"Suryoday Small Finance Bank Limited
Q2 & H1 FY25 Earnings Conference Call"
October 25, 2024

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MANAGEMENT: **MR. BASKAR BABU RAMACHANDRAN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
MR. HEMANT SHAH – EXECUTIVE DIRECTOR
MR. KANISHKA CHAUDHARY – CHIEF FINANCIAL OFFICER
MR. HIMADRI DAS – HEAD -INVESTOR RELATIONS, HEAD
MR. SASIDHAR VAVILALA – EVP ANALYTIC

MODERATOR: **MR. SHAILESH KANANI – CENTRUM BROKING LIMITED**

Suryoday Small Finance Bank Limited
Q2 & H1 FY25 Earnings Conference Call
October 25th, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Suryoday Small Finance Bank Q2 & H1 FY25 Earnings Conference Call hosted by Centrum Broking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star than zero on your touch-tone phone.

I now hand the conference over to Mr. Shailesh Kanani from Centrum Broking Limited. Thank you, and over to you, sir.

Shailesh Kanani: Thank you, Tanmaya. Hello. Good afternoon, everyone. Welcome to Suryoday's Small Financial Bank Q2 & H1 FY25 Earnings Call. On behalf of Centrum Broking, I would like to thank the management of Suryoday giving us this opportunity to host this call. Today, we have with us the entire top management team of Suryoday SFB, represented by Mr. Baskar Babu Ramachandran, MD and CEO; Mr. Hemant Shah, Executive Director; Mr. Kanishka Chaudhary, CFO; and Mr. Himadri Das, IR Head.

I will now hand over the call to Mr. Baskar Babu for his opening remarks, and then we will open the floor for Q&A. Over to you, sir.

Baskar Babu: Thank you, Shailesh. Good afternoon, everyone, and thank you for joining us for Suryoday Small Finance Bank Limited Q2 & H1 FY25 earnings conference call. We appreciate your time in joining the call. I, along with our team, extend our wishes for the coming festive season. I hope you had a chance to review our financial results and investor presentation, both of which are available on our website and on the stock exchanges.

Let me now provide an overview of Suryoday's performance for Q2 & H1 FY25. I will now take you through the half year numbers. Our Gross Advances stood at INR 9,360 Cr, which is a YoY increase of 35.2% as compared to the INR 6,921 Cr. The disbursements were at INR 3,421 Cr, up 22.7% from INR 2,787 Cr.

Disbursements remained strong across all segments, particularly in Vikas Loans, Wheels and Mortgages. Notably, Vikas Loan disbursements reached INR 942 Cr, an increase of 19.6% from INR 787 Cr YoY basis. Our deposit base has also expanded standing at INR 8,851 Cr which is 38.6% increase from INR 6,387 Cr YoY basis.

The share of retail deposits now stands at 80.2% as of September 2024 compared to 77.6% a year earlier. Also, our CASA ratio has improved to 17.9%, up from 15.7% in September 2024 YoY basis. Collection efficiency for H1 FY25 stood at 93.9% as against 96% in H1 FY24, primarily due to overall market scenario in the micro finance segment. Our Gross NPA remained stable at 2.9% as of September 2024 compared to September 2023. The net NPA has improved to 0.8%, down from 1.4% a year earlier. Of the total GNPAs of INR 273 Cr as at September 2024, GNPAs covered under the credit guarantee scheme CGFMU is approximately INR 190 Cr, and the amount claimable would be approximately INR 140 Cr.

Now let's move on to our financial performance. Our total income increased by 29.6% YoY, rising from INR 548.5 Cr to INR 710.8 Cr. Our net interest income, or NII, increased by 33.1%, moving from INR 445.8 Cr to INR 593.2 Cr YoY period. The pre-provision operating profit increased 28.3% from INR 211.4 Cr to INR 271.2 Cr YoY. As of September 2024, our cost of funds stood at 7.6%, up from 7.2% in September 2023. The cost-to-income ratio for H1 FY25, was 61.8%, slightly higher than 61.5% for the corresponding period last year.

Profit after tax increased by 17.9% year-on-year from INR 97.9 Cr to INR 115.5 Cr. We continue to maintain a healthy capital position of CRAR at 24.9%, well above the regulatory requirement of 15%.

Our customer base has grown to around 3.24 million as of September 2024 compared to around 2.51 million in September 2023, a 29% increase. Vikas Loan portfolio saw steady growth, supported by strong traction in the Wheels and Mortgage segments. On the deposit mobilization side, industries facing competition and to tackle this challenge, we have been constantly upgrading and innovating our product portfolio.

Overall, the micro finance industry is passing through a challenging phase of asset quality deterioration, but we, through our prudent rating and robust risk management practices endeavor to maintain healthy asset quality. The bank continues to cover its eligible unsecured portfolio under the CGFMU scheme to mitigate risk. We as an institution believe in digital innovation to cater to the changing needs of our customers.

Our Inclusive Finance loan disbursement process is completely digital and paperless. On the deposit front, we have invested in digital banking infrastructure, which helps us source digital deposits through various platforms.

In parallel, we continue to focus on widening our reach by adding new branches each year across the country. During the quarter, we opened our very first retail banking branch in Jaipur, which signifies the commitment to expand the footprint in Northern India.

We also have opened Smart Banking Outlets in certain micro markets. These SBOs are customer touch points, which offer all banking services but have a focused target segment within 2-kilometers radius.

We remain committed to deliver better performance across all business performance parameters. I now hand it over back to the moderator and Shailesh to begin the question-answer session. Thank you.

Moderator: Thank you very much. The first question is from the line of Deepak Agrawal from Param Capital.

Deepak Agrawal: Sir, my first question was on the MFI portfolio. So as I understand, a very large part of that is insured under the CGFMU scheme. Now how much of the provisions which we have accounted for this year, or at least in the first half would be eligible under the insurance claim, which, as I understand, will be done in FY26?

Kanishka Chaudhary: As we have indicated in our investor presentation as well, about ~INR 190 Cr of our NPAs from the MFI book covered under the CGFMU program. And the likely claim that will be settled, hopefully, all things going fine will be in the range of around INR 135 Cr to INR 140 Cr.

Deepak Agrawal: And this money, you'll get in FY26, right?

Kanishka Chaudhary: Yes. So we would make a claim typically in Q1 or Q2 of next year, and that's when we will get the money.

Deepak Agrawal: Okay. And so how does it work? So essentially, you will have to provide, assuming a little more in Q3 as well, right? Typically, it should peak out in Q3. So you'll have to first provide then end of the year, you'll claim. So this number will also move ahead, right? That INR 190 Cr, INR 135 Cr.

Kanishka Chaudhary: Yes. So if we talk of credit cost, you will see that our cumulative credit cost in first half of the year is around INR 120 Cr. We expect the number in second half to be in the range of INR 100 Cr, INR 110 Cr. That will be the total cumulative cost -- credit cost that we'll have in the year, that will translate to about a 2% credit cost on the balance sheet. And out of that, somewhere in the range of INR 135 Cr to INR 140 Cr will be eligible for a claim settlement for us in H1 of next year.

Baskar Babu: So Deepak, in summary, while we continue to account it as GNPA and make provisioning of 50% once a year of any account in IF portfolio becomes NPA. The recovery of that will happen, which is covered in the CGFMU in Q1 or Q2 as we claim in the next year. We choose to claim either in Q1 or Q2. But however, the claimable portion is not accounted for our current GNPA and NNPA calculation, we make the provisioning as if they are not covered under CGFMU.

Deepak Agrawal: Got it. And so now next year, even today, the incremental portfolio what we continue to originate, we are taking this insurance cover?

Kanishka Chaudhary: Yes. 100% of the incremental portfolio gets covered under the program as of today.

Baskar Babu: Currently, over the gross outstanding, 98% of the portfolio gets covered in the CGFMU. Just to give the gross slippages in this portfolio in IF, which is covered in the CGFMU is approximately INR 120 Cr. The entire thing is covered, which means 70% of INR 120 Cr, approximately INR 80 Cr which -- for which we have provided around INR 70 Cr this quarter is kind of a claimable in Q1.

Deepak Agrawal: And whenever the claim comes, it will get reported as part of other income, right? Or you will knock it off from the credit cost?

Kanishka Chaudhary: No, we knock it off from the credit cost. Like for Q1 this year, we got a claim of INR 32 Cr in Q1 it came as a credit to the credit cost line, and then we made additional provisions as well.

Deepak Agrawal: And sir, considering now the stress visible in the MFI, I would assume a lot more of your competitors would be looking to secure their portfolios under the scheme. So is it that the insurance premium for you and for the system goes up in terms of -- because suddenly now, there will be a lot more people looking to get covered under the scheme.

Baskar Babu: The premiums are fairly fixed based on the claim ratio for the first 3 years. However, we will not be able to comment in terms of the coverage that were taken up by our peers. But the fact is that the very purpose for which it has been introduced is for covering the segment, the lower income group segment, entrepreneur segment to come into the formal credit fold. So to the extent it is, in our view, it is fully and well funded and the premium we would have paid, including for this year's projected would be around close to INR 125 Cr. And similar, I think as you would know, there is the first year when you cover, it's called the base year and the second year is a crystallization year. You can make a claim only after 1 year after the portfolio is crystallized. So there is a timing.

So assuming that if an institution starts today, they claim technically happened at earlier saying 12 to 18 months.

Deepak Agrawal: And in terms of growth, do you see any reason that we should cut the growth to like 20%, 25% rather than the 30%, 35%, what you're doing right now, considering MFI has been under stress. I understand the secured books should continue to grow fine, just that because of the MFI, you could see some cut in the growth as well.

Baskar Babu: The near projected growth was around closer to 20% in IF. Let's assume for a moment that we scale that down to closer to around 15%. At the lower end of 30%, closer to probably 28%, 29%, we will not certainly for ensuring that we meet the guidance, we're not going to be accelerating as we bid. But however, if you look at the collection of the month of September, for every month sequentially, I think even for the industry, every month was slightly worse than the previous one starting from April. There has been a stability of at least maintaining what it was in August and September, a marginal increase what remained the same almost for the sector, certainly for us. For instance, in JLG, 97.8% was our collection in August 2024 in the current bucket it remains same at 97.7% in September.

In October, as we speak on 25^{th}, we see a little improvement, we're probably inching up closer to around 98%, 98.5%, and we are endeavoring to closer to 91% -99%. Same with VL remained flat in terms of current bucket collection efficiency at 97.3% in August and similar number in September. So the VL will go back to the July numbers, which will be around close to 98.4% and June number will be 98.5%. We are seeing the deterioration, whatever has happened at this point in time, it looks like it is over. But however, whatever has already flown into the various buckets, we'll have to ensure that those buckets don't slip over into the 90-plus under the NPA bucket. We have to cut, across the board, there will be substantial improvement on us, we will close it to 98.5% to 99% is what we endeavor in October. If we're able to maintain that for the quarter, the future slippages in Q4 will taper off. The peaking will happen in Q2 and Q3 probably will continue at the same momentum.

Moderator: The next question is from the line of Pranav Gupta from Aionios Alpha Investment Advisors.

Pranav Gupta: Sir, just a couple of questions around MFI. So you mentioned the collection efficiency in the current bucket being close to 98%. But when we talk about the forward flows. Are we seeing incremental recoveries come down compared to what it was, say, probably 6, 9 months ago? Or has that trend also continued to be similar to what it was earlier?

Baskar Babu: In the 1 to 30 bucket collection, there has been a reiteration for the reason that the spillover from the current bucket used to be less than 0.4%, 0.5%, which when it moves to 1.5% to 2%, 2.5% actually speaking in September, that will be steps in terms of the higher bucket collections. So to the extent that has been a drop in percentage. As it tapers down, we would believe that the collection efficiency in the 1 to 30 bucket, which used to be hovering on close to 70% should at least go back to at least 60% in if not in October, at least in November.

Pranav Gupta: And when we talk about the stress that the industry is facing currently, clearly, at least as of now it seems that it's mainly an overleveraging problem where a lot of lenders have come in and become the fourth, fifth, sixth lender. And post which MFin came out of the guardrails in April. How has the response on the ground been from most lenders? Have we seen people ease off in terms of lending? Is it getting followed in the incremental book?

Sasidhar Vavilala: So first and foremost thing, if you look at the pin code level, right, across the industry, 95% of the pin codes got more than 20 lenders. So even though at an industry level, only 4% to 5% of the loan book is more than 4 loans. There are enough and more lenders in a particular market. That's a fundamental understanding. Even if you take industry-level data, at pin code level, nearly 75% of the pin code got more than 40 lenders. So the customer got a lot of choice to exercise though they are not necessarily overleveraging. So there is an understanding that there is overleverage. Overleverage is not necessarily so high in terms of number of loans. The challenge is more in terms of the options available to the customer. So the larger guidelines are more in terms of not lending it to leverage customers in the market or the PAR customers in the market. So as the industry tightens this, as the supply to the customer starts coming down, we should be able to see a different lift in the market.

Baskar Babu: To your question, for now I think across the industries, there is a clear understanding that the guardrails are really kind of for ensuring and protecting all the players and specifically the customers to the extent voluntarily there has been an implementation as we see across the board. We are not seeing any deviations because clearly, highly leveraged customers, the slippages are 3 to 4x of the slippages in the customer segment, which has borrowed from no more than 1 or 2 or maximum 3.

Pranav Gupta: Right. So the reason I'm asking this question is because in earlier cycles typically or at least this is the sense that we get on the ground earlier, customers understood the fact that eventually, if they do not repay, they're not going to get more credit. But in this cycle, this time around, because of the factors that you mentioned earlier, a lot of customers have had that confidence, even if we don't pay back, there are other lenders who are willing to give us money. And that is probably the base of where these MFin guardrails are coming in. That's the only reason I was asking the question to understand it a bit better. But anyway, just to move to the next and my last question. Some of the lenders have also spoken about some pockets of stress coming in on the small ticket mortgage. And this is mainly their assessment is the fact that mainly inflation has eaten into incomes of people and that has effectively made the foyer for those borrowers higher. Are we also seeing these sort of trends play out for our customer set?

Baskar Babu: Our portfolio is too small at this point of time or just about around INR 300 Cr for overall INR 9,000 Cr portfolio. So to that extent, it may not really be reflecting the trends in the market. Currently, we are at around 0.5 GNPA. There is certainly a marginal uptick from what would have been earlier 0.25 has gone to 0.5, while the 0.5 is still very much under control. To the question that, yes, it is reflecting in the margin increase, but our portfolio being at just INR 300 Cr may not be really reflective of what's really happening or being felt in the market segment as a whole.

Moderator: Our next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: So just first off, I wanted to understand, you mentioned earlier, I think -- the credit cost, we are expecting around INR 110 Cr in the second half and INR 120 Cr we reported in the first half. So overall, for the entire year, we're expecting about INR 230 Cr kind of a credit gross, right?

Kanishka Chaudhary: Yes. Yes.

Deepak Poddar: And that's about 2% credit cost. So does that include any kind of benefit from credit guarantee schemes or it is as on a reported basis that you're expecting?

Baskar Babu: As is reported if we adjusted for INR 140 Cr, which we stated, so INR 210 Cr minus INR 140 Cr would be around INR 80 Cr, which is approximately 0.8%, 0.9% of our loan book. We started taking decision to recover from the year FY23 and cover continued in FY24 and doing it in FY25. And intent, as even stated earlier, was not to do any, say pick the portfolio but to cover the entire portfolio. Considering the cyclicality that we could face.

So when we took probably the expected credit losses are not more than probably 100 basis points and the premium was around close to 150 basis points. We still chose to consider it as an investment rather than an expense item. And the benefits of which is usually seen during challenging times like what we have been going through in the last 6 months.

Deepak Poddar: But since you started taking the benefit from FY23 onwards. So the loan loss that would have happened in that year, are you getting any kind of benefit in this year from credit guarantee schemes?

Kanishka Chaudhary: Yes, we did. So in Q1, we got a claim of INR 32 Cr and we basically utilize that amount to further enhance our provisioning and floating provision. So that's been our strategy this year. Next year, the number is going to be significantly higher. So we will have to decide at that time how much of that money we keep aside for the provisioning.

Deepak Poddar: Okay. So for this entire year, what sort of claim we are expecting, like which was INR 32 Cr in first quarter?

Kanishka Chaudhary: So as of today, we expect a claim of around ~INR 150 Cr.

Deepak Poddar: FY25, INR 150 Cr, claim, right?

Kanishka Chaudhary: Yes.

Deepak Poddar: So when we are seeing credit cost of INR 230 Cr for entire year, here this INR 150 Cr of claim is adjusted right, I mean, ideally.

Baskar Babu: We are not adjusting and accounting now as in we get next year on a cash basis, we'll use it for provisioning as K.C. was mentioning.

Deepak Poddar: Okay No. So I'm really confused here. So we are getting this INR 150 Cr claim for FY25, right?

Kanishka Chaudhary: Yes. So the INR 230 Cr of credit cost projection for the entire year does not take into account a likely credit claim of INR 140 Cr that we'll get next year.

Deepak Poddar: That will get next year. What sort of ROAs we are expecting for this year, FY25? I think our guided range was 2.2% to 2.3%.

Kanishka Chaudhary: Shared above 2% is what we are targeting for now on a full year basis.

Baskar Babu: This is without adjusting for the claims that we kind of will be getting in Q1 with adjust for that it will be closer to around 2.7%, 2.8%. But net of that, it will be closer to 2%. 1.9% to 2% is what without accounting for the benefits of credit guarantee, though the fee which we paid, the insurance fee, which we pay is adjusted for the year in which we make a payment, which is in FY25.

Deepak Poddar: Okay. So without any kind of accounting for this scheme benefit we are expecting 1.9% to 2%, right?

Kanishka Chaudhary: Correct. Yes.

Deepak Poddar: And why our other income was lower this quarter at INR 48 Cr. I mean, I think last 2 quarters, we were in the range of INR 65 Cr, INR 70 Cr, right?

Kanishka Chaudhary: Correct. So one reason is that typically, the PSLC income is higher in Q1. We had INR 26 Cr of income from PSLC in Q1 and as against only INR 6 Cr this time. The second is the disbursements have been a little bit muted as well, especially in the MFI. So the processing fees have come down a little bit.

Deepak Poddar: Okay. Understood. And how do we see that going forward?

Kanishka Chaudhary: No. So the disbursements will clearly pick up in Q3 and Q4, but we do not anticipate any significant income from sale of PSLC certificates in the second half of the year.

Deepak Poddar: Second half, so no major PSLC income then. And ideally, your other income will be in this range only?

Baskar Babu: Yes. It will be higher to an extent of increased disbursements, which usually Q3 is usually better than Q2 and Q4 is substantially better than Q2.

Deepak Poddar: And what is our secured book share right now? And what is our view on that?

Kanishka Chaudhary: Yes. So currently, the mix is 56% unsecured and 44% secured. Our idea is that we, in the first instance, reach a stage of 55%, 45% and medium to long term, we would ideally like to maintain a 50-50 mix between the secured and unsecured book and continuing with the strategy of covering the unsecured book under the CGFMU scheme.

Deepak Poddar: And this 50% secured book target is for next 2 years?

Kanishka Chaudhary: Yes, somewhere around 18 months from now.

Deepak Poddar: Just my final query is in MFI segment, largely which state we are seeing problem?

Baskar Babu: For this time, the status seen across including in states like Karnataka, there has been an increase. So we are not present in some of the states where the stress is a little more acute. So across the board, we are seeing either in Tamil Nadu or in Orissa. We have not seen any substantial spike except in the state where we operate, which is Gujarat. There is a substantial increase compared to what it was in the past. But other than that, the rest of the states, there are nothing which are acutely impacted, and we are not present in some of the high impact, the heavy-impacted states at this point of time, which is in the north of India.

Kanishka Chaudhary: And Kerala.

Baskar Babu: And Kerala.

Deepak Poddar: So across, we are seeing the stress, right, in one word?

Baskar Babu: Yes -- uniform, I would say. I would rather than saying that no stress across, whatever is the impact that we are seeing on the credit costs have increased in slippages is uniform across compared to the portfolio in each of the states.

Deepak Poddar: I mean, as mentioned in the presentation, we are maintaining 30%, 35% growth guidance for this year, right, in terms of advances?

Baskar Babu: Towards the lower end?

Deepak Poddar: Towards the lower end, yes.

Baskar Babu: It was 28%, 29%. Even if we continue and disbursement we should do without even much accelerating, we're likely to end up on the 25%, 26% range. And usually, Q4 disbursement will be higher. But however, if the new environment continues to be challenging in an inclusive finance, we will rather taper that towards the Q4. But as we see Q3, the disbursement are likely to be higher, marginally at least over Q2 as well as improve the financial is concerned.

The rest of the products like Wheels and Mortgages, continue to kind of have a decent traction. And on wheels as you would see that our GNPA still is in around 0.6. And this was around INR70 crores. Our intent is to open up a few more geographies where we're already operational, but not operational for commercial vehicle, so wanting to kind of have a run rate of close to INR 100 Cr towards the end of March from current INR 70 Cr, marginally going up by INR 5 Cr to INR 6 Cr every month.

Moderator: Our next question is from the line of Deepak from KnoWel. Since there is no response, we will go ahead with the next question, which is from the line of Swaroop from Retail. Please go ahead.

Swaroop: Sir, with respect to CGFMU claim, like earlier, you had mentioned that it will be calculated based on the write-off figure, which we make. So considering from Q1 FY24 till Q2 FY25, we have made around INR 250 Cr write-off. So even if we consider like a lot 75% weight to unsecured book out of that INR 250 Cr. So INR 250 Cr x 75% x 72.75% will be around INR 190 Cr. Is that the right way to calculate, sir?

Kanishka Chaudhary: Yes, that is the right way, but you would remember that we have already made claims up to December 2023 in the month of June. And we got a claim of INR 32 Cr out of that. So our next claim will be for the period from January 2024.

Swaroop: January 2024. Understood, sir. Sir, my next question is with respect to ECLGS. Any update on ECLGS. Like earlier, you had your guidance of 2.5% GNPA, which you are giving is it because of the ECLGS refund that it is boosting your confidence to give that guidance?

Kanishka Chaudhary: Yes. So now we are left with a very small ECLGS book. So in our NPS today, it comprises INR 30 Cr of ECLGS covered portfolio. And we continue to make collections on that. Our provisions in that today is about INR 15 Cr of the INR 30 Cr.

Swaroop: So we have received around, like earlier you had told that around INR 45 Cr was there, INR 9 Cr you have received and out of INR 36 Cr, around INR 15 Cr we have received till now.

Kanishka Chaudhary: Yes, that's the combination of the monies received by us and what we have also provided.

Swaroop: Then why is our other income still so much lower, sir?

Kanishka Chaudhary: Are you referring to other income or credit costs?

Swaroop: Other income, sir.

Kanishka Chaudhary: You're referring to PSLCs, right? So that's got nothing to do with the ECLGS pool. In the Q1, our PSLC income was INR 26 Cr. And in Q2, typically as the market softens, we have made INR 6 Cr of income from PSLC.

Swaroop: So sir, can we expect that a pre-provisioning level to touch around INR 600 Cr this year, sir? And along with that, the provisioning figure, which you are telling the credit cost figure that INR 230 Cr to INR 240 Cr. Will it be a direct P&L item INR 240 Cr, which you are telling for this current year after deducting that ECLG -- CGFMU claim of INR 32 Cr, sir?

Kanishka Chaudhary: So on a full year basis, we will expect our Pre-POP to be in the range of around INR 570 Cr, INR 580 Cr, right? And we are talking about our projected credit cost of around INR 210- 220 Cr. So that would mean on a PBT basis, we are talking of an INR 300 Cr number and INR 225 Cr of PAT.

Swaroop: Sir, like earlier Baskar, sir was telling that the CGFMU premium would always be higher than the claim what we made. But as far as the situation are going, sir, we are seeing more and more write-offs going on. So I think it would be more of a beneficial thing than what we estimated, right?

Baskar Babu: When we started the scheme, we did not really kind of link it directly to the claims should be higher than the premium paid. It's an investment for insuring normalcy of the Inclusive Finance portfolio for a period of time. It is from a normalizing perspective not to really have any hiccups in terms of spikes. In respective whether our credit costs will be at around 0.5%, 0.6%, which were lower than the premium or the claims we had in the premium, that would be incidental based on the market. But our calculation was to create this make sure this unsecured portfolio of 50%, which we're targeting, which currently is around 56%, is not really unsecured, and it is all for business purposes. And given that, we wanted to cover it as a safety net. We started this in the year FY23 when the projected credit losses in this portfolio would have been much lower. So we are in at this point of time working out the economics where we are looking at more like an insurance scheme. We are not taking insurance only because that will have the claims. It is to ensure and protect that the portfolio, which is unsecured, is indeed reasonably secured.

Moderator: Our next question is from the line of Ashlesh Sonje from Kotak Securities.

Ashlesh Sonje: Sir, a couple of questions. Firstly, can you share the proportion of your loan book, proportion of your MFI loan book, which is to borrowers who have more than 4 lender associations?

Baskar Babu: From a principal outstanding point of view, currently, it's around 25% of the book is about 4 plus where we really see a direct linkage in terms of the stress is when it crosses around closer to 7 loans.

Ashlesh Sonje: And this is borrowers who have more than 4 lenders, right? Or does it include 4 as well?

Baskar Babu: 1 plus 4.

Ashlesh Sonje: And just a clarification, the 150 basis points of premium which you mentioned for CGFMU that is on the disbursement amount. Is that right?

Kanishka Chaudhary: Yes. Over a period of 2 years, that's correct.

Ashlesh Sonje: Sorry, what do you mean by 2 years? Can you explain that, please?

Kanishka Chaudhary: Our typical MFI loans have a door-to-door tenure of 2 years. So premium is being payable each year on a rundown basis, it will be around 1.5% of the initial limit that is allotted to the customer.

Moderator: Our next question is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: Sir, just wanted to understand how the collection trends are in October in some of our key states. And which are the states wherein we are seeing the collection still lagging behind versus our average collection efficiency of 98%?

Baskar Babu: The likely increase currently as per the trend as of we see today is a close from 97.5%. It is likely to inch up 97.7% was the JLG collection in September, 97.3% was in VF. Total IF portfolio was 97.5%. We are kind of likely that we'll be inching closer to 98.5% and above probably towards 99%, but 98.5% is what we have visibility as we speak.

Shreepal Doshi: This is visibility for 3Q end or November end?

Baskar Babu: November to November, November trend on the current portfolio.

Shreepal Doshi: And sir, this credit cost number that you highlighted is building in that thought process that we will be 98.5% by November.

Kanishka Chaudhary: Yes, that's correct.

Moderator: Our next question is from the line of Mohan Raj from Trumiens. Please go ahead.

Mohan Raj: I have 1 question from my side. Like to get qualified for universal banking license, so we need to retain the GNPA under 3% for 2 consecutive years, right? So how do you see that like do you see any challenge there?

Baskar Babu: Currently, as we stated that we are kind of focused in terms of given our size, in terms of creating a strong small finance bank. So we aren't really kind of working out in terms of wanting to apply even for a universal bank in the next 1, 1.5 years. So we are still very close to 3 and 1 and which will continue to be, but it is with respect to the fact that becomes eligibility factor for applying for universal banking license. At the end of the last financial year, we are under that, and we kind of based our guidance and their own projections, we'll be less than 3 and 1 at the end of this financial year as well. So technically, while we may qualify where the intent is not to really be a hurry to apply at this point of time.

Moderator: Our next question is from the line of Vatsal Parag Shah from Knightstone Capital.

Vatsal Shah: Just one question. What will be our PAR 0 to 30 book?

Baskar Babu: PAR 0 to 30 book in percentage.

Kanishka Chaudhary: PAR 1 to 30 book, 2.8%, less than 3%.

Baskar Babu: 2.8%.

Moderator: Our next question is from the line of Kushal Borlikar from HDFC Bank Limited.

Kushal Borlikar: My question has been covered.

Moderator: Our next question is from the line of Shailesh Kanani from Centrum Broking Limited.

Shailesh Kanani: Sir, I just wanted to understand, when you said in our book, around 25% of our borrowers have more than 4-plus lenders and in terms of AUM exposure, how much that would be? Also what makes us confident of growing this year if those -- the number of lenders is this high. So wouldn't that fall off guardrails and we would not be able to refinance if they come for refinance.

Baskar Babu: Let Sasi answer the percentage, so I think approximately 20%. What is the percentage of portfolio of 5 plus.

Sasidhar Vavilala: At the time of lending? The current layer it's about 1/6 of the portfolio. Lenders will be lower, loan is 1/5th, lenders will be less than 20 percentage. Lenders wise. There are lenders who are giving multiple loans in the market.

Baskar Babu: From a point of view of growth for H2, the more focus will be on 2.5 lakh curated customers, which fit into the guardrail and over and above that in terms of score card, which will be the Vikas Loan customer graduating, both from JLG as well as from within the Vikas Loan.

Shailesh Kanani: So technically, using the individual lending book, which is not tagged as MFI book technically, right? Because they are households who have used up more than 3 lakh, 3.5 lakh, 4 lakhs?

Kanishka Chaudhary: Yes, that's right. We will be basically focusing on growing the individual loan book. The growth in the MFI joint lending group book will be very, very moderate.

Sasidhar Vavilala: Vikas Loan is already higher from our JLG book. And we consider not just the micro finance book but also the retail book of applicant, co-applicant, and we build our propensity based scorecards. And we project whether the customer is likely to be high risk, medium risk, low risk, and we filter out, we reject 17% of the customers who are on zero DPD across all loans. So that's otherwise in a standard BRE, they will go through as an approved customer, but we reject them, though they are clean on all loan tracks. So this is our scorecard.

Shailesh Kanani: So just to get that number right, is it 20% of the book or 25% in terms of 4 plus lender

Kanishka Chaudhary: In terms of the cost, it is around 25%, 26% of the cost is on 1 plus 5.

Shailesh Kanani: One more question from my side. Sir, in that case, what would be a normalized profit ROA, ROE credit cost, adjusting for CGFMU claim. Suppose we take around 6 quarters horizon from now or 4 quarters when we have done with first half FY25 when the claim has kicked in.

Kanishka Chaudhary: So I think for this particular year, on a full year basis, we would be targeting about 2% of ROA and ROE in the range of 14% to 16%. That would be our guidance for the financial year.

Moderator: So now as that was the last question, I now hand the conference over to the management for closing comments.

Baskar Babu: Thank you. Thank you for taking time. We wish to come back strongly on our performance in H2 driven by the retail asset disbursements. And in terms of our Inclusive Finance, we'll continue to focus in terms of Vikas Loan on graduated customer. So then the guardrails of MFin as well as in terms of our own credit parameters, and the endeavor that we will kind of reach at least the lower end of the guidance in some of the profitable parameters. Thank you for your support. Thank you very much.

Moderator: Thank you so much, sir. On behalf of Centrum Broking Limited, that concludes the conference call. Thank you for joining us, and you may now disconnect your lines.