



“Satin Creditcare Network Limited Q1 FY21 Earning
Conference Call”

September 3, 2020



**MANAGEMENT: MR. HP SINGH – CHAIRMAN & MANAGING DIRECTOR,
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Moderator: Ladies and gentlemen, good day and welcome to the Satin Creditcare Network Limited Q1 FY21 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I would now like to hand the conference over to Mr. HP Singh -- Chairman and Managing Director of Satin Creditcare Network Limited to give his opening remarks. Thank you. And over to you, sir.

HP Singh: Thank you. Good morning everyone. I warmly welcome you all to the Satin Creditcare Network Limited Earnings Conference Call to discuss the Operating and Financial Performance for the Quarter-ended June 30, 2020. I hope you are all doing well and staying safe during these testing times.

To start with during the quarter, the Board of Directors of the company considered and approved the fundraising by way of the Rights Issue of 1,99,82,667 equity shares of the company to eligible equity shareholders of the company in the ratio of 48:125. The issue was priced at Rs.60 per share with Rs.15 per share to be paid at the time of application. It gives me great pleasure to share that our issue was oversubscribed, and the proceeds will be used by the company to strengthen its capital base and is the confidence capital to all the shareholders.

Now coming to the "Microfinance Industry", the industry has witnessed healthy growth over the years, notwithstanding issues like liquidity crunch, heavy floods in some states, nationwide protest, Assam crisis and now the pandemic. The quarter gone by has been challenging for all microfinance players and we being part of this ecosystem also witnessed challenges.

Across the industry, disbursement and collection activities were majorly at a halt for the most part of the quarter due to nationwide lockdowns until May 2020. When things started to stabilize with staggered lifting up of lockdown restrictions. Despite these challenges, we have managed to grow our AUM by 14% to Rs.8, 119 crores year-on-year.

We acknowledge these unprecedented situations. But despite these testing times, we have kept our fundamental strong and our focus on setting up right systems and processes. We have adopted this new normal and have undertaken several new initiatives to adopt newer technologies and digital solutions in all our functions for more efficient and effective working environment, which in turn will help us provide higher customer satisfaction.



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One such initiative is the launch of our New “Customer Service App” which will help us increase digital and financial awareness among customers and help them connect with brand Satin while enabling cashless collection.

We have also launched a new product called “Pragati Loan” where the main purpose is to rebuild borrower’s income generation activities impacted majorly due to COVID-19.

We are continuously engaging with our customers, employees and field staff and now with lockdown restrictions being lifted in major parts of the country, and economic activities progressing towards normalcy. We are getting progressive responses both on collection and disbursement activities with each passing day.

As we are aware that conducting center meeting for collection activity was majorly at halt due to lockdown restrictions in major towns and cities of the country, customers were encouraged to pay their installments through various digital apps like Google Pay, PhonePe and PayTM. Also, our staffs are in touch with our borrowers and we are undertaking tele-collection activity by CSS in COVID-19 containment zones.

In addition to this, we are nearing to add Satin on Bharat Bill Payment System which is a one-stop solution by NPCI for recurring payments and also under process of taking customer activation for regular collections via NACH and eNACH through bank accounts.

We expect coming quarters to be much better and robust both on financial and operational aspects.

On the asset quality front too, we have showcased improving trajectory and have delivered a quarter-on-quarter improvement of 90 basis points on our on-book GNPA which stood at 2.4% as of June 2020. We had a year-on-year improvement by 150 basis points with on book NNPA at (-0.8%). Going forward, we continue to remain focused on achieving steady growth without hampering our portfolio quality. PCR for the quarter was 130% against 60% in Q1 FY’20.

Let me go through the Financial and Operational Highlights of our Company.” Our AUM has been a growth of 14% which stands at Rs. 8,119 crores as compared to Rs. 7,139 crores a year ago. Assigned portfolio is Rs.2, 009 crores and BC book with IndusInd Bank is at Rs.519 crores. As of June ’20, we have a customer base of 33.20 lakh customers.

Disbursements stood at Rs.54 crores for the quarter. Disbursement growth was severely impacted due to nationwide lockdown during major part of the quarter, which caused halt in operational and financial activities. Also, disbursements were majorly done to existing customers with strong repayment history.



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Net interest income for Q1 FY'21 stood at Rs.150 crores as against Rs.199 crores for Q1 FY20. Our Pre-Provisioning Operating Profit stood at Rs.50 crores and PAT for Q1 FY21 stood at Rs.13 crores. Our cost-to-income ratio stood at 63.34% primarily impacted due to lower income in the quarter due to COVID-19 while our OPEX to GLP ratio stood at 4.7% as against 6.1% in Q1 FY20 on standalone basis.

As of 30 June 2020, our RoA stood at 0.72% whereas RoE stood at 3.52%. Coupled with halt in business operation due to lockdown restrictions, our operating costs have gone up, which have impacted our return ratios; however, going ahead we expect our cost to normalize and reap significant benefits to improve our profitability and return metrics. With each passing month we have been seeing an improvement trajectory in our collection efficiency, as majority of our borrowers are engaged in essential services, thus recoveries from them are expected to be much faster. The collection efficiency trends are April 3%, May 17%, June 62%, July 85% and August 85%. Our GNPA at an AUM level stood at 2.4% while we have made adequate provision of 2.2% to bring our net NPAs to 0.2% from 1.1% as of Q1 FY'20. Our net NPA has seen a reduction of 90 basis points on year-to-year basis, while on a sequential basis has come down by 60 basis points. On-book NPA are at (-0.8%).

An Update on Moratorium.” As of 30th June 2020, 11% of our borrowers have opted for full moratorium, while we have activated 89% of clients and 98% of sectors.

Our well diverse presence across 23-states and UTs have helped us emerge as a strong pan India micro-finance player in the industry. As on 30, June 2020, 96.4% of our districts have less than 1% of portfolio exposure which we aim to bring it down further in the coming times. We continue to be one of the leading microfinance players in terms of customer base, well penetrated, branch network across the states with 76% rural exposure. Our well diversified customer base has helped us to leverage our ideas of cross-sell products and till now we have been able to disburse loan under the product financing category close to Rs. 100 crores.

Portfolio Quality: We have believed in continuing our growth trajectory without compromising on portfolio quality. Our strong internal control coupled with stringent audit processes have helped us monitor our portfolio quality on a regular basis. We have made COVID-related additional provisioning of Rs.90 crores which is 2% of our on-book portfolio.

Our team constantly monitors all our backend support for credit appraisal, quality and customer support along with post disbursement monitoring through our Centralized Shared Services which ensures uniform processes across all our branches.

On liquidity and capitalization, our capital base has been strong with a CRAR of 31.09% and well above the regulatory requirements. We have a healthy tier-1 capital comprising of 23.67%. Our ratings are CARE A-(stable) and ICRA A-(stable) for long term, CARE A1 and ICRA A1



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for short-term credit. Liquidity has never been a barrier for us as the company has access to a diversified lender base with 61 active lenders. Leverage now is 3.6x.

We continue to maintain a healthy balance sheet liquidity with Rs. 1,652 crores of surplus funds as on 30th June 2020. In addition to the above liquidity, we have undrawn sanctions of Rs. 1,006 crores, as on 30 June 2020 with additional sanctions in advanced stages. Our structurally positive AUM also adds to our advantage.

The rights issue will add Rs.120 crores to the capital base. We have received Rs.15 per share along with the application, aggregating to Rs.30 crores.

“An Update on our Subsidiaries.” We are looking forward to growing our secured lending portfolio through our subsidiaries, thus diversifying risk while achieving a better product mix to achieve the next leg of growth. Satin Housing Finance Limited has now reached an AUM of Rs.144 crores and having a presence across four states with 1,305 customers. Satin Housing Finance Limited has 100% retail book comprising of 87% affordable housing loans and 13% of LAP. Satin Finserv Limited, our MSME arm has an AUM of Rs.118 crores. Total equity stands at Rs.102.5 crores. SFL business aims to focus on secured retail MSME lending, wholesale lending to small NBFC, MFI and others. SFL too has been brought in-house software now. Our Business Correspondent Services under Taraashna Financial Services has reached an AUM of Rs.677 crores. As of 30th June 2020, the company operates through 208 branches, has more than 3.6 lakh active loan clients.

Thank you so much. With this I would like to open the floor for questions.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press “*” and “1” on their touch tone telephone. If you wish to remove yourself from the question queue, you may press “*” and “2”. Participants are requested to use handsets while asking the question. Ladies and gentlemen we will wait for a moment while the question queue assembles. We take the first question from the line of Agastya Dave from CEO Capital. Please go ahead.

Agastya Dave:

Thank you for the opportunity sir. Sir, am I right in doing the following calculation that if 85% is the collection rate, 11% is the morat, so effectively you are at 96% collection rate if you like ignore the fact that some people in morat actually won't be paying, can I add these two numbers and then say that 4% people who are not in morat are not paying, is that a....?

Jugal Kataria:

No, so, the way we have calculated the number is whatever is our monthly demand for the month of July and August, we have been able to collect 85% of that.



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HP Singh: Let me clarify. Both are two different things. So, when we say 85% of our collection means that month's demand and collection is about 85%, 11% who have taken full moratorium is that they have not even paid a single installment for the moratorium period which is the way we are calculating and which is the way it has been shown that 11% of the customers, since they have not paid any single installment are taking complete moratorium.

Agastya Dave: So that is not even included in the demand for any of these months, right?

Jugal Kataria: It is included in the demand. So demand is for all the customers whether they have paid, not paid. This is the month to date figure, not for a particular week or a day.

Agastya Dave: Thanks for the clarification. If I look at the morat book and if I look at the non-morat book, what would you say would be the upper bound to the gross NPAs that you can expect? I listened to your interview on CNBC and you were saying that you expect to 250 to 300 basis points of credit costs. So can you just tie up everything, if you can bifurcate that into the morat book and non-morat book, what are the trends you are seeing? Another related question, you said that 11% of the people you are defining that as those set of people who have not even paid a single month's worth of repayments, right. So those people who were part of morat but are no longer part of morat, what is the asset quality looking like in that book?

HP Singh: So the way I have defined it as, if we look at the history, when we started the lockdown, and when we started our collection, people who have not paid, started from about 30%, 35%, which is now down to 11% who have not paid a single installment. And this is being cleared off on a day-to-day basis. So technically what we are clearing of is, out of close to about four lakh customers, we have people who are paying out of this about 6,000 to 7,000 customers on a daily basis who are now coming back have started repaying their installments. That is the reason why I said that out of 4 lakh customers which is 11% every day about 6,000 to 7,000 out of these customers started paying their installments. So that is the reason why I said that, out of this 11%, the final tally, which we feel would be close to 2.5-3%.

Agastya Dave: And the non-morat book is behaving very nicely?

HP Singh: Yes.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Sir, could you please throw some light on the state wise collection that we will be having for some of the larger states let us say versus 85% collection efficiency that we have for the entire book?



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HP Singh: So, when you look at 85% for the entire India, for our heavier states which are let us say UP and Bihar and Punjab and MP, UP till our last days of August was clocking close to about 100%-plus in terms of their demand and collection for that month. The lower states which were there which have a very small portfolio of ours was typically Assam and Maharashtra where we have a very small portfolio. But all the bigger states, Bihar and all, they were clocking 90%, 95%-plus from there and UP as I said was clocking 100%-plus.

Shreepal Doshi: Sir, just one doubt, I mean, when you are saying UP was 100-plus, I mean, that is also because the customer would be paying for some of the older EMIs also, that is why it is higher than the demand, right? But if you were to calculate only for that particular month EMI versus that particular month demand, what would that number be for UP, Bihar and Punjab?

HP Singh: That is what I am saying. For that month demand and that month's collection, UP was 100% So, whatever the demand for that month was there, we collected 100% of that. It could be a fall out of the previous installments also, but for that particular month the demand and collection was 100% for UP.

Shreepal Doshi: For Bihar?

HP Singh: Bihar is about 90%-plus.

Shreepal Doshi: In the month of August, right?

HP Singh: August, that is right.

Shreepal Doshi: I wanted to understand like the morat book that we have of 11%, that would be from what sort of geographies if you can throw some light on those states or those geographies?

HP Singh: No granular detail as such, but it is spread all across everywhere. So it is not like one state could be significantly higher than the other, but this is the total what we have got.

Shreepal Doshi: But it would not be from state like UP or Bihar for us because we are seeing collection efficiency?

HP Singh: Everybody will have some representation in it. So it is not like in some state it is less. Thankfully, UP has lesser numbers as compared to that.

Shreepal Doshi: How are we seeing the collection trend or say the overall effort that we need to put in states like Assam or Odisha which were already seeing stress even before COVID happened, so, what sort of your interaction or your, sort of understanding in those geographies?



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HP Singh: Whatever has happened because of the agitation and the floods earlier and the cyclone and everything, after the COVID everything is probably behaving in a much better fashion because a lot of our clients who are in par-90 they have started paying, clients who were there in the buckets of 1 to 90 have started paying. So I would say, it is a very positive sign both for Odisha and Assam looking across post the COVID.

Shreepal Doshi: What is the write off strategy like after how many sort of DPD do we deploy writing off?

Jugal Kataria: So, our policy is that we decide it on a case-to-case basis and wherever we feel that the chances of recovery are not there, we write it off and over a period of time we are taking aggressive stand wherever there is a remotest chance that the customers, etc., not reachable and all. So that is where you will see gross NPA number are consistently coming down especially if you see the slide #35 in our presentation, so our on-book gross NPA has come down from 4.4% in September '19 to about 2.4%. So, we are writing it off wherever we feel that chances of recovery are less. So this is a policy we have adopted and you will see a consistent drop in gross NPA over a period of time.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec Capital. Please go ahead.

Nidhesh Jain: Just one clarification on collection efficiency data of 85%. In the numerator, if we just take the collection for the month and not the overdue collections from the previous month, what would be the number corresponding to 85% that we have disclosed?

Jugal Kataria: That is not the right way of looking at it because technically the collection was almost zero in the month of April and also people will first pay for April, then for May, then for June. So at some point in time, every customer has missed some installment during April, May. So that is not the right way of looking at the number because people will not be able to pay everything in one go for last five, six months. We feel that the right way of looking at it is what is the demand for the month from all the customers whether they are paying, not paying versus what we have collected and this is what we have shown here which is 85%.

Nidhesh Jain: If you can share the data what percentage of customers in the month of August have paid full EMI, what percentage of customers have paid partial EMI, what percentage of customers have not paid anything in the month of August?

Jugal Kataria: So, most of the customers are paying full EMI. So, either we are collecting or not collecting in case that is a question. So, we are not generally collecting partial repayments So, whosoever is paying, paying the full installment.

Nidhesh Jain: And that number will be 85% of the customers have paid full EMI in the month of August?



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Jugal Kataria: So, we have 11% of the customers who have not paid us anything during moratorium period. So broadly there are a very few customers who are paying more than one installment or people are trying to pay whatever is due. So broadly, 85% of the customers have paid is a broad number.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much for the opportunity sir. I wanted to understand more on the credit cost. Now, we have done additional provision of Rs.90 crores and credit costs this quarter has kind of normalized, so any comment on going forward, how do you see your credit cost in coming quarters and FY'22 when it gets normalized, so do you expect a higher credit cost days or some comment on that would be quite helpful?

HP Singh: As I indicated earlier, right now if you really look at the pool of technically the credit costs which we are looking at is somebody who has not paid us in the last six months, technically is what we are looking at the larger pool. But in spite of the fact that we have a larger pool of let us say 11%, out of that we said that 4 lakh customers we are getting installments from about 7,000-odd customers on a daily basis. Our sense is once this pool gets finished off, technically because rest others are paying. So if somebody paid us three or four installments, he is paying the fifth or sixth installment. Our own sense is that the credit cost technically which was mentioned earlier during the day in my interview also, is that this 11% will finally boil down to, this is what our estimate is, it could also possibly go down lesser than that, but we feel that about 2,- 2.5% is where we are looking at maybe credit costs right now, but FY'22 definitely once the normalcy returns and everything goes back to normal which we hope would be, being optimistic about everything, the credit costs will be lower than about 2.5% or so.

Deepak Poddar: Basically pre-COVID I think credit cost were in the level of around 1%, 1.5% kind of that. So do you do intend to go back to that kind of level?

HP Singh: We would definitely but it again is based on the external circumstances how the pandemic is really going to stabilize at what time. So, we are six months, seven months now into the pandemic there but there are no real signs where we can say that it is back to pre-COVID levels. Definitely, the collections are improving, disbursements have started improving, but my own sense is another six to eight months is going to take before we finally settle down and say, okay, fine, we are back to the pre-COVID levels. So that is the reason why I gave you an additional heads up on maybe another 1% higher this thing for FY'22 but it could be at the pre-COVID levels also. It depends how this thing pans out.

Moderator: Thank you. The next question is from the line of Malavika Tandon from SBI Ven Capital. Please go ahead.



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Malavika Tandon: I have two questions for you. The first question is when Satin is going to start increasing the disbursement. And the second question is how is Satin collection efficiency and NPL compared to the industry or other competitors? Thank you.

HP Singh: In the case of disbursements, I think it is increasing on a monthly basis, but I would say that we are not still back to the pre-COVID levels of the disbursement, but we are seeing an uptick, technically if you look at the disbursement in the June quarter it was about Rs.50-odd crores, but we have increased our disbursement three times more than what it was in the June quarter for July and August if you really look at it. And maybe another couple of months before we are fully back to the pre-COVID days of our disbursements. So that is one. In terms of collection efficiency, I probably cannot comment on what my peers would be but I think everybody is probably in the same range give or take a couple of percent up and down, but our sense is that this is where the collection efficiency is for the entire sector basically, it is I think range bound is between 80-90%, this is what my own estimate is for the other players also, I probably would be wrong.

Malavika Tandon: How about NPL?

HP Singh: I think we cannot have a correct NPL figure to be very honest. Again, as I stated earlier, this 11% moratorium book which we have, we will see how it pans out in the next two months from now, September and October, two months when we are really looking at it how does it pan out. Our sense is we will have a fair estimate of a correct NPL maybe in a couple of months but not right now. But on a longer basis plan in FY'21, what we stated earlier, we will be range-bound between 2.5-3% at the maximum NPL level.

Moderator: Thank you. The next question is from the line of Rahul Picha from Multi Act. Please go ahead.

Rahul Picha: Thanks for the opportunity sir. I wanted to understand the disbursement. So, right now, are you giving any additional loans to your existing customers to restart their business?

HP Singh: So what we are offering is Pragati Loan which is only being given to a customer who has repaid all his installments and he needs money to refinance his income-generating activities. It is given to only those customers who have fully repaid their installments. So if he has any installment which is not repaid, we are not extending a loan to them.

Rahul Picha: So basically you mean that customer needs to be current as on date of disbursement?

HP Singh: Absolutely correct.

Rahul Picha: Okay. And what percentage of your customers you would have given these loans to?



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- HP Singh:** I do not have a number but we have done disbursement of Rs.54 crores in June and July, August, I probably cannot give you a number because of being a listed entity but it is three to four times more than what we have given in June. So that is an indication.
- Rahul Picha:** And sir, can you talk a bit about the geographies which are still lagging in terms of collection efficiency trend post Q1?
- HP Singh:** I probably will not be able to give you a fair comment on this because if the earlier geographies were lagging behind in the pre-COVID level, they are probably at the same level where they are. So, if you look at deterioration which you feel that would happen to any geography, that had not happened. So whatever the efficiencies were pre-COVID levels, the efficiencies are in fact the same or in fact maybe slightly better than what it was pre-COVID levels.
- Rahul Picha:** And sir specifically on Assam, is it possible for you to give the collection efficiency?
- HP Singh:** Collection efficiency for Assam would be close to about 65%-plus.
- Rahul Picha:** That is showing improvement?
- HP Singh:** Yes, that is showing improvement. That is what I said earlier, even in DPDs 1 to 90 and 90-plus DPDs people have started repaying now post the lockdowns easing off.
- Rahul Picha:** Any geographies where you are facing any difficulties from local political interference or any disturbance of that sort?
- HP Singh:** That is a natural course of business. I think these happen across everywhere. Nothing which is significant which is impacting our collection. Otherwise, this average would not have come down had there would have been any particular disturbance, but these are normal business hiccups which we always face. Nothing significant which has harm our collection efficiency.
- Moderator:** Thank you. The next question is from the line of Keshav from Praxin Investors. Please go ahead.
- Keshav:** Thank you for taking my question sir. I have sort of like a big picture question. Sir, if I look at the data for past six years, I see that we have made around Rs.470 crores and we have lost about the same. And if I compare that to one of our competitors, CreditAccess, we have lost one-third the amount of money they have made. So sir, what are the structural differences by the way we are running the business and like the way forward how do you see could be structural improvements specifically which could lead to a better return that way so that we do not lose as much money?



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Jugal Kataria:

I think it is not fair to discuss one competitor on a public call while everybody has their own strategy of growth. Some of the key factors I can speak in general, not about a direct comparison to one specific institution. It all depends on the capital structure, geographical spread, growth strategy, so on and so forth. So I think it is not fair to discuss our number with CreditAccess on this forum. We can do a detailed analysis, have separate discussions but broadly we have to see how our numbers have grown over a period of time, we were more impacted in demon as compared to some of our peers or industry in general. But if you see our performance over a period of time post demonetization at some point in time 70% of our portfolio was impacted, we had large exposure in UP, Punjab, Uttarakhand, MP, etc., which were severely impacted and then we have come out of that and the portfolio is growing, we have structurally corrected things, changes in our system, processes, technologies, so on and so forth. And all set to grow. Our gross NPA numbers are coming down, our provision coverage ratios are improving over a period of time. So these are I think you have to see we are going in that direction.

HP Singh:

If I may add just, maybe the big picture the way you said it, I can give you the big picture, the big picture is that in spite of whatever jabbing we have had in terms of demonetization, Assam agitation, pandemic and everything, you look at our numbers, collection efficiency we are probably also amongst the best right now. In terms of our NPA provisioning, we did lose so much of money but we have still been able to bounce back and come back strong. So, that is what the big picture is it that in spite of the fact that we have been hurt the most, for us the come back and the bounce back has been far better and bigger than the rest of the industry. That is the only thing which I can probably give you as a big picture.

Jugal Kataria:

And we are diversifying into housing finance and MSME business whereas on today we are investing, the returns will take some time to come but we feel that it is important to diversify the portfolio, our housing finance has taken good shape now, growing almost taking it quarter-on-quarter basis, it is a long-term business, but we feel that these kind of investments are important and essential from a long-term growth perspective. That also in short-term impacts the return ratios but we see it as important strategy.

Keshav:

But sir, I am not trying to draw any parallel between competitors at first, but I am just trying to understand because sir we are again in a situation that is unprecedented, like we have navigated to demonetization and other crisis, but still this is a very-very tough situation for everyone and if I see I have to sort of understand what is not going our way vis-à-vis the competitors because we lose more money on a rainy day than them and it is concerning specially because of the COVID how it has happened and how it pans out. So sir, how do you see yourself navigating through this crisis?

HP Singh:

So let me give it to you with my experience of 30-years in this industry. We have navigated more crisis than anybody else. That is a reassurance which you probably can have. Maybe you



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should probably look at that, maybe not in a silo but in the company this thing. We navigated at least five times more the crisis which anybody else and our peers would have done it. So when this COVID or this crisis, our only way to tell you is that we are optimist to navigate this crisis again not by losing money but by navigated in far better than, I would not say that I will pitch it against someone else but we will navigate it much better than anticipated by probably a lot of the people.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the follow-up sir. Sir, you have partially answered this question but in terms of trends in NII and in terms of trends in GNPA, so can you just give a broad idea if there are no further disruptions, no nation-wide lockdowns or some six sigma event, how do you see those panning out the NII and the gross NPA? Will we see a dip next quarter and then recovery after that or will we see continuous recovery and also on the gross NPA side when do you see maximum spike happening? And can you also correlate the gross NPA with the net NPA number that you have? So as of now you have more provisions. I think this is the first time I have seen on your balance sheet higher provision than on the gross NPAs. But where do you see the net NPAs peaking at and then subsequently what would be your policy on provisions because when the demon happened you carried the higher gross NPA number for a long time, I grant you there were recoveries, but what is your sense this time, would you like do an upfront provisioning or carry then like this?

Jugal Kataria: So let me first answer on the margin. So we have a 10% margin prescribed by RBI. We are working broadly on the same means our lending rates are not drastically different than industry. So we are not seeing any pressure from that perspective from the market. So, margins will remain intact at broadly 10% level which is permitted. So there we do not see any pressure. On the gross NPA, as you can see the trend, it is consistently coming down and we have taken aggressive approach in terms of write-off wherever we feel that there is a lesser chance of recovery, we are so to say writing it off but making effort on the ground to recover. We collected around Rs.19-odd crores last year out of the written off amount also. But from accounting and reporting perspective, we have taken aggressive stand in terms of write-off. As we said on the call earlier that we are anticipating roughly 2.5%, 3% kind of a credit cost because of COVID for some time but going forward in a stable state we feel that credit cost of 1-1.5% should be there on a stable state. And to take care of that, we have worked on that over a period of time on our OPEX which has come down consistently. Over a period of time, we reduced it by roughly 0.5% last year. We feel that we still have a lot of scope to bring it down. So even if there is a little bit of spike in overall credit cost structurally, that will be offset by improvement in operating efficiency. And to that extent, I think we will be able to absorb that but our credit cost considering all the system,



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processes, improvement that we have done over a period of last one year or so, we do not see that is drastically different from industry averages.

Agastya Dave:

My question on NII was not with respect to the spread. Spread, I understand it is 10% but the absolute number itself because the disbursements were low and we do not have long duration products, right, these are not multi-year loans, so there is a natural run-off period also. So, I was just wondering the NII absolute number, will we see a dip next quarter and then a recovery or will we see recovery from now onwards? I was also trying to understand the operating deleverage which may play out over the next couple of quarters. That is why my question was more on the absolute NII number.

Jugal Kataria:

So we are going conservative in terms of disbursement. We are sitting on good amount of liquidity but considering the market situation, we want to see how the things are panning out before we go back to normal disbursement. So probably there may be some impact for a next quarter or two. But things are very-very dynamic and may change with all the efforts done by the government and RBI in terms of supporting the industry. If we are getting a mixed response, how fast the recovery will happen in the overall economy and will take a call accordingly. But yes, it will have some impact for a quarter or two before we can say that the disbursements are back to normal and to that extent there will be some impact on absolute NII numbers.

Moderator:

Thank you. The next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi:

Sir, my question is on the 11% of our customers are under moratorium and if we see 76% of our customers are in the rural geography. So any split between say what percentage will be from rural and what percentage will be from the urban geography? And what sort of customer profiles would this be like what would be their say sources of income if you can give some color on that?

HP Singh:

If I give you a very true picture of it is, 76% or 78% which we say officially is within the municipal limits what we call as complete rural. But if you look at the balance 24% or 26%, it is not pretty rural, it is like a semi-urban kind of a thing, but still has a lot of rural settings to it. So, when we look at the complete book, if I look at from not from the technical standpoint of view, but I look at from the operational standpoint of view, practically about 98% of our book is all rural. If I would give you the color of operationally looking at it, it will be all rural, there is no urban space in it. So I would not talk of a major town like a Delhi or Mumbai or even a town like Lucknow or Kanpur, we include in that because we do not work in the surroundings of that, we work only on the surroundings of all these major towns also. So let us say for example if we are present anywhere in we say Lucknow, it is not main Lucknow, it is going to be the periphery of Lucknow which extends into the semi-urban and kind of a rural setting. So for you



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to really look at it operationally, it is about 100% all rural settings. So 11% is practically all rural which we are saying.

Shreepal Doshi: Then what would be the customer profile that have got impacted which is why they are availing moratorium?

HP Singh: There could be any profile over there. If you look at the baseline again, the baseline is again agri and agri-related activities. But there could be small cottage industry or home-made industries which could be impacted, but no bifurcation which we have been able to do to say that okay, fine, whether this industry been repaying or maybe the customer belongs to this industry has not been able to repay, I do not think so. It will also to a certain extent maybe a behavioral pattern also which could be there. A customer even though having a cash flow would not be paying during the morat period. Let me wait for the morat period end and then I will start repaying. So you cannot have a handle on everything which is probably there, but overall I think the handle should probably be looked at that, okay, 11% is the complete morat book and 6,000 to 7,000 out of that 4 lakh customers have started repaying on a daily basis. So that is a heartening sign which we should look at.

Shreepal Doshi: One last question was on our OPEX front. So if you see like industry level, the OPEX upon AUM is broadly in the range of 4-4.5% whereas we are almost 150-200 basis points higher and I think that is what is reflecting in our lower ROA profile also. So how do we see like that moving down, what are the kind of strategy that we are sort of implementing to bring that down?

HP Singh: Two factors which you have to consider when you look at OPEX also. We are practically far more diversified in terms of geography and states as compared to maybe a large part of our peers in the industry. So that also has maybe a bearing on the OPEX cost as compared to what you say 4.5 or whatever the ratio is. But we have gradually been bringing it down and whatever measures we have taken in terms of technology enhancements, in terms of bringing on operational efficiency to a level, I think we have been able to achieve whatever downward trends we have been seeing in our OPEX cost. And going forward, all these processes and things both on technology and operational efficiency, I cannot probably list out granular detail but yes, we are working on all these details and we will have lesser amount of OPEX to GLP now when we go forward. And that has constantly been demonstrated in our quarter-on-quarter if you look at for the last one year or so.

Moderator: Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.

Subhankar Ojha: Basically, wanted to know the timeframe for this rights issue, when does it become fully paid up and when does it become tradeable?



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HP Singh: Partly paid would be tradeable I think once we finish off the allotment which probably would happen in another couple of days. We get a window of about one year to get all the calls including the application which has come in now. So we have got a window of one year. But we can say that probably will take us about a year when the monies get fully in there.

Subhankar Ojha: Tentatively about a year is the time?

HP Singh: Could be earlier, but that is the window which we have.

Moderator: Thank you. The next question is from the line of Vanit Savla, individual investor. Please go ahead.

Vanit Savla: I had a two-part question. Firstly, the rights issue which we are making, what is this impact going to be on a tier-1 capital and thereby are we able to disburse more than what we would be if we have not done the rights issue?

Jugal Kataria: The first question you talked about the impact on tier-1 capital. Our tier-1 capital will go about 8%-9%. So that is the impact which is going to have on the CAR.

Vanit Savla: My second question was is there any chance that our gross NPA number can go below 1% maybe in FY'22 or '23 or is it too far-fetched to look at right now?

Jugal Kataria: I think it is slightly far-fetched. We have shown it on slide #35 in our presentation, our gross NPA numbers are consistently coming down and our provision coverage ratio is increasing, so we have 130% provided as on today. We take a call as soon as we feel that the chances of recovery are not there and we write it off. So we will adopt the strategy but in case we are making a provision, that should give comfort to investors is our thought process. So we are so to say consistently following the rules and taking a conservative approach in our provisioning policy and write-off policy and we will go ahead with the same strategy.

HP Singh: Just to add, we have increased our provision coverage ratio this time. As somebody said that, they had never seen this kind of aggressive provisioning. So we are on that course. But the only answer which I can give you is if things stabilize and we are back to normalcy, I think we will have a far better look at the numbers rather than having a say of it right now. So stability of return definitely I think the numbers will also improve significantly.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Aditi Singh: I take this opportunity to thank everyone for joining this call and I hope we have been able to answer all your queries; however, should you feel you want to discuss something else, you can



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get in touch with me; my name is Aditi Singh, I look after the Investor Relations for Satin Creditcare. My details are there on the presentation and website as well. And you can also get in touch with Strategic Growth Advisors who are our IR advisors. Thank you.

Moderator:

Thank you. On behalf of Satin Creditcare Network Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.