing, let's say, cross-sell loans, which are six months and all with much smaller ticket sizes.

So it's a factor of what is there in the denominator and numerator. For us, it's a plain vanilla income-generating loans. And that's why probably ticket size stick to be a slightly higher compared in fact, I would not say higher any more, it is in line with the industry. But if you look at the exposure, we will be marginally lower.

Sarvesh Gupta: Understood. And last quarter commentary was that our business as usual, ROA should be around 4.5%. Now this quarter, we have already reached 6%. And there's scope for cost-to-income to go down, NIM's to improve, cost of funds to go down. You are also saying that your credit cost, which was earlier from maybe 2% BAU now is in trending down to 1%, 1.5%. So is there a major upside on your ROAs from the current 6% as well?

Shalabh Saxena: So see, this is a business, where we don't know, what we don't know. So you still have to be agile, and it is always good to plan conservatively and not go overboard. This was the first question also, where I kind of gave a longish answer. We are and while you have not asked, but our comfort is 13.9%, 14% NIMs, cost-to-income of what I said, 35% to 39%. It's very important that, our yields have gone up to 24%. They will stabilize at this number now because we had increased our rates. I think, next quarter might be a slight delta up and then, it will stabilize because we haven't had a rate hike since the September or October of last year.

So stability is what we are looking for at this point in time, Sarvesh. And what we'll still calibrate. But yes, the numbers are what they are. But on a steady state, what we were confident of is what we told you, the 4.5% that we spoke about. And if it is more than it is good, but that much we'll deliver for sure.

Sarvesh Gupta: Understood. And a final question on the employee hiring. So of course, you are adding the non-MFI portfolio as well as expanding rapidly in the last one quarter, two quarters. So what's been the experience there because all the companies are doing quite well. So isn't it like very difficult to get talent at all levels to be done properly, you have just started expanding in the last one quarter or two quarters. And now the entire industry is firing up and everybody would have potentially a propensity to pay higher or retain, so in that scenario, how do we sort of operate with our plans, which will mean a lot more branches and lot more employees and even in the new product side?

Shalabh Saxena: So one of the key things is people, and we have to ensure that, we have people, who stay with us and are able to deliver quality. When it comes to employees at a branch level, which is a branch manager and a loan officer. Loan officer, we will always have that standard churn. We will have the churn, which is the standard 30%, 35%, 40%. Microfinance is all about robotic execution of the plan. How you are able to execute the processes and how we are able to ensure that, they see a future in you as an organization.

For whatever Spandana is, very happy to report that, over the past one year, we have got very good talent. We've been able to attract very good talent, and this includes people at the branch level. And when I say branch level, the branch manager is a critical cog to this whole wheel.. A loan officer churn will happen. That is inevitable, but you have to control the branch managers churn and or attrition that you have to, as an organization, ensure that your entire might is behind it.

We have taken various initiatives to ensure that, while there's a future in it, in this for everyone. But if you are able to control the attrition at a branch manager level, you are sorted as an institution because the branch manager is the CEO of that entire geography of 30 kilometres, 35-kilometres radius that he operates in, and he will ensure that, other things are set into place.

From a pure philosophy perspective, I am not saying, we are there yet. But at a LO level, we should hire freshers. These new geographies, where we are going, we are having -- we will kind of walk that part because we can't have completely new set of people, the entire network or the entire hierarchy can't be new.

So we are doing some bit of lateral hiring. But however, when it comes to approach point of view, and we will get there sooner than later. The LO will have to be from the market without a micro finance background. Your branch managers duty is to train the employee and ensure that, he executes for you. This country is a 1.3 billion, 1.4 billion population. You'll have enough and more people to kind of come to you, provided they see good enough money.

A INR20,000 is the employee mix, good enough for their place, where they live. And our duty is to ensure, we create the environment so that, the career part is taken care of. We can have a separate discussion on this, and that's why I said, we are not there yet because we are trying to open new branches at a faster pace. But in a steady state, that is where we'll get to.

Sarvesh Gupta: Understood. And did I hear you right, when you said that, FY '24 target might be around INR10,750 crores, which is like a 25% AUM growth for this year?

Shalabh Saxena: Q3.

Sarvesh Gupta: Q3. Okay, understood. Thanks, Shalabh, and all the best for the coming quarters.

Moderator: Thank you. The next question is from the line of Rohan from Agile Capital. Please go ahead.

Rohan: Yes, thank you for the opportunity. Congratulations on the good set of a numbers. I have two questions. What is the stabilized ROA? Are we looking at the most probably financial year '25? So you have guided for AUM for finance year '24 and financial year '25. I mean, what is your internal estimate if you could?

Ashish Damani: Hi Rohan, So ROA I think, Shalabh just explained on the call, a little while back, we are committed to giving more than 4.5% ROA in stabilized or a BAU basis. Currently, the number anyway is trending higher than what we have committed for. I think, the way business is shaping up. We are very well placed to meet the guidance of 4.5% and the AUM of INR15,000 crores by FY'25. We don't see any hedge around any of these numbers, which we have committed.

Shalabh Saxena: Let me just supplement because I've been hearing this commentary. This is, we are not selling consumer durables or commodities. This is finance, where you have to get the money back. It is very critical that, you deliver quality. And hence, over a period, you will have those ups and downs for sure. But as long as you are in the guidance of the sub 2%, during this conversation itself.

I have quoted a number of 1.5%, 1.6% twice over. As long as you are in that range, you will see this numbers going up, down marginally. But you have to operate in that range to deliver the number that we are talking of. As long as you are there, you should not be worried about it.

While right now, the graph to the GNPAs and the SMAs, all of that is sliding down. You could see in the future, some bit of some bps going up, it could further go down from here as well. All I'm trying to mention is that you will have those seasonal plays. You will those few issues here and there. But what is very critical is the larger point that you have to operate in that range, which is deliver quantity along with quality. As long as the framework, if you are able to deliver in that framework, which you came out with under the Vision '25, we should be fine. And that is what, we are focused on.

Rohan: Okay. The second question was, if you could just kind of highlight, which of the states are now dominating your disbursement for the quarter and also the portion of your overall loan book?

Shalabh Saxena: I think in the -- because this was a suggestion in the last call, somebody had I'm forgetting the name, Slide number 19 in the annexure, we have given the state wise split. So we have the -- and it's a good question. I will extend with your permission, the question and I'll give you the answer also. There are two states, 16% is Madhya Pradesh, 15% is Orissa.

And then there are 11% and 10%. By end of FY '25, if all goes well, all the big ones should be anywhere in the range of 10% to 11%, at best 12%. That is our comfort zone. So comfort zone is 12% max contribution from a state. The plan is such, and that is why the focus on the seven states because we don't have great market share. And those are good potential places.

So this year, in those seven states, we will end of the total AUM, we will have about 23% coming from these seven states. End of next year, which is FY '25, that will go about 44%-45%. So that is the overall larger picture. And this solves the concentration problem also, which is the end objective, or which is the objective that we are running at and we will work our way to ensure that is the number that we will be end of FY '25. We have already started seeing the results over the past quarter, three quarters, in fact and this trend will continue.

Rohan: Yes. Thank you.

Moderator: Thank you. We take the next question from the line of Sagar Rungta from Anand Rathi. Please go ahead.

Sagar Rungta: Good evening, Mr. Shalabh and Ashish. Just one question from my side. If you could give a broad colour on the FOIR levels of your new customer acquisition from the focus states and a cap at which Spandana as an organization looks at?

Shalabh Saxena: FOIR levels. Did I hear you right?

Sagar Rungta: Yes.

Shalabh Saxena: So look, we work within the norms and whatever is allowable is what we will do because that you can't really fight the -- there's no point. There is a clearly defined sensible and the right approach, which has been prescribed, and we will follow that. That's number one. What is in our control are the levels of lending. And hence, we track the indebtedness level at a borrower and not the ticket size because in our view, booking a ticket size does not give the full picture. The indebtedness level at a customer has to be looked at, and that is what we track.

And over a period of time, over the ticket sizes also as more and more we keep on and I think in the beginning of the commentary, I have said that the seven states that we have started our business, we operate on a lower ticket size. In fact, 80,000 on a cycle four customer is the max that we give in Spandana, which will probably be one of the -- it is a lower number than the industry.

The industry has already hit 1,00,000, 1,25,000 all kinds of numbers are floating around. We are not ticket size players. We are not a higher ticket size player. You might lose out the customer. So be it. Our experience is that a good relationship and a transparent conduct drives the relationship, not a ticket size for that matter. And that is what, we'll keep on pursuing.

So the larger question is, what is the compromise you are doing, when you operate in this segment? We focus on the JLG. In fact, as I said the last time, we've been making this point. All the new branches that we are opening anywhere now, are weekly models. So that is our belief in the system and the JLG is something that we strongly believe in. So we will continue to pursue this. Ticket size is something that, never gets us excited. And for whatever reason, we kind of tend to shy away from that.

Sagar Rungta: Yes, sir, my question was more in terms of a broad idea on the FOIR levels of the customers?

Shalabh Saxena: So we can, I don't have the data handy, but it's a very black-and-white. If you're in stock, what are you allowed? You are allowed INR1,50,000 at a household level of the installment. That's the max. This is a practice that I have heard that people have started increasing the tenure of the loans to kind of fit into this. Once again, not a great fan of this idea.

This is an unsecured lending, unsecured lending 24 months is the max that one should look at. And at this point in time, we will hold on to this these. The FOIR level, so if they qualify, we get you the numbers if you want. What you want to know is, how much is the headway within that customer's household. correct? That's the question in a different way, right?

Sagar Rungta: Yes, sir.

Shalabh Saxena: Yes. So we don't have the numbers right now. We'll find it out.

Sagar Rungta: No worry, sir. I'll take off-line, sir. Thank you, sir.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we take the last question. This was the last question. I would now like to hand the conference back to the management for their closing remarks. Over to you all.

Shalabh Saxena: Yes. So thank you for attending this call. I thank every single person, who has at different points in time have engaged with us, and they have given their advice to us in terms of various elements, something related to business, something which is outside of business and so on and so forth.

Please continue supporting us. And we, from our side, have a very clearly, defined way forward until FY '25. And vision 2025 is what is driving us and we'll continue to tread our path. Quantity with quality is what we will focus on, and that is what we are working on. So thank you very much. Thank you.

Moderator: Thank you. On behalf of Spandana Sphoorty Financial Limited That concludes this conference. Thank you for joining us. You may now disconnect your lines.

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